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PART ONE

FINANCES, FEELINGS, AND RELATIONSHIPS

Most families have difficulty managing finances because they tend to focus on numbers rather than on people. Consequently, budgets are seen as a means of accumulating things rather than as a means of experiencing feelings and enhancing relationships.

However, when you accept the basic premise that finances, feelings, and relationships are all essential elements in a successful family financial management program, and that each deserves equal consideration, you have taken the first step toward creating a family financial management plan that focuses on people as well as on numbers.

To help you accomplish this task, Chapter 1 presents basic financial principles, incorporating both financial and relationship management features. For the purposes of clarity and simplicity, these principles are presented in the form of maxims (brief statements of practical truth). Chapter 1 also explains individual values and how they relate to both finances and feelings.

Chapter 2, explores the "family rules" that each of us bring into a relationship -- where they originated, how they govern our financial behavior, and how they influence our relationships.

Chapter 3 presents a variety of personality characteristics. These characteristics form the basis for certain personality types, which can provide insight into some of the "real" reasons behind both our financial and our social behavior.

These various elements are brought together in Chapter 4, which defines a variety of relationships and explores them from an interpersonal/financial perspective.

Chapter 5 deals with one of the most crucial elements of family financial management -- communication. The purpose of this chapter is to provide you with the skills you will need to be able to talk about the financial material that will be presented in Part Two.

Chapter 1

FINANCIAL PRINCIPLES AND VALUES

Most marriage and family therapists are well aware of the interplay between a couple's finances and the degree of satisfaction couples experience in their personal and family life [1], yet it appears that most couples are ill prepared to cope effectively with both the emotional and the financial stresses of marriage. Adding to the problem, as the complexity of familial relationships increases (divorce, single head of households, remarriage, dual incomes, etc.), the complexity of the interactions between money and relationships also increases [2].

In addition, changes in society's attitudes regarding married women in the work force and the advent of dual-income families have greatly changed the family's financial organization and functions. For instance, in 1988, approximately sixty percent of all adult women were in the paid labor force. This figure increases to seventy two percent among women between 25 and 54 years of age. Almost sixty nine percent of mothers with children of school age are in the paid labor force, and of these, seventy-six percent are working full time [3]. In contrast, during the 1950's, only 25 percent of the mothers were working outside of the home.

As a consequence of these social transitions, an ever increasing number of women are working outside of the home, and women's dependency on men for financial well-being is no longer what it was in the past. Work availability for women has not only increased the degree of independence experienced within the marriage, but has also increased the freedom to decide not to be married. Because the women of today's world are quite capable of supporting themselves,

the reasons for getting or staying married have been altered. Marriage can be postponed or even avoided altogether. A woman is no longer "trapped" in marriage. Her status in the community is not necessarily described by her husband's success; and her identity, as well as her credit ratings, can be distinct and independent of her husbands' [4].

While many modern women may no longer feel that they are "trapped" in marriage, many of today's men no longer believe that they can support a family on their income alone. As a consequence, couples today need to be able to work out misunderstandings and disagreements over finances and resolve the ensuing marital discord if they are to preserve their relationships.

Describe your financial situation growing up. Then describe your spouse's financial situation growing up. What are some similarities? What are some differences?

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FINANCES AND MARITAL DISCORD

Arguments over financial problems occur in more marriages than does just about any other area of contention [5]. For instance, in four surveys that examined some of the different causes of marital conflict, finances was consistently ranked as either the first or second most frequent sources of marital problems [6.]. In a survey of couples married for only six months,

handling money ranked number two out of fourteen areas of disagreement [7]. Financial problems were among the top four reasons leading to divorce in first marriages and the number one problem in remarriages [8]. In addition, surveys conducted by the American Bar Association and others have indicated that money problems have been a chronic source of difficulty in marriages for decades. One survey indicated that 89 percent of all divorces can be linked to quarrels and accusations over money [9], and for years many lawyers believe that financial problems are the leading cause of divorce [10].

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FINANCES, FEELINGS, AND RELATIONSHIPS

A successful balance between finances, feelings, and relationships depends a great deal on the degree of compatibility achieved between that which is expected from each component and that which is provided.

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Finances

Finances are represented by the dollar amounts of both income and expenditures. How much income you expect each partner to provide, and how each of you expect the income to be spent provides the basis for all ensuing discussions about financial matters. However, truly successful budgets are seldom realized when only the dollar amounts are discussed; "number crunching" alone can provide a budget that "looks good on paper," but rarely transfers effectively into a budget that is aesthetic pleasing. To establish a mutually satisfying financial management plan, you must also consider the feelings associated with the dollar amounts.

Feelings

Feelings are the emotional overtones associated with a thought, event, or item. Feelings are more closely connected with what something represents to you than with how it might be defined in a dictionary. For instance, the dollar amount you owe to a relative may be smaller than many of your other bills, but the feelings associated with that particular debt may far outweigh the practicality of paying off the larger, higher interest loans before paying off your relative. Conversely, the actual cost of a single rose may not be all that great, but what the rose represents and the feelings associated with it can be priceless.

In contrast, if a purchase creates distance and feelings of resentment in the relationship, you may be hard pressed to derive any happiness from the purchase. "No, I do not want to see your hang glider. Nor do I want to watch you hang glide, or talk to your friends about hang gliding, or anything else to do with hang gliding. That money was supposed to be used for a family vacation this summer, not to satisfy your need to fly with condors."

As an equal partner in a relationship, you have the right to expect your feelings to be

considered in the decision making process. The final decision may not always be the one you hoped for, but if you believe that your feelings were taken into consideration, then the decision that is made can be more easily supported and the relationship more easily preserved.

Have you or your spouse made a purchase that created distance in the relationship? Describe how you or your spouse felt.

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Relationships

Your relationships reflect 1) the degree of commitment you have for another, 2) the degree of understanding you have with regard to another's needs, 3) the amount of cooperation you are willing to put forth to satisfy those needs, and 4) the relative importance, or priority, the welfare of another person has in your life. In a meaningful relationship, you have the obligation to dedicate yourself to such responsibilities and the right to expect the highest level of reciprocity

and devotion from your partner.

To many, the interdependency between finances, feelings, and relationships is self-evident; confirmed in countless incidents of caring thoughtfulness, give and take, misunderstandings, and hurt feelings. The relationship between these three elements shows up in situations as complex as getting re-married or as simple as buying Christmas gifts ("How come you only spent $23 on my mother's gift and over $120 on your mother's gift?"), paying bills ("Didn't we agree to use the credit cards only for emergencies? Then what's this VISA bill for $89.43?"), or maintaining a car ("You can take the bus, ride a bicycle, or even walk for all I care, but I'm not going to put another penny into that car of yours. Didn't I tell you not to buy it in the first place? When are you going to start listening to me?")

Achieving a comfortable balance between the way you manage your finances, the amount of consideration given to feelings, and the relative importance you attribute to your relationships is fundamental to establishing an effective financial management plan. Such a balance can be graphically illustrated by trying to achieve an equilateral triangle with the sides connecting the three components being the same length (see Figure 1.1).

FIGURE 1.1 BALANCING FINANCES, FEELINGS, AND RELATIONSHIPS

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To facilitate the development of such a plan, a number of financial principles are

presented below. These financial principles (expressed as maxims) provide a broad guide to your financial thinking and behavior. By giving them thoughtful consideration, you may gain some insight into why you have managed to remain relatively free of financial difficulties or why you have been plagued with financial problems.

TEN FINANCIAL PRINCIPLES

To help you develop a financial management plan that will work for you, here are ten principles that provide a broad guide to financial thinking and behavior. By giving these principles thoughtful consideration, you may gain some insight into why you have managed to remain relatively free of financial difficulties or why you have been plagued with them.

Many financial principles can be understood only through years of study and experience, yet a few principles seem founded on simple common sense, and are therefore relatively easy to comprehend. Often, such principles can be expressed most easily in the form of maxims -- short, popular sayings that embody some familiar truth or useful thought, for example, "You should risk no more than you can afford to lose." Maxims, usually founded on practical life experiences, generally serve as rules of conduct. The following principles can stimulate basic thinking about financial management decisions.

Principle #1

Financial problems are usually behavior problems rather than money problems.

Many people believe that they *deserve* a particular standard of living, and that any additional efforts on their part should not be necessary. They believe that if they could just make

more money, they wouldn't have any financial problems. But in most cases, making more money just adds zeroes to old problems; instead of owing $1,000, you owe $10,000 or $100,000. Let's say family A earns $40,000 a year, but spends $45,000. Family B also earns $40,000 a year, but only spends $35,000. Family A is going into debt at the rate of $5,000 a year, while family B is relatively rich with $5,000 a year to spend. The difference between the families may be due to the fact that family A is a beginning family trying to accumulate needed assets (washer and dryers, furniture, etc.) while family B may represent a more established family which has already acquired many of the basic items considered to be indispensable to raise a family. However, when two families are essentially equal, then such differences in their financial status would be due to behavior.

Similarly, it is not enough to merely calculate how much you owe to determine what steps you must take to rectify your current financial difficulties; you must also examine the kinds of behavior that created your debt problems.

Case illustration

Manuel and Marta earned $29,000 last year and owe $12,000. Similarly, Stan and Kristi earned $29,000 last year and owe $12,000. Although these two couples appear to be quite similar, there are major differences in the behaviors that led to their indebtedness. Manuel and Marta's debt was the result of a medical emergency and a lack of adequate insurance. In contrast, Stan and Kristi's debt was the result of Stan's impulsive purchase of a power boat that caught his interest at a sports show. Marta is now worried about Manuel working a second job in order to pay off the hospital, and Kristi is worried about having to sell one of the cars in order to pay off the boat contract, which was sold to the Sink or Swim loan company.

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Principle #2

If you continue doing what you have been doing, you will continue getting what you have been getting.

If you continue to spend instead of save, you will continue to live from paycheck to paycheck. If you continue to borrow money to get out of debt, you will continue to go deeper in debt. If you continue to use your credit cards impulsively, you will continue to pay high interest

rates.

Case illustration

Mr. Anderson explained to his wife how fortunate they were that the new credit card had arrived in the mail. "Look, we can use the $2000 cash advance on the credit card we received in the mail today to make the back payments on the mortgage. Then we can refinance the car in order to make the payments on our other credit cards, -- they're all at their limits, you know. Then we would only have the consolidated loan payments to worry about, and I think I'll be able to borrow enough from your parents to make that payment." Unfortunately, this thinking pattern is fairly typical of the way today's families are trying to manage their finances.

Have you done something similar to what Mr. Anderson and his wife did?

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Principle #3 Nothing (no-thing) is worth the relationship.

One definition of a prenuptial agreement is "a contract between two people who love things more than they love each other." This is not to say that no thought should be given to financial considerations before marriage; but hopefully these considerations are motivated from a more practical, financial-management standpoint than from a lack of trust.

The word *trust* which stems from the Scandinavian language, means "the ability to be comfortable while being vulnerable"; it is an essential element in any successful financial or interpersonal relationship.

When couples feel a lack of trust, they may feel safer in becoming emotionally involved with things rather than with people. However, one of the quickest ways of destroying a marriage, or any other relationship, is to allow a *love of things* to become a higher priority than a *love of each other*. In the beginning of a relationship, being in each other's presence seems to be enough,-- hearing each other's voice, or talking for hours at a time. Unfortunately, as time passes, being together no longer seems to be enough, and complaints and accusations begin to creep into the communication patterns. Examples include "I can't live like this anymore. How can you expect us to get anywhere on what you bring home?" or "I'm tired of skimping. I deserve to get something that I want once in a while, too. We always seem to have enough money for the things *you* want, but never for the things I want." You may very well get the *thing* you want, but far too often the acquisition comes at the cost of the relationship.

Have you ever complained about not having enough money? How did that make your spouse feel?

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Case illustration

A young couple, married three years, complained to a marriage counselor of not being able to feel close to each other. They felt more like roommates than spouses. As the counselor began to explore their marital relationship, the couple revealed that, even after years of marriage, the wife still had *her* car in *her* name, and the husband still had *his* secret savings account in *his* name. When asked about why they had handled their resources this way, the wife answered, "I wasn't sure the marriage would work out, and if it didn't, I didn't want to risk losing my car." The husband, was afraid of losing his savings. Unfortunately, although they were safeguarding their

possessions, they were losing their relationship.

Do you trust your spouse with your financial affairs? If not, tell how you could be more trusting.

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Principle #4

Money spent on things you value leads to feelings of satisfaction and accomplishment. Money spent on things you don't value usually leads to feelings of frustration and futility.

If you know what your values are, you will tend to focus your resources on goals that reflect those values. If you are still not sure what is important to you, you will tend to scatter your resources on a variety of targets, hoping that at least some will pay off.

Case illustration

The Tanakas sat on the lawn watching their two young children play on the new jungle-gym-swing set. They had just finished putting it together, and the children were laughing and shouting gleefully as they tried out each facet of their new gym. Compared to the size of the Tanakas' income, the gym set had cost a lot of money, but watching the children have all that fun made it well worth the price.

In contrast, the Pavlovics both loved music. Both had grown up in musically inclined families. It was the one thing they had in common. However, they had not gone to a live symphony in over a year. They just could not afford such luxuries. The car payments alone were burying them. They blamed social pressure for encouraging them to buy the car in the first place. Before moving into an expensive neighborhood, neither of them had been very interested in cars – taking the bus had been just fine. At least they had been able to ride it to the symphony.

Write down something you purchased that you didn't value. How did you feel? Write down something you purchased that you valued. How did you feel?

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Principle #5

We know the price of everything and the value of nothing.

Unfortunately, the maxim expressed in Principle 5 seems to be all too true about today's world. If it is true of you, you may find it difficult to set your priorities, focus your energy, and define your purpose. Because of social pressures and advertising, you may end up buying what

you think you *should* want rather than what you *really* want.

Besides, you could not afford what you really want anyway. Could you? Perhaps you can recall an occasion when you asked about buying something and you were told, "We can't afford it." You probably responded, "Why can't we afford it?" In most cases, what was really being said was "I'd rather spend the money on something else." For example, say you wanted to go on a $4,500 Caribbean cruise, but were told, "For heaven's sake, we haven't got that kind of money. With the payments we have to make on the new car, the room addition, re-carpeting, and the satellite dish that goes with the new home entertainment center, we just can't afford to go on a cruise." Of course, if the money had not been allocated to all of those other things, you probably could have afforded a trip to the Caribbean. You probably had enough money, it just happened to be committed to other things.

One of the more common side effects of not being able to afford one thing is the substitution of something else that may not mean as much to you.

Case illustration

Sean and Briana wanted to take a trip to the Caribbean but they simply could not afford the $4,500 it would have cost. So the two of them decided to substitute a trip to Disneyland which only cost $1,500. The next year they again could not afford the Caribbean trip, so they decided to go to Disneyland once more. In fact, they ended up going to Disneyland three years in a row at $1,500 a trip, because they thought they couldn't afford their first choice—Disneyland trips which ended up costing them $4,500. Are you spending your money on what you *really* want, or are you substituting?

If you believe that substitution is playing too big a part in your life, then the following

principle is worth posting on your refrigerator, writing on the cover of your checkbook, or taping to your credit cards.

What have you bought in the past that was just a substitution for what you really wanted? How did you feel after you bought it? What was a substitution for?

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Principle #6

You can never get enough of what you don't need

because what you don't need can never satisfy you.

This principle, of course, applies to many areas of our lives. For example, if you need *love*, but you try to satisfy this need with *sex* then no amount of sex will ever satisfy you. Nor will you ever be able to get enough *money* to be able to satisfy your need for love. Similarly, if you need *respect*, then no matter how much *power* you get, it will not satisfy you. If you need a feeling of *self-confidence*, and you try to attain that feeling through the use of drugs or alcohol, you will never be able to get enough of such substances. What you don't need will never satisfy you.

Case Illustration

Carol and Phil are both successful in each of their careers. Unfortunately, their jobs both demand long hours and frequent travel. They have two children; Kimberly, age seven, and Michael age five. Kimberly is watching her Mom as she hurriedly packs her suitcase. "Are you going to be gone very long this time?" she asks softly.

Preoccupied, Carol replies, "Unless something unexpectedly comes up, this should be a quick one. Two, maybe three days."

Kimberly's lower lip seems to stick out a little further as she continues to watch the packing. Finally she asks rather nonchalantly, "Then you won't be here to watch me dance will you?"

Carol looks up quickly from her packing and, with a pained expression on her face, responds to Kimberly's statement. "That's Friday night isn't it? And Mommy's not going to be able to be there. I'm really sorry Kimberly, but there's just nothing Mommy can do to get out of this trip. But I promise you -- cross my heart -- I'll be there the next time you dance. Okay?”

Kimberly looks down at the floor, and mumbles, "That's okay. I understand."

Not completely convinced that Kimberly is really accepting the situation, Carol adds "How about if I buy you something really special while I'm gone? And I mean something *really* special. Something that will surprise even you. How would that be?"

Kimberly shrugs her shoulders and sighs, "I suppose it'd be all right."

After reading the example above, you may want to ask your self if your needs and the needs of those you love really being met. If what you need is *intimacy*, and you and your spouse share *confidential information* with each other, then you may very well feel satisfied. If you are giving your time and attention to your family members, they may feel happier than if you were to give them all the gifts in the world.

Make a list of things you can do for three family members that doesn't cost money.

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Principle #7

Financial freedom is more often the result of decreased spending than increased income.

Having financial freedom is not the same as being financially independent. Financial independence implies having accumulated enough wealth to sustain a high

standard of living without further effort on your part; financial freedom implies having enough discretionary income to allow you to select a number of alternatives on which to spend your money rather than having to face financial ultimatums. With financial freedom, you can choose to go to the movies *and* go out to dinner, or to pay off both the VISA *and* the MasterCard rather than choosing whether to heat *or* eat this month.

Just as it is more difficult to *earn* your way out of debt, it is more difficult to try to *earn* your way to financial freedom. Cutting back on expenses, choosing the less expensive alternative when possible, and using your own talents and ingenuity instead of your checkbook will prove the validity of Poor Richard's proverb: "A penny saved is a penny earned."

Case Illustration

Although Phil and Mendy were reasonably frugal, their money seemed to just "disappear" with not a lot to show for it. After paying the monthly bills, and once again having almost nothing left to live on, the two of them decided to cut back on just about everything in an attempt to bring their budget under control. They rode the bus to work and school instead of driving ($100 normally spent on gas - $40 bus fare = $60 savings); they went to $2 plays at the nearby college instead of $7 movies ($14 per couple twice a month would normally come to $28 - $8 for plays = $20 savings); they bought a couple of inexpensive steaks and had a candle-light dinner at home instead of going out to a restaurant (savings = $25); they wore sweaters at home instead of turning up the thermostat (savings = $15); Phil "brown-bagged" lunch instead of eating out (savings = $50); Mendy

wrote a few letters instead of making long-distance calls (savings = $20); and Phil bought a second-hand tool instead of a brand new one (savings = $15). Their efforts resulted in a $205 reduction in expenditures when compared to the amount they normally budgeted for such items. Keep in mind that they would have had to earn around $325 extra per month to clear the $205--an additional $4,000 per year.

Mendy and Phil were achieving financial freedom by reducing their spending rather than increasing their income.

What can you do to cut back on your spending? List ten things you can do without or substituting something else for, that is less expensive. Then add up your savings.

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Principle #8 Be grateful for what you have.

The need for "more income to purchase goods and services" can become an endless, futile quest unless you truly come to grips with who you are and what you really want out of life. Americans are a curious people; we are among the few people on earth who have so much "stuff" that we have to rent storage units in order to have enough space to put it all -- and yet we still want more.

Begin appreciating what you already have rather than worrying about what you don't have. Even a crummy job can feel (and certainly *pay*) better than no job at all; renting a small apartment sure beats being homeless; and eating leftovers again is preferable to going hungry.

Case Illustration

Karen and Russ were married college students living in off-campus housing. They both worked part time, but tuition, books, rent, and utilities took most of what they earned. Food became a luxury. Russ chuckled as he held up a couple of boxes for Karen to evaluate. "Would Madam prefer macaroni and cheese or a package from our delicious assortment of Top Ramen?" Karen, assuming an aristocratic pose and a highborn tone of voice, replied, "I do believe I'll partake of the macaroni and cheese with, I might add, a hot dog, medium well. Thank you." Trying not to smile too broadly, Russ continued, "And would Madam care for desert? We have an excellent vanilla ice cream available."

Karen looked up in surprise, and immediately dropped the aristocratic pose. Grabbing Russ's arm she asked, "We've got ice cream? You're not kidding me are you? We really have ice cream? Where'd we get the money to buy ice cream?"

"Tom had to study for an exam, so he gave me a couple of bucks to run a computer program for him. I decided we deserved a treat at least once in a while, so I got us some ice cream."

What are you grateful for? List five things that you have that you couldn't live without.

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Principle #9 The best things in life are free.

As the old song says, "The best things in life are free" – and they are made even better when they are shared with the ones you love. If you have gone through hard financial times with someone special, then you know the importance of thoughtful gestures and humor in trying to creatively make do.

For entertainment one couple liked to go to a local mall and see if they could each

“spend” $10,000 on things they really wanted in less than an hour. Of course, they were pretending –- they didn’t really have $20,000 to spend. But it was fun picking our expensive watches, strange-looking sweaters, and oversized pictures. It didn’t cost them a cent, and it was fun – most of the time.

Case Illustration

Seiko, looking out the kitchen window, commented that the storm seemed to be getting worse. Dinner was almost on the table and everyone was about to sit down when the electricity went out. A few of the younger children cried out but were immediately calmed by one of the older children. Their mother began groping in one of the cupboards, and in a calm voice told the others, "Everyone just stay put for a minute. I know there's a candle around here some place . . . Aha! Found one. Anyone for a candlelight dinner?" By now the children were getting into the adventure connected with the occasion, and one offered to be the waiter.

After dinner, they all helped build a fire in the fireplace and took turns reading their favorite nursery rhymes. Some were curling up in their blankets and starting to drift off when the electricity came back on and the magic of the moment disappeared in the glare of the ceiling light. In unison they all bemoaned being called back to the twentieth century.

Describe a financial hardship you went through. What did you learn?

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Principle #10

The value of an individual should never be equated with the individual's net worth.

Each individual in a family is unique, one of a kind, and therefore irreplaceable. Some individuals may contribute humor, others may contribute music. One person may provide the family with emotional stability while another may provide financial stability,

but the worth of an individual can never be assessed in dollars.

Case illustration

Imagine attending a funeral service in which the eulogy included remarks such as "Frank wasn't worth very much. After all of the expenses of this funeral are deducted, I doubt if his net worth will exceed $10,000. Unfortunately, Frank was struck down in the prime of his consuming. He hadn't had enough time to really accumulate much. All of us who were close to Frank knew there were a lot more things he wanted to buy. With a little more consuming, he could have really amounted to something."

We are remembered not for what we consume but for what we contributed--for the difference we make in the lives of others. Our net worth reflects our financial status; our personal worth is reflected in our contributions to the welfare of others.

Name some qualities you would want to be remembered for.

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Personal Values

Is your time and money going to what you really value, or are they merely being spent by

default. Far too often, we live our lives by *default*: We lack of self-knowledge, and merely reacting to whatever comes our way in life. A life led by *design*, however, is one in which the consequences reflect thoughtful planning, dedication, and a comprehensive knowledge of our values.

Values are relatively permanent beliefs about what you regard as desirable, worthy, or right. Values change very little over a lifetime, and tend to reflect early upbringing. Values typically reflect the relative importance you place on life situations, such as saving face, saving your marriage, getting a good education, getting out of debt. They give your life meaning and purpose. As you attempt to develop a sound financial plan, it is essential that you decide which of your values are most important to you.

Which values are most important to you?

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Replaceables and Irreplaceables

Someone once said, "Values are reflected in how well a person is able to distinguish between what is *replaceable* and that which is *irreplaceable*." For many, it has become more and more difficult to make this distinction, and they tend to devote more of your resources to the

attainment of things replaceable rather than to the preservation of that which is irreplaceable. They may also fail to receive any personal satisfaction from their possessions or to see any intrinsic value in them. As a result, they are often unable to meaningfully connect with the world around them.

A replaceable thing is usually seen as having a utilitarian value only. It is prized only as long as it serves some purpose; once that purpose is achieved, it is discarded. Something that is not one of a kind is usually considered *replaceable*; something with an intrinsic, personal value, or something that is one of a kind is usually considered *irreplaceable*. Ford fenders, screen doors, most jobs, and money are replaceable; great pieces of art are irreplaceable. Most toys are replaceable; favorite blankets, dolls, or teddy bears are irreplaceable. Most jewelry is replaceable, but great-grandmother's wedding ring is irreplaceable. Most things built by others are likely to be replaceable, while that which is built or created by one's own hands or the hands of a loved one can often become irreplaceable. Individuals are unique, irreplaceable. Relationships that have taken a great deal of time and effort to build are irreplaceable, as is each individual, since each person is unique.

Irreplaceables -– whether things or relationships –- something you value, something that justifies hard work or sacrifice, something that provides feelings of gratification, a sense of purpose, or meaning to life.

List the replaceables in your life. Then list the irreplaceables.

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The Values Inventory

Unfortunately, it is not uncommon to put forth a great deal of hard work to get an adequate income and then waste it because you have created a budget that does not reflect priorities of consider what you really value. Since you naturally want your resources to go toward what is important to you (Principle 4), a difference in values among members of the family can easily lead to conflicts over how family resources should be spent. While family

members will seldom reach total agreement on all issues, a sense of fairness is more likely to prevail if everyone involved feels that his or her values receive equal consideration. It is when significant differences are discussed that serious problems may arise.

(The Value Inventory, Worksheet 1.1, provided at the end of this chapter, invites you to examine your values and then compare them with those of your spouse.)

You may already have a fairly good grasp on your values, but find yourself unable to communicate them effectively to loved ones. As a result, you may silently watch as the money gets spent on everything but what you want it to be spent on until things finally come to a head. Only then do you let the others know how you really feel, and you are confronted with such a statement as "If you had told me how important it was to you, I would have let you buy it," most often countered with "If you really loved me, you'd have known how important it was to me." In either case, it is quite apparent that you are having a difficult time communicating your values to others in a way they can understand.

Describe a time when you didn't tell your spouse how you felt about a purchase. What could you have done differently?

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Meaningful Units

One way to communicate relative values is to convert them into *meaningful units*.

A Meaningful Unit is something that (1) you value, (2) you have experience with the amount of effort it takes to obtain it, or (3) you have experience with the amount of discomfort and inconvenience experienced as a result of not having it. A meaningful unit, for example,

might be the cost of a dinner (something you value), a bike (something you had to work hard to obtain), or a telephone (something that is inconvenient to be without). Almost anything can be chosen to be used as a Meaningful Unit.

Once you have determined what represents a “meaningful unit” to you, you can compare it to other “meaningful units” valued by someone else. This is called finding the “relative value” of an item-—the amount of value an item has in relation to others.

Meaningful units can help you compare the value of less expensive items to the value of those that are more expensive. For example, to Norma a $35 pair of children’s shoes is a meaningful unit. She uses it to compare the relative value of other financial demands, such as her husband Roy’s desire to spend $348 on a new shot gun. Norma, calculates that she could buy about 10 pairs of shoes for the children with the amount of money it would take to buy the shot gun. So, to Norma, the relative value of a new shotgun represents, in meaningful units, 10 pairs of shoes.

Meaningful Units can also be represented by large dollar amounts and used to calculate the relative value of less costly items. For example, you may discover that for the cost of last month's long distance telephone calls you could have bought a plane ticket and visited Grandma in person (Meaningful Unit). You might also find that you could have bought those much needed tires with what you spent on beer last month.

After you have converted a value into your own meaningful units, it can be helpful to calculate the value in meaningful units used by your partner. For example, what was spent on renting videos (your meaningful units) in the past two months could have paid for a dinner at a nice restaurant. But, on the other hand, what has been spent on dinners in restaurants over the

past two months could have paid for new stereo speakers (your partner's meaningful units). Making such comparisons will enable you will to better understand each other's value systems. In addition, the use of meaningful units can be very helpful in establishing a hierarchy of spending priorities.

Make a list of things you are in need of purchasing in the near future. Make a note after each one if it is your meaningful unit or your spouses. Then calculate cost of each item and the relative value. Prioritize each item.

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Attitudes

In any relationship, questions about how to allocate resources will arise. "Should the money go to mortgage payments or car repairs? To college funds or home improvement projects?" Arguments can result from a difference in values and a belief that the other person is trying to impose his or her values on you. In most cases, however, couples usually find they have similar *values* but different *attitudes*.

An attitude is a state of mind based on your opinions and judgments about the world around you. They can be optimistic or pessimistic, favorable or unfavorable, charitable or hostile. They reflect a position you have taken with regard to your values, and therefore they are much more flexible than values. For example, you and your spouse may both value education, but you have the attitude that private schools are the way to go, while your spouse thinks public schools are quite sufficient. In such a situation, the arguments will be over attitudes, not values.

As this example illustrates, a person's attitudes can have a major impact on family finances. A decision to send the children to private rather than public schools would greatly increase the cost of education for the family. Saving a specific amount of money for educational purposes would then become a financial goal (see Chapter 8).

Approach and Avoidance Qualities

Whenever you are in a situation that requires a "forced choice" decision between two alternatives or goals, you will experience the stress associated with conflict. According to Kurt Lewin, founder of the field theory in psychology (1935), if the goal is attractive, it is said to have *approach* motivating characteristics. If the goal is undesirable, it is considered to have

avoidance motivating qualities. Most of life's decisions combine the two. In *approach-approach* conflicts, each of the alternatives has desirable characteristics; in *approach-avoidance* conflicts, a choice has both desirable and undesirable characteristics; and in *avoidance-avoidance* conflicts, neither choice is desirable.

Approach-approach

An approach-approach conflict and its accompanying stress occur whenever a choice between two desirable alternatives must be made. This dilemma is aptly described in the familiar cliché "You want to have your cake and eat it too." An example of this kind of conflict arises in attempts to decide which of two great-looking cars you should buy. Both have good qualities, and your goal of driving a new car will remain blocked until you make a decision. Your feelings of frustration, stress, and anxiety will continue until you do. You may even make the final decision more from a desire for emotional relief than from a well considered process of elimination.

When dealing with any conflict, you must keep in mind that goals can often be reached sequentially rather than all at the same time. In other words, what you don’t chose at first, you might still be able to chose at a later date.

Describe an approach-approach conflict that has happened to you.

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Approach-Avoidance

In this not-so-perfect world, the approach-avoidance conflict is perhaps a bit more common than the approach-approach type. This conflict arises when you weigh the desirable against the undesirable. Let's use the new car example again. You have no doubt that you want the new car (approach), but you don't want the years of installment payments that come with such a purchase (avoidance). Another example might be your desire to make a lot of money quickly—-but you also want to avoid high financial risks.

In this kind of conflict, possible gains are weighed against possible losses, the potential

for pleasure is weighed against the potential for pain. The "good" is weighed against the "bad"--and you will find far too often that you must "take the bitter with the sweet."

Describe an approach-avoidance conflict that has happened to you.

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Avoidance-Avoidance

You can probably remember some unpleasant time in your life when you remarked, "Huh, some choice!" Such a remark usually refers to an avoidance-avoidance conflict--one in which *both* alternatives are undesirable. For example, a judge might say, “Thirty days or $300." You may have to choose between living with a toothache and going to the dentist, or between

having the truck repossessed or losing the station wagon. As you might guess, the avoidance-avoidance type of conflict usually creates the greatest amount of frustration and stress.

The ability to resolve an avoidance-avoidance conflict is closely related to your level of maturity. If you are relatively immature, you will go to great lengths to avoid having to make such decisions. You will also tend to procrastinate or even get someone else to make the decision for you. On the other hand, if you are a relatively mature individual, you will usually accept the responsibility for the decision and confront the unavoidable with the necessary courage. If, for example, you have been laid off from work, you can wait until your creditors start pounding on your door. Or you can call them immediately to let them know your situation, so you can explore their willingness to make adjustments in your payment schedules.)

Describe an avoidance-avoidance conflict that has happened to you.

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PUTTING IT ALL TOGETHER

From early childhood, you were probably told that it was a cold, cruel world out there, and that physical, emotional, and economic survival would not be easy. The thing you weren't told was just how hard it was going to be to put it all together.

Physical Survival

Your ability to survive physically reflects your ability to provide the necessities of life, such as food, clothing, and shelter, to provide medical and health care, and to prepare for retirement. To survive physically you must provide a *means* to go on living.

What do you need to physically survive?

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Emotional survival

To emotionally survive is to provide a *reason* to go on living. Emotional survival depends on your ability to provide meaning to life, and satisfying relationships; and the courage and confidence to have faith in the future.

What do you need to emotionally survive?

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Economic survival

Economic survival depends on your ability to convert your mental or physical efforts into goals, service, or money in order to take care of *both* your physical and your emotional needs within the framework established by your values.

What do you need to economically survive?

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VALUES WORKSHEET

The following exercise invites individuals to examine their values, and then compare them with those of their spouses. Two worksheets are provided--one for each individual--to be filled out separately (see Figures 1.1 and 1.2).

After you have completed your worksheets, first share your personal responses to the values, and then compare how you each thought the other would respond to a particular value.

(now complete the VALUES WORKSHEETS at the end of the chapter.)

SUMMARY

Understanding basic principles concerning the influence that finances and feelings have on each other is crucial to developing an effective financial program and maintaining healthy relationships. Also fundamental is realizing the importance of personal values and the ability to deal effectively with value conflicts. With this foundation you can now evaluate: What part have financial problems played in your marital disagreements? How are your financial dilemmas influenced by your behavior? What are your values and how well do you resolve related conflicts?

Knowing what is *really* important, you can conserve time, resources, and emotions. Understanding what is *really* important to the people that are closest to you--and being able to help them achieve their goals—can bring happiness to your life and theirs.

IMPORTANT TERMS

Values: Values are relatively permanent beliefs about what you regard as desirable, worthy, or right.

Replaceable: something that is seen as having a utilitarian value only.

Irreplaceable: something upon which you bestow an intrinsic, personal value, or is one of a kind.

Meaningful units: something that (1) you value, (2) you have experience with the amount of effort it takes to obtain it, or (3) you have experience with the amount of discomfort and inconvenience experienced as a result of not having it.

Attitudes: Attitudes are a state of mind based on your opinions and judgments about the world around you. They can be optimistic or pessimistic, favorable or unfavorable, charitable or hostile.

Value Conflicts: a situation that requires a "forced choice" decision between two alternatives or goals

Approach-approach conflicts = both goals are desirable

Approach-avoidance conflicts = a goal has both desirable and undesirable characteristics

Avoidance-avoidance conflicts = two undesirable choices

Physical survival reflects your ability to provide a *means* to go on living.

Emotional survival reflects your ability to provide a *reason* to go on living.

Economic survival reflects your ability to convert your mental or physical efforts into goals, service, or money in order to take care of <u>both</u> your physical and your emotional needs.

PRINCIPLES

Principle #1

Financial problems are usually behavior problems rather than money problems.

Principle #2

If you continue doing what you have been doing, you will continue getting what you have been getting.

Principle #3

Nothing (no-thing) is worth the relationship.

Principle #4

Money spent on things you value leads to feelings of satisfaction and accomplishment. Money spent on things you don't value usually leads to feelings of frustration and futility.

Principle #5

We know the price of everything and the value of nothing.

Principle #6

You can never get enough of what you don't need because what you don't need can never satisfy you.

Principle #7

Financial freedom is more often the result of decreased spending than increased income.

Principle #8

Be grateful for what you have.

Principle #9

The best things in life are free.

Principle #10

The value of an individual should never be equated with the individual's net worth.

FIGURE 1.1 - VALUES WORKSHEET

Read each of the thirty statements below. Decide which ten of the statements would be the most important to you. Rank order the ones you choose from 1 to 10 (1 being the most important). Place these numbers in the appropriate spaces under YOU at the left of the statement. Next, decide which of the ten statements you think your spouse would choose. Rank order these, and place the numbers in the appropriate spaces under YOUR SPOUSE.

YOU	YOUR SPOUSE	
1. _____	_____	A comfortable life after retirement.
2. _____	_____	Equality (brotherhood, equal opportunity for all).
3. _____	_____	Emotional and sexual intimacy.
4. _____	_____	A sense of accomplishment (lasting contribution).
5. _____	_____	Independence and self-reliance.
6. _____	_____	A meaningful love relationship.
7. _____	_____	Family security (taking care of loved ones).
8. _____	_____	Happiness (contentedness).
9. _____	_____	A meaningful relationship with God.
10._____	_____	Good self-confidence and personal growth
11._____	_____	Social recognition (respect, admiration, status).
12._____	_____	A good marriage.
13._____	_____	A life with meaningful purpose.
14._____	_____	Helping the poor, sick and disadvantaged.
15._____	_____	A secure and positive family life.
16._____	_____	Learning and gaining knowledge continually.
17._____	_____	Honest, close, true friendships.
18._____	_____	Healthy and happy children.
19._____	_____	A long healthy life.
20._____	_____	Unlimited travel, fine foods, and entertainment.
21._____	_____	Companionship; spending time together as a couple.
22._____	_____	Success in a job or career.
23._____	_____	Freedom to live your life as you chose.
24._____	_____	Family togetherness.
25._____	_____	Personality development and personal growth.
26._____	_____	Satisfaction in affection shown; liking and being liked by others.
27._____	_____	Home - sanctuary or refuge from the outside world.
28._____	_____	Economic security -- comfortable salary level.
29._____	_____	Moral and religious unity; church related affairs.
30._____	_____	Emotional security -- commitment to each other.

FIGURE 1.2 - VALUES WORKSHEET

Read each of the thirty statements below. Decide which ten of the statements would be the most important to you. Rank order the ones you choose from 1 to 10 (1 being the most important). Place these numbers in the appropriate spaces under YOU at the left of the statement. Next, decide which of the ten statements you think your spouse would choose. Rank order these, and place the numbers in the appropriate spaces under YOUR SPOUSE.

YOU	YOUR SPOUSE	
1. _____	_____	A comfortable life after retirement.
2. _____	_____	Equality (brotherhood, equal opportunity for all).
3. _____	_____	Emotional and sexual intimacy.
4. _____	_____	A sense of accomplishment (lasting contribution).
5. _____	_____	Independence and self-reliance.
6. _____	_____	A meaningful love relationship.
7. _____	_____	Family security (taking care of loved ones).
8. _____	_____	Happiness (contentedness).
9. _____	_____	A meaningful relationship with God.
10._____	_____	Good self-confidence and personal growth
11._____	_____	Social recognition (respect, admiration, status).
12._____	_____	A good marriage.
13._____	_____	A life with meaningful purpose.
14._____	_____	Helping the poor, sick and disadvantaged.
15._____	_____	A secure and positive family life.
16._____	_____	Learning and gaining knowledge continually.
17._____	_____	Honest, close, true friendships.
18._____	_____	Healthy and happy children.
19._____	_____	A long healthy life.
20._____	_____	Unlimited travel, fine foods, and entertainment.
21._____	_____	Companionship; spending time together as a couple.
22._____	_____	Success in a job or career.
23._____	_____	Freedom to live your life as you chose.
24._____	_____	Family togetherness.
25._____	_____	Personality development and personal growth.
26._____	_____	Satisfaction in affection shown; liking and being liked by others.
27._____	_____	Home - sanctuary or refuge from the outside world.
28._____	_____	Economic security -- comfortable salary level.
29._____	_____	Moral and religious unity; church related affairs.
30._____	_____	Emotional security -- commitment to each other.

References

1, (Albrecht, 1979; Bader, 1981; Edmondson & Paseley, 1986; Ilfeld, 1982; Wilhelm, et al., 1987)

2. (Coleman & Ganong, 1985; Mueller & Hira, 1984; Pasley & Ihinger-Tallman, 1982)

3. (Orthner, 1990)

4. (Hornung and McCullough, 1981)

5. (Blood and Wolfe; 1973)

6. (Troelstrup, 1974)

7. (Bader, 1981)

8. (Albrecht, Bahr, and Goodman, 1983)

9. (Ashton, 1975)

10. (Harmsworth and Minnis, 1955)

Chapter 2

WHAT WE BRING WITH US

Among the things we bring with us into a marriage are our expectations and our values, our ability to accept and adapt to change, as well as our feelings about ourselves and our experiences. William James, in *The Principles of Psychology*, examined the basis for acquiring a sense of personal identity and well-being:

> In its widest possible sense . . .a man's Self is the sum total of all that he can call his, not only his body and his psychic powers, but his clothes and his house, and his wife and children, his ancestors and friends, his reputation and works, his lands and horses, and yacht and bank account. All these things give him the same emotions. If they wax and prosper, he feels triumphant; if they dwindle and die away, he feels cast down.

James wrote of the dynamics of our lives, or how our feelings shift with good and bad times; a dynamic seldom envisioned by newlyweds. Unfortunately, due to the intensity of the love experienced by newlyweds, they often create a fairy tale belief in "living happily ever after." These experiences often completely block out the possibility that their current relationship is destined to undergo radical and usually unexpected changes. One partner may even naively ask the other to "stay just the way you are." If this were to happen, the partner making the request would someday be married to a 60-year-old spouse with the maturity of an 18-year old! Not a pretty picture.

The goal that prompts such a request is most often the desire to perpetuate the happiness

that is being experienced at that moment. Happiness is sometimes defined as "a state of being that we wish to perpetuate." Unfortunately, many erroneously assume that the state of being happy is a *static* state rather than a *dynamic*, or changing state. However, from a dynamic perspective, it may be easier to comprehend that those involved in a long-term marriage do not yearly celebrate just an anniversary but rather a "remarriage."

A couple celebrating their 50th wedding anniversary would not necessarily be composed of the same two people who married at 18. For example, a pioneer woman who had helped to build sod huts, plowed fields, borne and buried children, fought off Indians, helped dig wells during droughts, and twice nursed her husband back to health would not be the same 18-year-old debutante her husband first met in a quaint St. Louis sitting room. Having been through such adversity together, however, they would most likely end up loving each other in a deeper, more personal way than when they first met. She had changed. He had changed. Their love had changed, and with each change they had recommitted--redeclared--their desire to be married to each other.

Tell about two relationship changing events that have happened to you and your spouse. It can be either positive or negative.

Also describe how it changed your relationship.

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Most difficulties experienced in coping with the changes that take place as you make the transition from single life to married life with children stem from confrontations with your partner's new, unfamiliar set of family rules. Included among these family rules are the rules that govern the way you are expected to manage your finances; and as you might have guessed, the

rules each of you brings to the marriage will most likely be different.

FAMILY RULES

Family rules are designed to help guide us in our social roles and govern our interpersonal relationships. We are all raised with family rules, which set limits on our behavior and enable us to reasonably predict the behavior of others. Family rules are maintained and transmitted across generations on three levels: explicit, implicit, and intuitive.

Explicit Family Rules

Explicit family rules are usually expressed verbally or posted on the refrigerator door. For example, "Don't talk with your mouth full. Don't whistle at the table. Sit up straight. Don't spend all your money on candy."

Explicit family rules concerning finances might include "Always save some of what you earn. Never buy on credit. Count your change before you leave the counter. Never lend money to a friend. Pay your debts first. Never buy things foolishly." And above all, "Don't talk to others about your personal financial affairs." In this regard, Sigmund Freud [11] said, "Money [matters] will be treated by cultured people in the same manner as sexual matters, with the same inconsistency, prudishness, and hypocrisy."

List five of your own explicit family rules, concerning finances, that you grew up with. What are your explicit family rules that you and your spouse enforce now?

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Implicit Family Rules

It is the implicit family rules that often have the greatest impact on our lives. Implicit family rules are the rules taught to us through nonverbal communication--primarily through the process of our being repeatedly exposed to them throughout childhood. Implicit rules tend to be just below conscious awareness, so we seldom realize we are following them until another family member points them out to us. One example of an implicit rule is "When Dad leaves the room during an argument, that's the end of the discussion." Other family rules might tell us that

when Mom gets a tear in the corner of her eye, you do not pursue the issue any further. We also know which is dad's chair. We know we should not compare mom to her sister, bring up the name of a certain relative, or use certain tones of voice when talking to either parent. Nor is it permissible to sit on a boyfriend's lap, kiss someone in public unless you are at an airport, or leave home permanently unless you're getting married, going to college or joining the military.

With regard to financial matters, some are taught to turn their earnings over to the wife and let her run the house. Others are taught that the father manages the finances, and the rest of the family live off a specific allowance. Still others learn that each person takes care of his or her own income and expenses. Implicit family rules about finances can be detected in recollections such as "Dad paid cash for everything. We never talked about money. We never knew how much money Dad made. Mom never paid more than $20 for a pair of shoes. Mom paid the bills and kept the books. Dad turned his paycheck over to Mom. We never went on expensive vacations. The family ate out only on special occasions. All the relatives owned their own home. We kept a car for at least five years, or we bought a new car every year. Mom never bought anything for herself. The needs of the kids always came first."

List five implicit family rules about finances that you have now.

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Intuitive Family Rules

Intuitive rules are based on our family heritage, the legacy inherited by each person. This kind of rule includes any "ledgers" that need to be balanced--that is, a need to "pay back" what is "owed" to another. For example, some children may feel an obligation to their parents for all of the suffering and sacrificing the parents had done on their behalf, or there may exist a need to

succeed in order to make sure that all that the parents went through would not be in vain. Dealing with your legacy also means giving consideration to expectations associated with your ethnic background, religion, and vocational background (farmer, fisherman, doctor, etc.) How much are you going to contribute toward helping other members of the family come to America? Are you going to serve a mission for your church? Who is to stay on the farm? Who is to become the next doctor? In addition, your legacy can also prompt questions like "Who is to take care of the parents or help pay off their debts? Who is going to see that the siblings get an education?"

The intuitive rules category also includes family "taboos," such as "Never marry someone of a different (race, religion, nationality, socio-economic status, etc.), never change your (citizenship, religion, politics, etc.), never sell the (land, house, a particular heirloom, etc.), never gamble and risk losing everything the way grandpa did, or never declare bankruptcy -- it's the same as stealing."

Name some intuitive rules that your family had as a child. What are your spouse's intuitive family rules? What are the intuitive rules that you share together?

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Rules As A Source Of Conflict

Most families have hundreds of unspoken rules, and in many ways these rules help describe who we are. For instance, a woman raised in a small Japanese village would acquire a set of rules that would provide many of the social characteristics that are attributed to being Japanese. Similarly, a man raised in a small Swedish village would be raised with rules that would make him Swedish. Even if both were to immigrate to the United States, they would bring a great deal of their "village" with them and therefore would require some period of adaptation before they learned to feel comfortable in their new community.

A similar process often governs adaptation to a new marriage. For in a way, each person's family of origin is like his or her village, and represents the source of the rules brought into a marriage--rules that tend to bias our perceptions and govern our behavior.

Case illustrations

Sometimes, when money got a little tight, Stan would suggest that Kristi sell "that old hutch"; the money could then be put to good use. Unfortunately, Kristi cherished that old hutch as an irreplaceable heirloom; she would never part with something her great-grandmother had hauled across the prairie in a covered wagon. Kristi would counterattack with "If you really loved me, you would know how much that hutch means to me, and you would never even suggest selling it." Often, these opening statements would escalate into a power confrontation that would frequently end up with such ultimatums as "I honestly think you love that hutch more than you love me. Well, it’s either that thing or me. Make up your mind, because you can’t have both."

In an attempt to cool things down, Kristi would suggest borrowing some money from their parents or friends. However, Stan had learned in childhood to "never borrow money from

friends or relatives," since this would inevitably destroy the relationships; Stan's belief in this rule placed powerful restraints on Kristi's suggestion. Kristi's lack of understanding of how important it was for Stan to honor this rule and Stan's insensitivity to Kristi's emotional bond with the hutch were a source of unending conflict. However, both of them were merely obeying their family rules.

The Family Rules Inventory

To better understand how family rules influence your finances, it's helpful to identify some rules on each of three levels; explicit, implicit, and intuitive. To help you organize this task, a list of exploratory questions and two copies of the Family Rules Inventory Worksheets 2.1, are provided at the end of this chapter. You and your partner are each to fill out a copy of the worksheet.

This exercise will help you identify family rules that govern specific topics and communication patterns. Initially, fill out as much of your sheet as possible by yourself. To expand your answers, talk to your brothers, sisters, and parents about how they viewed the family rules. After you have completed this task, ask yourself (and your partner), "How did you feel about some of these rules? Which ones do you want to keep for your new family, and which ones do you wish to reject?" Determine what compromises and accommodations you will need to make.

EXPLORATORY QUESTIONS

The following questions are samples of the kinds of topics you may wish to explore in the Family Rules Inventory. You are encouraged to expand this list with additional questions of

your own.

1) Do you think your family was materialistic? In what ways?

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2) How could you ask for support? How did family members respond when another family member made a request for help/support?

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3) How was affection expressed between you and your parents?

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4) How was affection expressed between your parents?

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5) How were you allowed to express your feeling? Which feelings were you allowed to express and to whom?

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6) How did your parents express approval or disapproval?

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7) How did family members respond to change?

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8) What kind of roles were assigned to men and women?

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9) How did your family evaluate success (money, degrees, land, social status, possessions, etc.)?

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10) How did your parents feel about debt?

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11) How did your parents manage the family finances?

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12) How openly could you talk about finances?

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13) In which socio-economic group do you think your family belonged? During which period of your life?

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14) What was your parent's attitude toward both husband and wife working?

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15) What was your family's attitude toward saving and investing?

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When Family Rules Are Broken

It is very important that couples understand the rules that bias their perceptions, because these rules influence not only how they expect others to behave, but also the consequences to those who break these rules. One of the most frequent consequences for breaking family rules is "distancing" by the other members of the family. If, for example, someone were to wear Scandinavian logging boots into a

Japanese house, the hosts would most likely feel offended, and as a result, act somewhat cool and distant.

To bring this concept closer to home, imagine that a new boyfriend, Ralphael, is invited to dinner by his girlfriend. This is the first time Ralphael has been to his girlfriend's house, and he unknowingly sits in Dad's chair, calls her Dad "Pops," and begins to eat before the others are served or the food is blessed. He has broken four family rules within thirty minutes. Many in the family are not exactly sure why they have not taken to Ralphael, but they all sense that he just doesn't fit in. In contrast, Jorge is introduced to the family a few weeks later. He remains standing until the mother is seated, and he calls the father "Sir." Jorge not only waits until after the food is blessed before beginning to eat, but compliments the chef, and offers to help with the dishes after dinner. Everybody seems to like Jorge--he seems to be just part of the family.

The difference in the degree of acceptance afforded Ralphael and Jorge reflects the degree of compliance or irreverence each displayed for the family rules. This is frequently true with regard to most in-law relations, and it helps to explain why some sons- or daughters-in-law are accepted into a family and others are not. The degree of harmony between the husband's family rules and the wife's family rules can also explain the degree of difficulty experienced in adjusting to marriage.

Have you ever broken a family rule? Explain.

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Case Illustration

Example 1: In the following example, the husband and wife are operating under the family rules they brought with them from their families of origin. They do not make the effort to understand or acknowledge each other's rules.

Helen greets Paul coolly. "You're home late." Paul stretches and tries to ignore her coolness. "I know. I had a lot to do today." "You are supposed to call when you're going to be late."

Unwilling to ignore the implied accusation, Paul counters with "What are you getting so upset about? I thought you said you were going to support me with this new job. Coming home to this harassment is not what I call support!"

Family Rule for Helen: Spouses call when they are going to be home late.

Family Rule for Paul: Spouses are supposed to support each other's efforts without

placing limits.

Example 2: In this example, the husband and wife are also operating under family rules from their families of origin, but this couple make the effort to check out their assumptions about how the other should behave.

Wiping her hands on her apron, Fatima greets Ali at the kitchen doorway. "You're home late." Ali says tiredly, "I know. I had a lot to do today." "I know you're busy, but I am still upset that you didn't call. Did you know that I wanted you to call when you would be late?" "No, I didn't realize that. My dad always just came home as soon as he could, and my mom was always flexible with dinner." Fatima hesitates for a moment, then presents her position. "I'm willing to be flexible with dinner, but I would also like to know when I can expect you to be coming home. Would you be willing to call me the next time you expect to be home later than 6:30?" "Sure. I'd be willing to do that. I'm sorry I didn't think to call tonight." Fatima smiles her appreciation. "Thanks. It would make it a lot easier for me to make plans for the evening."

Family rule for Fatima: Be considerate of the needs of others, but also expect your needs to be considered.

Family rule for Ali: Consideration for your wife's needs is more important than loyalty to the way your mom and dad did things.

Name two family rules that your spouse never breaks.

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Coping with Family Financial Rules

The family rules you bring with you into your marriage have the ability to influence you throughout your life. This is why it is imperative that you come to know your spouse's background as thoroughly as possible, especially the rules governing finances in the family of origin. In most cases, a spouse breaks the other's rules out of ignorance; nevertheless, this can lead to a perpetual state of discord. In contrast, having knowledge of another's rules can provide a means of expressing love and consideration in ways that can be more fully understood and appreciated by both partners.

Family financial rules underlie the financial management patterns you bring to a marriage. The following list of suggestions can help you make conscious choices with your partner about the financial rules and management patterns that will characterize your marriage.

1. Assess your family of origin's financial management patterns and determine which of these you wish to perpetuate and which you wish to discard.

2. Accept that each person has a unique set of financial rules.

3. Be aware that each person has an assortment of divergent values, standards, and goals that tend to influence the way he or she would like to have resources allocated.

4. Appreciate the severe stress placed on both individuals and families when family financial rules are broken.

5. Understand that it is possible for families and family members to modify their financial management procedures.

6. Formulate a plan for you and your family that is designed to alter existing, dysfunctional financial patterns and establish functional financial management techniques.

7. Have each member of the family learn how to plan, control, and evaluate the management of financial resources.

BIRTH ORDER AND FAMILY ISSUES

Family rules aren't the only things we bring to our marriages from our families of origin. We also bring the characteristics we acquire through our birth-order position in the family. Personality characteristics associated with your birth order can have a profound influence on how you manage your finances. These characteristics, developed in childhood, are often a

permanent part of a person's adult life.

The Main Birth-Order Clusters

The important role that birth order plays in our lives was investigated by Alfred Adler (1927) [12] and became the foundation for his theory on personality development called "Individual Psychology." Adler believes that birth order is an important factor in the determination of certain personality characteristics, and that these characteristics can be divided into four main clusters: those of the *First Born*, *Second Born*, *Middle Born*, and *Youngest*.

The First Born

First born children have usually been asked to take care of their younger siblings; as a consequence, being in control and taking charge comes easily to them. As a consequence, managing the checkbook, giving out allowances, paying the bills, making out a budget (and making sure everyone adheres to its guidelines) are all financial management tasks that would come naturally to an eldest child. First borns are also ambitious and high achievers [13]. Research indicated that when defining financial achievement as the rate of salary increase, first born individuals attain the highest earnings progression when compared to the other birth orders [14].

Are you or your spouse a first born? If so, which characteristics are true to that person?

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The Second Born

Second-born children, on the other hand, hate being controlled or having someone else try to tell them what to do. Greatly independent, it’s important for them to have their own "mad" money to spend as they like, and not have to account to anyone for. They have been known to sabotage many a first-born's plans to keep things--including budgets--organized. Second-borns can spend a lot of money trying to be as good as someone else.

Are you or your spouse a second born? If so, which characteristics are true to that person?

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The Middle Born

Middle-Born children tend to go along with whatever budget has been put together. They may resent the fact that their needs have once again been lost in the "needs of the family," but then that is a familiar situation for the middle-born child. However, because they are so sensitive to injustice and unfairness, they are more likely to stand up for the financial rights of other family members.

Are you or your spouse a middle born? If so, which characteristics are true to that person?

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The Youngest

The Youngest, or last-born, child is often used to being pampered and treated like a prince or princess. Credit cards provide instant gratification of almost anyone's whim or impulse, but it is not unusual for youngest children to take their cards to their credit limits--and then some. In one study, it was found that the youngest have higher average total liabilities and a higher debt-to-income ratio than any of the other birth orders [15].

Are you or your spouse the youngest? If so, which characteristics are true to that person?

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Interaction Patterns

It is not too hard to imagine what kind of interaction patterns might develop as a result of an individual with one set of birth-order characteristics marrying someone from a different set. Preliminary research shows that birth order can have an affect on family finances. For instance, it has been found that a couple's birth order combination is a significant predictor of the family income. Last-born husbands married to middle-born wives were found to have the highest family income while middle-born husbands with first-born wives had the lowest [16].

Case illustration

Adam and Tashi were on the verge of getting a divorce because of what Tashi saw as Adam's irresponsible use of the checking account. "No one in my family *ever* bounced a check," Tashi would growl. "I've never in my life been so embarrassed as when the minister returned our tithing check due to *insufficient funds*." Tashi was an eldest child used to acting responsibly, and she expected others to behave in an equally responsible manner.

Adam, on the other hand, was the youngest child in his family of origin. As a consequence, he had a difficult time understanding why Tashi could get so angry with him over a "little" thing like a bouncing a check. "Lots of people bounced checks. No big deal. It was a perfectly natural, human mistake."

The Birth-Order Exercise

Since birth order characteristics are likely to influence how you and your spouse interact in your marriage, as well as how you manage your finances, it would be worthwhile to use the Birth Order Exercises, Worksheet 2.2, through 2.5. It will help you identify the characteristics you developed in your family of origin and apply this knowledge to your marital and financial relationships.

There are four versions of the Birth-Order Exercise—one for each birth-order cluster. Fill out the version that pertains to your own birth-order. Then fill out one your spouse, indicating which of the characteristics for his or her birth order match his or her personality.

(Insert Birth Order Exercises at the end of the chapter.)

The Task Satisfaction Scale

Frequently, people assume responsibility for certain tasks by default, perhaps based on observation of their parents or the influence of their birth order. However, people do not necessarily like the tasks they have assumed.

Worksheet 2.3, the Task Satisfaction Scale, will help you pinpoint how you feel about the allocation of financial tasks in the family and how you believe your spouse feels about the tasks she or he is asked to perform. Two copies of the worksheets are provided—one for you and one for your spouse--and these should be completed independently. Afterward, compare and discuss your responses. Use this exercise to better understand their satisfaction or dissatisfaction with the financial tasks they perform in the household. If one spouse is particularly adverse to a certain task, such as being asked to balance the checkbook or pay bills alone, being asked to perform it may create feelings of resentment and distance. With more open communication, such problems could be avoided by either sharing the task or allocating it to the other partner.

SUMMARY

You and your spouse can bring, consciously and unconsciously, a great number of family rules into your relationship. It difficult for two people to successfully develop and maintain a financial management program without taking each other's rules into consideration. Individual characteristics associated with a person's birth order can have a major impact on our financial and interpersonal behavior.

With the information learned from the questions and worksheets in this chapter, you will be in a better position to evaluate your financial behavior and practices.

MANAGERIAL TASK/SATISFACTION SCALE

Think of the following management task in your home. Think about who does each particular chore. Are you satisfied with the way responsibilities are shared or divided? On a scale of 1 to 5, with 1 being "completely unhappy" and 5 being "completely happy," rate your satisfaction in your situation by circling a number. After you have completed this task, rate how you believe your spouse would respond by placing an "X" on a number.

	Completely Unhappy				Completely Happy
1. Shopping for & buying groceries	1	2	3	4	5
2. Obtaining maintenance, service, and repairs for the car(s)	1	2	3	4	5
3. Shopping for, selecting, and purchasing new or used cars	1	2	3	4	5
4. Studying, deciding on, and investing in property, stocks, and bonds	1	2	3	4	5
5. Studying, deciding on, and purchasing life, hospital, and medical insurance	1	2	3	4	5
6. Studying, deciding on, and purchasing car, fire, liability, and other property insurance	1	2	3	4	5
7. Figuring annual federal & state	1	2	3	4	5

income taxes

8. Maintaining records of income & expenses 1 2 3 4 5

9. Preparing monthly or annual budget 1 2 3 4 5

10. Paying bills 1 2 3 4 5

11. Signing checks and making deposits 1 2 3 4 5

12. Earning money through employment 1 2 3 4 5

13. Assuming responsibility for the family 1 2 3 4 5

estate, the will, and related matters

14. Obtaining needed medical & dental care 1 2 3 4 5

15. Managing family time commitments 1 2 3 4 5

16. Deciding on & doing "inside" chores 1 2 3 4 5

17. Deciding on & doing "outside" chores 1 2 3 4 5

MANAGERIAL TASK/SATISFACTION SCALE

Think of the following management task in your home. Think about who does each particular chore. Are you satisfied with the way responsibilities are shared or divided? On a scale of 1 to 5, with 1 being "completely unhappy" and 5 being "completely happy," rate your satisfaction in your situation by circling a number. After you have completed this task, rate how you believe your spouse would respond by placing an "X" on a number.

	Completely Unhappy				Completely Happy
1. Shopping for & buying groceries	1	2	3	4	5
2. Obtaining maintenance, service, and repairs for the car(s)	1	2	3	4	5
3. Shopping for, selecting, and purchasing new or used cars	1	2	3	4	5
4. Studying, deciding on, and investing in property, stocks, and bonds	1	2	3	4	5
5. Studying, deciding on, and purchasing life, hospital, and medical insurance	1	2	3	4	5
6. Studying, deciding on, and purchasing car, fire, liability, and other property insurance	1	2	3	4	5
7. Figuring annual federal & state	1	2	3	4	5

income taxes

8. Maintaining records of income & expenses 1 2 3 4 5

9. Preparing monthly or annual budget 1 2 3 4 5

10. Paying bills 1 2 3 4 5

11. Signing checks and making deposits 1 2 3 4 5

12. Earning money through employment 1 2 3 4 5

13. Assuming responsibility for the family 1 2 3 4 5

estate, the will, and related matters

14. Obtaining needed medical & dental care 1 2 3 4 5

15. Managing family time commitments 1 2 3 4 5

16. Deciding on & doing "inside" chores 1 2 3 4 5

17. Deciding on & doing "outside" chores 1 2 3 4 5

BIRTH ORDER EXERCISE - FIRST BORN

Listed on this page are characteristics common in first born children. If you are filling this sheet out for you, read the description, and decide how much this description is characteristic of you. If it is not at all characteristic, circle 1 on the scale. If it describes you exactly, mark a 5. Numbers 2-4 represent gradations in between. If you are filling this sheet out for your partner decide instead how characteristic the description is of your partner.

How characteristic is this of me/my partner?

A First Born

1) Needs to be "in charge" or be the "boss."

not at all 1 2 3 4 5 exactly

2) Feels threatened by criticism from others.

not at all 1 2 3 4 5 exactly

3) Is cautious, does not like to take risks.

not at all 1 2 3 4 5 exactly

4) Tries to get as much information as possible in order to make plans and lists.

not at all 1 2 3 4 5 exactly

5) Tends to be intellectual and likes to work with facts and data.

not at all 1 2 3 4 5 exactly

6) Feels very responsible for making sure that everything turns out well, fearful of being wrong or making mistakes.

not at all 1 2 3 4 5 exactly

7) Is obedient, oriented to rules and authority.

not at all 1 2 3 4 5 exactly

8) Is conservative and does not like the things to change or things to happen unexpectedly.

not at all 1 2 3 4 5 exactly

9) Is ambitious and a high achiever.

not at all 1 2 3 4 5 exactly

10) Has a tendency to think he or she is superior to others.

not at all 1 2 3 4 5 exactly

BIRTH ORDER EXERCISE - SECOND BORN

Listed on this page are characteristics common in second born children. If you are filling this sheet out for you, read the description, and decide how much this description is characteristic of you. If it is not at all characteristic, circle 1 on the scale. If it exactly describes you, mark a 5. Numbers 2-4 represent variations in between. If you are filling this sheet out for your partner, go through the same process as above, but decide instead how characteristic the description is of your partner on a scale from 1-5.

How characteristic is this of me/my partner?

A Second Born

1) Is the opposite of his or her older sibling.

not at all 1 2 3 4 5 exactly

2) Is rebellious, liberal thinking, and willing to try something new.

not at all 1 2 3 4 5 exactly

3) Is stubborn.

not at all 1 2 3 4 5 exactly

4) Is very competitive.

not at all 1 2 3 4 5 exactly

5) Is assertive and outspoken.

not at all 1 2 3 4 5 exactly

6) Gets bored easily.

not at all 1 2 3 4 5 exactly

7) Has an individual interpretation of the rules.

not at all 1 2 3 4 5 exactly

8) Is impulsive and often does not think through to the consequences.

not at all 1 2 3 4 5 exactly

9) Needs to have choices rather than being told what to do.

not at all 1 2 3 4 5 exactly

10) Sees situations in terms of black and white; there is no middle ground.

not at all 1 2 3 4 5 exactly

BIRTH ORDER EXERCISE - MIDDLE BORN

Listed on this page are characteristics common in third born children. If you are filling this sheet out for you, read the description, and decide how much this description is characteristic of you. If it is not at all characteristic, circle 1 on the scale. If it exactly describes you, mark a 5. Numbers 2-4 represent variations in between. If you are filling this sheet out for your partner, go through the same process as above, but decide instead how characteristic the description is of your partner on a scale from 1-5.

How characteristic is this of me/my partner?

A Middle Born

1) Is easy going and does not get as upset over the "little things."

not at all 1 2 3 4 5 exactly

2) Is willing to negotiate and compromise .

not at all 1 2 3 4 5 exactly

3) Needs to feel appreciated.

not at all 1 2 3 4 5 exactly

4) Likes to be different.

not at all 1 2 3 4 5 exactly

5) Is independent.

not at all 1 2 3 4 5 exactly

6) Feels tends to be more accepting of self and others.

not at all 1 2 3 4 5 exactly

7) Has an identity problem, and often feels "invisible".

not at all 1 2 3 4 5 exactly

8) Will urge a compromise, and rarely takes a stand in the family.

not at all 1 2 3 4 5 exactly

9) Sees life as a struggle.

not at all 1 2 3 4 5 exactly

10) Tends to take a holistic view of things.

not at all 1 2 3 4 5 exactly

BIRTH ORDER EXERCISE - YOUNGEST

Listed on this page are characteristics common of youngest children. If you are filling this sheet out for you, read the description, and decide how much this description is characteristic of you. If it is not at all characteristic, circle 1 on the scale. If it describes you exactly, mark a 5. Numbers 2-4 represent variations in between. If you are filling this sheet out for your partner, go through the same process as above, but decide instead how characteristic the description is of your partner on a scale from 1-5.

How characteristic is this of me/my partner?

A Youngest

1) Is charming and manipulative.

not at all 1 2 3 4 5 exactly

2) Is impatient; wants something now.

not at all 1 2 3 4 5 exactly

3) Has often been spoiled and pampered.

not at all 1 2 3 4 5 exactly

4) Tries to get his or her own way.

not at all 1 2 3 4 5 exactly

5) Is very creative.

not at all 1 2 3 4 5 exactly

6) Is self-indulgent.

not at all 1 2 3 4 5 exactly

7) Is irresponsible and undependable.

not at all 1 2 3 4 5 exactly

8) Believes that he or she is special.

not at all 1 2 3 4 5 exactly

9) Does not believe that he or she should have to pay the consequences for behavior.

not at all 1 2 3 4 5 exactly

10) Does not believe that he or she is taken seriously.

not at all 1 2 3 4 5 exactly

IMPORTANT TERMS

Family Rules: rules are designed to help guide us in our social roles and govern our interpersonal relationships.

Explicit Family Rules are usually expressed verbally and there is a conscious awareness of their existence.

Implicit Family Rules are usually taught to us through nonverbal communication -- primarily through the process of our being repeatedly exposed to them throughout childhood. Implicit rules tend to be just below conscious awareness

Intuitive Rules

includes Intuitive-cultural rules -- rules based on your family heritage, the legacy inherited by each person. It includes any "ledgers" that need to be balanced, that is, a need to "pay back" what is "owed" to another.

Breaking Family Rules One of the most frequent consequences for breaking family rules is distancing" by the other members of the family.

First Born

First-born children have usually been asked to take care of their younger siblings; being in control and taking charge comes easily to them. Managing the checkbook, giving out allowances, paying the bills, creating a budget (and making sure everyone adheres to its guidelines) are all financial management tasks that come naturally to an eldest child.

Second Born

Second-born children, on the other hand, hate being controlled or having someone else try to tell them

what to do. They like to be independent, have their own "mad" money to spend as they like, and not have to account for where the money went to anyone.

Middle Born

Middle-Born children tend to go along with whatever budget has been put together. They may resent the fact that their needs have once again been lost in the "needs of the family." They are so sensitive to injustice and unfairness, they are more likely to stand up for the financial rights of other family members.

Youngest

For the Youngest child, having their own credit card is thought of as a license to indulge themselves. For the Youngest, credit cards provide instant gratification of almost any whim or impulse, and so it is not unusual for them to take their cards to their credit limits.

BIRTH ORDER AND FINANCIAL ISSUES

Birth Order	Control issues	budgeting	needs/wants
First Born	being in control takes charge Manages the checkbook, pays the bills,	makes out a budget and makes sure everyone adheres to it	conservative take care of needs first saves to buy wants
Second Born	hates being controlled like to have their own "mad" money	sometimes sabotage first-born's budget	impatient severe stress if unable to get what is wanted
Middle Born	assumes responsibility for management tasks	tend to go along with whatever budget has been put together	sensitive to fairness the needs of everyone considered equally
Youngest	doesn't like controls prefers to operate on impulse	sees budgets as being restrictive avoids responsibility	does not distinguish between wants and needs

Reference

11. Sigmund Freud (1913)

12. Alfred Adler (1927)

13. Altus, 1966; Hudson,1990

14. Berger and Ivancevich (1973)

15. Poduska & Allred, (1987)

16. Steggell, Allred, Harper, and Poduska, (1990)

Chapter 3

LIFESTYLES AND FINANCES

To manage your finances effectively, you must not only face the task of resolving your immediate financial problems, but also learn how to cope with personality characteristics that influence the development of these problems. Many psychologists have attempted to explain the influence of personality on financial behavior from a wide range of perspectives[16]. However, based on several years of observing and working with clients at a family financial counseling clinic, I determined that the way clients managed their finances frequently paralleled the lifestyles described by Alfred Adler [17]. The information presented in this chapter represents a synopsis of these observations [18].

What financial problems are you looking to resolve in the near future?

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Adler's Concept of Lifestyles

Adler was one of the first personality theorists to recognize that individuals tend to organize their repertoire of personality characteristics around what he referred to as a l*ifestyle*. Your lifestyle is a belief system that provides you with a strong sense of knowing where you belong in relation to others, as well as a strategy for achieving a feeling of worth.

Adler believed that although there are many different lifestyles, four themes seem to dominate. These themes are represented by the personality "priorities" (or goals) of *Superiority*, *Control*, *Pleasing*, and *Comfort Seeking*. It is helpful to recognize each of these personality priorities and understand ways of dealing with their possible negative financial effects.

Examine each lifestyle. Come back to this point and list which lifestyle you and your spouse are the most like. In what ways?

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Lifestyle 1:SUPERIORITY

Individuals whose Lifestyle is based on *superiority* typically avoid anonymity and attempt to gain a feeling of belonging and significance by trying to be better than others. This lifestyle can be expensive. Superiority-seeking individuals often find that they are compelled to purchase top-of-the-line items even when they cannot afford them. They do not acquire quality merely for quality's sake but rather to gain the recognition and esteem associated with prestigious items. Brand names, labels, and the location of the store are very important to them.

The Game of One-upmanship

People with a Superiority orientation do not want to merely keep up with the Joneses but to surpass them. Such individuals often find themselves participating in an undeclared, progressively expensive, game of one-upmanship. At the beginning of the game the question may be "How do I measure up? Am I as good as other members of a particular league?" which frequently leads to competitive purchasing. After playing the game for awhile, superiority-oriented people often want to move up to an even more competitive comparison group.

Superiority seekers are often trying to compensate for feelings of inferiority; yet in so doing they set themselves up to fail. For example, superiority-seeking owners of Cadillacs will compare themselves with people who drive Ferraris or Rolls Royces--automobiles they can never afford--rather than with owners of Volkswagens or Chevrolets. Although they probably cannot afford a purchase, they make it anyway, and set up a pattern of spending beyond their means. They may send their children to the best schools, or become members of a particular country club, even though initiation fees or dues exceed what they can manage with their current income. Time-shared condominiums or resort programs and vacations to exotic locations frequently attract the superiority seekers.

As one might expect, this kind of money management tendency leads to chronic indebtedness and feelings of apprehension. Budgets stretched beyond their limits, and frequent harassment from creditors can substantially increase the level of stress in any marriage.

Write down a one-upmanship game experience. It can be one you yourself have done or one you have witnessed.

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The Martyr And The Victim

To justify their conspicuous consumption, superiority-oriented individuals often rationalize to their partners or dependents, "I did it all for you." But of course this defense is meaningless when the "you" referred to does not appreciate the financial gestures. Individuals inclined to superiority often feel a sense of meaninglessness in life, realizing that after buying others everything money can buy, the others still don't love them in return.

Because of the stress of such situations, the superiority-oriented person sometimes becomes the martyr or victim of the family, a stance they may assume early in life. The best is usually purchased for someone else--the children or spouse. For example, a mother may choose

to wear the same old, run-down shoes through another winter so that her child can have the latest in ski boots. This martyr-mother then feels more righteous than (i.e., superior to) other parents because of her sacrifice for her children.

When the recipient of the “sacrifices’ is the spouse, the superiority-seeker’s role can switch to that of victim. While the martyr imposes misery upon his or her own self, the victim gets someone else to impose it. For example, the victim may buy gifts for his spouse even though he knows his spouse will not reciprocate in kind. The victim can then feel justified in feeling sorry for himself and in viewing himself as more generous and loving than his spouse. The real intent is in fact to draw attention to the partner's lack of reciprocation.

In some marriages, both partners base their lifestyles on superiority—but they play different roles. One spouse seeks superiority through consumption and typically satisfies all his or her own wants, while the other seeks superiority through the victim role and tends to satisfy few, if any, of his or her own wants. For example, a husband seeking to be superior may buy an expensive, top-of-the-line shotgun, a four-wheel drive vehicle, and elaborate camping equipment, while his wife, the victim, wears altered dresses bought at a secondhand store because of the heavy debt accumulated by her husband. He is “superior” at consuming; she is “superior” at sacrificing.

Have you ever thought of yourself as the martyr or the victim? Write down that experience.

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Overcoming A Superior-oriented Lifestyle

If this lifestyle describes you and you and you wish to overcome its undesirable characteristics, you must first become aware of how this priority affects your spending behavior. It may be helpful to review the social motivations behind particular purchases or buying habits, and then compare these motives with the more practical reasons for making a purchase. For example, what is your motive for buying a car? Is it to impress neighbors and relatives and to drive up to the country club in something that looks like it belongs there? Or is your motive to have a dependable means of transportation? From a practical standpoint, a five-year-old Chevrolet will get you across town about as well as a brand new BMW. The social reasons for wanting to drive the BMW may originate in the need to feel superior.

It may also be helpful to look into childhood circumstances that may have fostered such personality traits. Competition with siblings may have been significant, and may still be an active force. The feeling of not being good enough for a certain social group at school or in the community may have played a great role in your selecting of a superior-seeking lifestyle.

It may enlightening to check out just how impressed others actually are with your efforts to be superior. You may learn that most people are so preoccupied with their own challenges and struggles that many of your efforts to impress them go unnoticed or receive only a passing acknowledgment. You may ask a neighbor, "Hey, what do you think of my new car?" and your neighbor might answer, "Did you get a new car? Well how about that. How long have you had it?" You tell them that you have had it a couple of weeks and your neighbor replies, "Is that a fact? This car seems a little bigger than that little whatchamacallit you used to have." You then feel obliged to point out that the little whatchamacallit was a BMW 325i."

If you tend to be a victim or martyr, you may think about asking others, after you have related a tale of financial woe, to judge your pitiable performance--in much the same way as Olympic performances are judged.

Once you have greater insight into your motivations, you may realize you have a choice. You can continue behaving as you have in the past, which would mean continuing a life of futile comparisons, heavy debt, and stress from feeling over-responsible and overburdened. Or you can begin trying to identify how much status would—or should—honestly be "enough" for you (see Chapter 6). Keep in mind Principle 6: ***You can never get enough of what you don't need, because what you don't need can never satisfy you.***

How can you overcome a superiority-oriented lifestyle?

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Lifestyle 2: CONTROL

Those whose Lifestyle is based on Control have three primary areas of focus: *(1) control of self, (2) control of others, and (3) control of situations.*

Control Of Self

Financially, a focus on control of self translates into *not* giving in to the urge to purchase wants or luxuries. Self-control means sticking with the basics—purchasing only needs. To a controller, impulse buying is an absolute no-no, and those who so indulge are usually perceived as weak and are severely criticized. Those who exercise this type of control to the extreme live a miserly existence characterized by exaggerated savings programs and austere surroundings. In some cases, a point of negative returns occurs: the cost of maintenance begins to exceed the cost of replacement. Maintaining an older car, for example, can end up costing more than buying a

new one; or heating bills without adequate insulation might cost more than installing additional insulation.

Control Of Others

Control of self sometimes assumes a rather passive-resistant orientation: a "you can't make me do anything I don't want to do" attitude. In contrast, control of others is much more active and seems to be far more common.

The controller's dilemma stems from being overwhelmed with the responsibility of managing the finances, yet afraid of losing control if some responsibilities are allocated to others. Some control-oriented people believe that the one who controls the purse strings controls all. Their intent is to make others subservient, often through control of the checkbook, credit cards, allowances, or the distribution of inheritance.

Such manipulations can be explicit or implicit. Explicit control occurs when one of the spouses determines how much the other will be allowed to spend and for what purpose. The controlling spouse maintains control by persistently making the subservient spouse feel guilty and incompetent about his or her management of finances. Explicit control can also occur when the controller manipulates others into borrowing money from him or her. The indebtedness of others assures the controller a position in which others "owe him (or her) one."

When the control is implicit, the manipulator becomes the "power behind the throne." The controlling spouse subtly prompts the other to buy things without the manipulated one being aware of what is happening. For example, a wife may want to drive a new car but may not want the responsibility for assuming such a debt. So, she prompts her husband, "I suppose now that you've got that raise you're already thinking of new ways to spend it. You've got to promise me

that you won't go near Bob's car lot, because, I know how you operate. The moment you sit behind the wheel of that red convertible with the tan leather interior, you'll just have to have it. Oh, I know how you have always wanted a car like that, and how you love the wind and the sun. But even with the raise it wouldn't be practical, so even if you drive by just to look at it, you have to promise you won't stop." In like manner, a husband may wish to go on an expensive vacation but want his wife to believe that the idea was hers. "Honey, you've been really working hard lately," he says. "I don't know how you do it. I'd be absolutely exhausted if I tried to accomplish just half of what you do. Don't you ever think about taking a break from the daily grind and getting away from it all? I mean *really* getting away from it all?"

Do you or your spouse try to control eachother? In what ways?

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Control Of The Situation

Control of the situation is often closely associated with control of others. Controlling

income and expenses is one way of controlling the situation. While income is sometimes kept confidential, expenses are often made public in a gloomy, pessimistic light. For example, a husband may keep an ample net worth and income a secret from the rest of the family, yet insinuate that the family does not have much left over for nonessentials. The rest of the family may then feel reluctant to ask for things they want.

Controlling the situation also means making plans, preparing schedules, and laying out the future in an inflexible, often unrealistic manner. In some instances, controllers of the situation become over-insured in an attempt to be prepared for any and all catastrophes.

Unfortunately, some people who are subjected to control-oriented individuals go on spending sprees, while others juggle the books so that even a bank auditor would be unable to decipher what took place. Many who live under the influence of a Controller feel tense and frustrated at being stifled by rigid financial programs, and as a result they often become defiant and disobedient.

Overcoming A Controlling Lifestyle

If you think you have controller tendencies and encounter feelings of defiance in others, you may wish to (1) bring financial matters into open discussion, (2) develop a financial management plan based on distributing the financial responsibilities among all family members, and (3) encourage programs in which each member of the family has at least some money (an allowance, mad money, or such) free of all accountability.

If you have this personality, one of the most difficult but beneficial things you must do is reorient your thinking. You must realize that your worth as an individual does not come from your ability to control. If you truly want others to respond to you, you must change from a

controller/dictator role to a leader/teacher role. You will want to become an educator who imparts skills to others rather than a tyrant who criticizes their ignorance.

For instance, a controller tries to get results by complaining about the high utility bills and nagging about lights left on and thermostats turned up. A leader would instead educate the family on what it costs per day for electricity and gas, then help them set goals for reducing the utility bill for one month. As an incentive, half of the amount saved could be shared with the children. In this way, individual family members would be able not only to make a contribution but also to develop a greater sense of personal responsibility.

It can also be helpful if you and your family develop the courage to be imperfect--that is, to make mistakes and still remain lovable. Everyone should agree that the world will not end if one of you makes a decision that ends up costing the family more than was expected. Nor are you immune to buyer's remorse. If you have controller characteristics, the ability to accept your humanness is especially important because of your strong need to avoid ridicule or humiliation.

If your goal is to eliminate, or at least reduce, your use of control-oriented behaviors, the technique of catching yourself to bring behavior into conscious awareness can be helpful. At first, you may catch yourself only *after* you have behaved a certain way. A verbal acknowledgment of "I did it again, didn't I, but I'm catching myself" will generate words of encouragement from others members of the family. Continue through a progression of catching yourself *during* to catching yourself *before* acting in the old, undesirable ways.

For example, as a control-oriented person, you may tend to tell others how they should spend their money, or to judge their spending behavior if the money has already been spent. Since habits usually don't disappear overnight, making a vow (something the self-control

impulse is prone to encourage) that you will *never* criticize the spending behavior of others again, you may be setting yourself up for failure; but acknowledging that you criticizing again, and finally, that you were about to criticize but thought better of it, allows you to remain human while making progress.

In addition, you must gradually develop a more cooperative, democratic perspective toward finances and relationships. The technique of "trading places," or rotating leadership roles, can also be useful in achieving a more egalitarian atmosphere while managing finances.

Write out plan in overcoming a controlling lifestyle.

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Lifestyle 3: PLEASING

Those who have chosen *pleasing* as their first priority do all they can to avoid rejection. Believing that one can buy the love and acceptance of others, they often use gifts to gain recognition or affection. Such individuals unfortunately see love as a commodity that can be bought, sold, and exchanged for goods and services, and their attempts to *buy* love lead to financial disaster. Pleasers tend to substitute gifts for feelings, and money for time. As parents, for example, pleasers frequently go heavily into debt in attempts to satisfy the insatiable requests of their children. Such parents believe that if they say "no" to their children's requests, the children will interpret this as an indication that they are no longer loved. This kind of situation seems increasingly prevalent in today's world of dual-income families, reconstituted families, and divorced or separated parents. Love is equated with the relative costs of gifts, or money is allocated as *his*, *hers*, or *ours*.

In many instances, pleasers unable to afford their own generosity, find themselves on a treadmill, managing to pay off last Christmas at about the time the next Christmas rolls around.

The generosity of Pleasers sometimes extends well beyond their immediate family. Even if their own families are in great financial need, pleasing oriented people often lend money to neighbors . The situation worsens if the Pleaser becomes reluctant to ask for repayment for fear of offending the debtor. Problems can arise when the pleaser co-signs loans, puts up collateral for other people's loans, or takes out loans in order to provide money for others.

Do you or your spouse live a pleaser lifestyle? If so, in what ways?

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Difficulty Saying "No"

Pleasers find it difficult to say "no" to the requests of family members. As a result, they often accrue heavy debt to satisfy their families' wishes. Unfortunately, the gifts are never enough, for "the desires of the indulged are usually insatiable." Sometimes, Pleasers buy gifts for their spouses even if financially the purchases requires finding additional work in order to pay for them.

The Pleaser's attempts to avoid rejection may also create problems with clerks and salesperson. In some cases, Pleasers buy things they don't want or need simply because they want the salesperson to like them. This also makes them susceptible to high-pressure sales promotions and extremely vulnerable to get-rich-quick schemes.

Overcoming A Pleaser Lifestyle

As long as you are pleasing-oriented, you will find it difficult to distinguish between being valued for your personality and being valued for your presents and possessions. Do your “friends” come over to be with you or to be in your pool? Do they enjoy your company or just your ski boat? Are your children as glad to see you when you are empty-handed as they are when you come “bearing gifts”?

As a way to confront your pleasing tendencies, you may wish to find out if a failure to "come through" with a gift or loan would end a particular relationship. If so, you may ask yourself, "What is the merit in maintaining such a relationship?" Rather than being afraid of rejection, you may find it helpful to actually seek it: See how many "friends" you can lose in a week merely by requesting payment from people who owe you money, or by saying no to requests for financial aid.

You must realize that a need to be liked by everyone (including those you dislike) indicates low self-esteem. Only by presenting yourself without gifts will you ever know the true basis of your relationships. Whether another person is happy, sad, loving, or rejecting is a choice that person makes; it is not within your power to generate those feelings. When you recognize that you cannot love and friendship, and that you cannot make someone else happy, you become more able to question the motivation behind your gift exchanges and loans. With enough

encouragement and change in outlook, your primary concern can become the welfare of others rather than whether they accepted or rejected you.

How can you or your spouse overcome a pleaser lifestyle?

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Lifestyle 4: COMFORT SEEKING

Often, those who choose comfort as the basis for their lifestyle were pampered as children. As a result, they tend to be self-indulgent and to make little discrimination between needs and wants. Comfort-oriented people sometimes have a history of impulsive buying: the very desire for something is sufficient reason to purchase it. People buy impulsively partly to acquire the desired item as soon as possible, and partly to reduce the stress from frustration at not

having what they want.

Reducing Stress

Stress reduction is one of the primary goals of comfort-seekers—-but they go about it all wrong. They often procrastinate, hoping that whatever is causing stress will go away if they ignore it. As a consequence, they often accumulate unfinished business, unresolved problems, and unmade decisions. Thinking to ease their stress as quickly as possible and at any cost, they refinance loans, take out additional loans, or consolidate existing loans. They ask for cash advances on salaries, delay payments on less stressful bills, and pawn valued possessions. They do not open mail or answer the phone, and they can get quite good at lying.

Comfort-oriented people seek to take the so-called “easy” way out. They may walk out on current debts, move to another state, and start all over again. They often view bankruptcy as a way to escape the stress of heavy indebtedness rather than a way to solve current financial problems and get a fresh start. Usually they see their negative financial situation as only temporary; they believe their ship will come in "any day now."

In what ways do you or your spouse live a comfort-seeking lifestyle?

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Overcoming A Comfort-Seeking Lifestyle

As a Comfort Seeker, you dislike being pinned down or cornered, especially on details. You have become skilled at avoiding having to provide specific financial information. You are also pretty good at getting others to back off by convincing them that you cannot handle stress very well. You might even carry this "I can't handle stress" theme to an extreme, expecting others to solve the financial problems that have taken you years to create.

To help counter these tendencies, recognize that one of the most efficient ways to reduce

stress is to act responsibly. Ask yourself, "How would things be different if I were to have all of my debts paid off and I were no longer being harassed by creditors?" or "How would my life be different if I were able to increase my income by 10 to 20 percent?

Remember, however, that as a Comfort-oriented person you may tend to resist structured or limiting corrective programs; so any remedial programs you adopt should not be too austere. You may find that increasing your income is more effective than trying to reduce expenditures.

How can you or your spouse overcome a comfort-seeking lifestyle?

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FINANCIALLY EFFECTIVE PERSONALITY CHARACTERISTICS

My neighbor, a certified public accountant, was once heard to say that from a financial standpoint, there were only two kinds of people: *spenders* and *savers*. He maintained that spenders tend to be in debt, live from paycheck to paycheck, and have little or nothing available for investment. Savers, however, tend to pay cash for what they buy, maintain a savings account, and remain financially secure thanks to long-term investments.

This concise perspective may allow financial planners to quickly appraise their clients, but the specific personality characteristics listed below can also contribute substantially to effective financial management programs:

Self-reliance

If you are self-reliant, you try to be your own banker whenever possible, usually by establishing a savings program and setting aside "payments" toward the purchase of an item long before you actually buy it. In this way, you can earn interest rather than pay it.

To be an efficient banker, you must be able to maximize the use of your assets. You may find it advantageous, for example, to borrow money to buy now rather than later; there is often a cost advantage to buy at current prices during an inflationary period. Or you might find that it costs you less to make payments on a washer and dryer than it would to use a laundromat.

In what ways can you be more self-reliant?

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Accurate Perception Of Reality

It is important to appreciate the need to live on your *net income* (what's left of your paycheck after state and federal taxes, Social Security, pension payments, and dues are taken out). You also need to accurately appraise the *true* cost of a purchase (including taxes, interest, operation costs, insurance premiums, and accessories; see Chapter 6), and to recognize any change in your financial situation and adapt accordingly.

Flexibility

If you live below your means, you are able to draw on uncommitted funds as the occasion arises. You are then able to enjoy the freedom and flexibility that come from a lack of

indebtedness. As you grow and change, your plans and goals are able to grow and change with you.

What is your net income? How much is taken out monthly for taxes? Do you live by your gross income or your net income?

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Problem-centered

Problem-centered people are able to distinguish between those things they can do something about and those they can do nothing about. For example, not much can be done about factory shutdowns or layoffs, but a great deal can be done to establish a family emergency fund for use in such a situation.

Active Appreciation

Active appreciation means that you consistently value what you own. You remember that "new and improved" models are not necessarily preferable to what you already have. You appreciate the utilitarian value as well as the aesthetics of possessions. You recognize the importance of taking care of your possessions and maintaining them properly in order to prolong their life expectancy and to keep replacement costs to a minimum.

Strong Sense Of Ethics

You know how important it is to be honest in all of your financial dealings. You believe that no financial gain is worth sacrificing valued relationships or self-respect.

Strong Sense Of Self

By maintaining your individuality and a strong sense of self, you can suppress the urge to waste money on fads, status symbols, or competing with others.

Imagination

By being imaginative and creative in increasing your income or decreasing your spending, you can better cope with changes in the economic climate. You are willing to try everything from being artistic to taking classes in home and car maintenance; from holding garage sales to making needed items at home.

What are some creative things you can do that would make a little extra money for yourself?

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Appreciation For Emotional Costs

It is essential that you develop the ability to evaluate not only the monetary costs of an item, but the emotional costs as well. Consider how much emotional strain might be placed on a family because of increased indebtedness or additional work hours. Consider what others may have to give up because of your spending habits.

Charity

You have a sense of belonging to humanity. Giving to charity is part of a resolution to serve the needs of others as well as your own. You recognize that your own well-being is

intimately involved with the well-being of others--especially other members of your family. You find little comfort in being physically satiated while watching others starve, and if you are surrounded by ignorance, you cannot expect to realize your own intellectual hopes.

SUMMARY

Different personalities, or Lifestyles, can greatly affect how each person manages his or her finances. A couple's combination of these characteristics can influence how finances are handled in their relationship. Learning which category--superior, controller, pleaser, or comfort seeker--best describes you is the first step toward getting rid of personality characteristics that adversely affect you financially. Acquiring and developing desirable personality characteristics will greatly increase your ability to effectively manage your resources.

IMPORTANT TERMS

Comfort seeking: A lifestyle based on trying to reduce stress often by buying impulsively, procrastinating, and taking the easy way out.

Control: A lifestyle based on trying to control self, others, and situations.

Lifestyle: A term used by Adler to describe a belief system that provides one with a strong sense of where one belongs in relation to others as well as a strategy for achieving a feeling of significance.

Pleasing: A lifestyle based on trying to gain others' approval and affection, often by buying their love with gifts and money.

Superiority: A lifestyle based on trying to be better than others. It involves one-upmanship and perhaps playing the victim or the martyr.

Financially Effective Personality Characteristics

1. Self-reliance

2. Accurate Perception Of Reality

3. Flexibility

4. Problem centered

5. Active Appreciation

6. Strong Sense Of Ethics

7. Maintain A Strong Sense Of Self

8. Imagination

9. Appreciation For Emotional Costs

10. Charity

References

16. Sidney Jourard (1971), Ernest Bornemann (1976).

17. Adler,1927; Eckstein, et. al., (1978)

18. Poduska, (1985)

LIFESTYLES AND FINANCES
Superiority, Control, Pleasing, and Comfort Seeking

Superiority

tries to be better than others
buys the best
believes brand names and labels are important
plays The Game of One-up- man-ship
asks "How do I measure up?
tries to overcompensate for feelings of inferiority
sets self up to lose in comparison to others
purchases beyond means
perpetuates chronic indebtedness
stretches budgets to their limits
plays The Martyr And The Victim
buys only for someone else
martyr = self imposed misery
victim = someone else imposes misery

Coping With A Superior-oriented Lifestyle

review the social motivations behind particular purchases compare these motives with the practical reasons for a purchase
increase understanding of role comparison groups in childhood played check out how impressed others are with your "superiority" efforts
determining what would be "enough"

Control

Control Of Self

does not give in to the urge to purchase "wants"
buys only basics needs
permits no impulse buying
has a miserly existence maintains exaggerated savings

Control Of Others

believes the one who controls the money controls all.
controls the checkbook, credit cards, allowances, and inheritance
tries to get others to be subservient
tries to get others to feel guilty and incompetent about their management of finances
tries to get others to "owe him one"
tries to be the power behind the throne.

Control Of The Situation

income is kept confidential
makes plans/schedules is inflexible
is over insured
others become rebellious go on spending sprees, or "juggle the books"

Dealing With A Controller Lifestyle

1) distribute financial responsibilities among all family members
2) have financial matters become a topic of open discussion
3) arrange for each member of the family to have some money that is free of all accountability.
4) recognize significance is not a byproduct of control -- significance comes from leadership.
5) impart your financial management skills to others
6) develop the courage to be imperfect
7) use the technique of "catching oneself"
8) develop a cooperative, democratic perspective toward finances and relationships

Pleasing

believes you can buy love cannot afford
their own generosity

frequently loans money is reluctant to ask for repayment
co-signs loans
Difficulty Saying "No"
avoids rejection at all cost
susceptible to high- pressure sales and get-rich quick schemes
Dealing With A Pleaser Lifestyle
1) ask is it your gift or your individuality that is being accepted or rejected.
2) stop trying to be liked by everyone
3) recognize that you cannot buy love and friendship;you cannot make someone else happy
4) cope with rejections by contacting people who owe you money, or by saying "no"

Comfort Seeker
is self-indulgent
makes no distinction between needs and wants
buys impulsively
reducing stress is primary goal
tends to procrastinate
Reducing Stress
reduces stress at any cost
refinances loans
consolidates loans
asks for salary advances delays payments on less stressful bills
pawns valued possessions takes out bankruptcy
does not open the mail does not answer the phone deliberately deceives takes the easy way out
avoids providing specific information
Coping With Comfort Seeker Lifestyles
1) recognize that the most efficient way to reduce stress is to act responsibly
2) remedial programs should not be too austere
3) attempt to increase income rather than try to reduce expenditures

Chapter 4

RELATIONSHIPS AND FINANCES

Chapter one pointed out that many surveys find finances to be one of the major causes of marital discord and dissatisfaction --and even the number-one cause of divorce. Why I this so? The answer often centers on the financial issues of *Allocation* and *Control*—-which have roots in our personal relationships.

ALLOCATION AND CONTROL

The process of allocating funds is linked to the principle of scarcity--the more resources you commit to A, the fewer you have to commit to B (for example, the more you spend on new clothes, the less you have to spend on food). When faced with decisions related to this principle, you weigh the cost of giving up one option against the cost of giving up another; commonly referred to as *opportunity costs*.

Along with distinguishing between wants and needs (see Chapter 9), Opportunity costs need to be considered when establish allocation, or spending priorities, such as what gets purchased first, who gets paid first (or at all), and whose values get satisfied first. But in the very act of trying to establish such priorities, you will find concerns about control arising almost automatically.

Allocation

For the most part, allocation issues are a middle-class phenomenon. Most of the time the poor have only enough to provide for their basic needs (food, clothing, and shelter), so setting priorities for wants is usually not an issue, simply because there is nothing left to spend. The rich usually have enough not only to take care of their needs but to satisfy their wants as well, so there is not much of a need to set priorities either. For the middle class, however, allocation is a problem, because although they may have enough for their basic needs, they seldom have enough left over to satisfy everyone's wants. They must decide how to allocate the remaining resources.

What do you spend your extra money on? How do you feel about the purchases you usually make?

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Control

Control deals with the problem of deciding not only who will establish the priorities, but also with who will actually oversee the allocation of funds. The possibility always exists that whoever has control may try to satisfy his or her own values before considering the values of others. To effectively cope with this inherent problem, we must look at the issue of *Dominance and Submission.*

DOMINANCE AND SUBMISSION

Essential to solving the problems of allocation and control are the elements of cooperation, understanding, and consideration. Partners cooperate most effectively when they consider themselves equals, and when both are capable of assuming dominant or submissive roles depending on the circumstances. Dominant and submissive roles should not be seen as positions of superiority and inferiority, but as *reciprocal roles of responsibility*, as describe in these guidelines:

1. Dominance does *not* mean being superior or a dictator.

2. Dominance means *consenting* to assume responsible leadership regarding the welfare of others.

3. Submission does *not* mean being inferior or a slave.

4. Submissive means *consenting* to follow as long as your feelings and needs are considered.

Only in relationships based on equality can trust and intimacy exist. A dominant position within a relationship, therefore, is not a tyrannical one, and submissiveness is not slavery. Self-appointed dictators are primarily concerned with their own welfare; those who *consent* to accept a dominant position—by mutual decision of those involved in the relationship--are consenting to assume responsibility for the welfare of others. Similarly, individuals who consent to submission are *not* abdicating their right to self-determination. On the contrary, they have consented to be submissive because they believe their feelings and needs will be considered. When individuals suspect that this is not the case, they usually withdraw their consent.

The person who has consented to be submissive may find it helpful to ask the following questions of the person who has consented to be dominant:

1. Have you made a decision?

2. Were my feelings considered?

3. Was the decision made with love (and not power)?

If the answer to all three questions is yes, the one in the submissive role can often sustain the decision even before finding out what was decided. The submissive party believes the dominant person has made the best decision he or she can—and then does not indulge in recriminations if the decision results in problems. (We may not always know what is the best decision or the worst. We may never know, for instance, what might have happened had we chosen differently. We only know what has happened as a result of the alternative we chose. So it is only in retrospect, after we see the consequences of a decision, that we can accurately evaluate our choices.

Consenting to be submissive or dominant obviously requires a great deal of trust, the courage to be vulnerable, a willingness to exchange the roles of leader and follower, and a commitment to establishing a relationship based on love rather than one based on power.

Are you submissive or dominant? In what ways? Is this out of love or power? Do you need to make a change?

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LOVE VS POWER

If you trust the love in your relationship, you trust that the other person will not only try to satisfy your needs, but also *want* you to have that which would make you happy. Even when you have no way of obtaining what you seek, the person who loves you will still *want* you to have it.

If, however, you do not trust the love in your relationship, you feel you must rely on yourself to satisfy your own needs. You rely more on power than on love. If the other person

won't give you what you want, then you feel you have to either get it yourself or manipulate the other person into getting it for you. In this case, you may succeed in getting what you want, but you can never succeed in making that other person *wants* you to have it. Only when we love someone does his or her happiness become *as important as* our own.

Imagine trying to sustain a marriage based solely on power. The attitude of one partner might be, for instance, "I'll be the only one to write checks," "I'll decide how the money will be spent," or "I'll decide whether or not to tell you how much I earn." Imagine the following saying—-handed down from generation to generation—done in needle-point and hung on your wall: *"I want you to have power over others as I have had power over you."*

Now imagine a relationship based on love. Topics of discussion include, "How would you feel about my buying a new set of reference books?" or "Now that we have come into a little extra money, how would you like to see some of it spent?" Imagine the needle-point saying *"I want you to love others, as I have loved you."* When the feelings of all family members are considered in decision making, the family is much more likely to experience solidarity and cohesiveness.

MORAL REASONING AND RELATIONSHIPS

The need to be loved is the need for understanding from someone who cares. To be loved is to know that someone else is interested in your problems and frustrations as well as in your dreams and ambitions. It is to have another person show concern for your welfare and appreciation for your efforts.

How can you show more love and understanding towards your spouse?

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If reciprocation or consideration is lacking, however, concern can become indifference, appreciation can become contempt, and caring can turn into feelings of bitter sacrifice. These unfortunate transitions are the result of selfishness and a lack of moral maturity.

German philosopher Immanuel Kant, in his *Critique of Pure Reason,* (1781), said, "Morality is not the doctrine of how we may make ourselves happy, but how we make ourselves *worthy* of happiness." We can make ourselves worthy of happiness partly by increasing the level of morality that governs our interpersonal relationships. The relative success or failure of a

couple's relationship depends greatly on the degree of moral maturity each partner possesses.

Child development specialist Lawrence Kohlberg sees moral maturity as the ability to perceive accurately the appropriateness of one's action or inaction [19], an ability developed from social maturation and the growth of *moral reasoning*. Kohlberg believed that an individual's moral reasoning progresses through six stages. We can use these stages of moral reasoning to evaluate interpersonal relationships.

Stage 1:- Avoiding Punishment

At the lowest stage, Stage one, moral reasoning is based on personal fear and the desire to avoid punishment. If your relationship operates at this level, you act morally only if you think you would be caught if you were to act otherwise. For instance, you may be faithful to your spouse while in your hometown, but when you are out of town, anything goes. Or you may reveal to your spouse all of the income from your regular job, but if you were to make a little money on the side (which is less easily detected), your may keep it secret?

Stage 2: Self-gratification

At stage 2's moral reasoning also has an *egocentric*, or self-centered, motive: "What's in it for me?". Operating at this level, you would be nice to someone else only if it will benefit you. You give to someone only if you think you would be getting something of equal or greater value in return. For instance, you are nice to your boss, rich friends, and those with some influence because of their potential to reward you. But you see no purpose in being nice to those who work under you, to "friends" who are temporarily down on their luck, or to those with little or no

influence.

A person at this level of moral reasoning clings to a childhood perspective that survival depends primarily on *getting* rather than *giving*. Children often believe that in order to survive, they must be able to get others to serve them, love them, and give to them. Such a perspective, however, places them in very dependent, insecure positions in their relationships.

Write down an experience where you acted only out of self-gratification. What would you change if you could go back?

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Stage 3: Peer Pressure

In stage 3, moral values are based primarily on living up to the expectations of others;

their values become yours. At this stage, you think and behave as you believe your peers would think or behave in a given situation. For instance, if someone you know lied to his spouse about how much he paid for something, then you might conclude it would be all right for you to do the same.

Stage 4: Letter Of The Law

In Stage 4, you begin to think and behave according to established authority. Moral reasoning is very rigid and inflexible. Characterizing this stage are statements such as these: "I believe it because it says so right here in the Bible." "I don't make the rules, I just obey them." "You have to do it because I said so."

Spouses may confront each other with what they perceive as the other's "duty" as a husband or wife. They may become defiant: "In this state, the law says everything is split fifty-fifty, and that means *everything*—including income!" "It's your responsibility to make enough money to feed and clothe this family, not mine." or "Look, I give you $400 a month to buy groceries. It's your job to make it stretch far enough to feed the five of us for the entire month. My mother was able to feed six of us on less than that."

Stage 5: The Contract

In Stage 5 you are basing your moral reasoning on a more cooperative, unselfish interpretation of rules, regulations, and standards. At this level you are willing to enter into a "contract" with another person and you pledge to keep that commitment. While there are legal and financial factors to consider, your willingness to honor your agreement is a matter of self-respect and personal integrity. In taking out a loan, for example, you are giving your word that you will pay back the money you have borrowed. Even if you had to declare bankruptcy

someday, you would still make every effort to pay back every creditor in full. It might take many years, and it might be very difficult financially, but you would intend to honor your commitment and preserve your good name.

Stage 6: Golden Rule

If your moral reasoning has developed to Stage 6, your moral values are based on universal principles of compassion and mutual trust and respect for humanity. You recognize the dignity worth of others, and your moral reasoning is founded on one of the oldest, simplest, moral principles of all, the Golden Rule: *"Do unto others as you would have them do unto you."*

At this stage, you treat others with dignity and respect simply because they are *human*, not because of their sex, race, age, wealth, social status, or relationship. You treat them as you would want to be treated.

Think of one person that you would like to treat better. Make a plan stating how to accomplish that goal.

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RELATIONSHIPS AND FINANCIAL PRIORITIES

Unfortunately, many people operate at Stages 3 and 4 throughout their lives; even worse many operate at Stages 1and 2. But many people are operating, or aspiring to operate, at Stages 5 and 6. In each case, an individual's their moral reasoning shows in the types of relationships he or she forms, and influences the financial priorities he or she establishes.

To form relationships with others is one of the most basic of human needs. We need others in order to gain greater security, to perpetuate ourselves through our posterity, and to expand our ideas and perspectives. Psychoanalyst Erich Fromm believed one of our greatest needs was the need to escape from loneliness by relating to others [20]. But conflict between our need for emotional security and (to love and be loved) our need for financial security can have a profound effect on our relationships. For example, some people marry primarily for love, others for money.

These two needs do not always conflict. You can express feelings of love through the use of money, but you need to be aware of the *metamessage*--the message about the message--that is being sent along with the money. For example, if you share with others only on a very limited basis and refuses to be inconvenienced, then others may get the feeling that they are not a very high priority in your life. Similarly, if you are willing to share only with the understanding that somehow the gesture must be repaid, the recipient may end up feeling obligated rather than befriended.

On the other hand, charitable love can also be expressed monetarily. At this more caring level, the donor makes it known that the recipient is completely free of any obligation, and that the satisfaction of having helped someone in need is sufficient payment.

Relationships can be classified according to the financial priorities of those involved--by the relative importance of satisfying one's own financial needs versus satisfying the financial needs of others. Thus, relationships can be based on *selfishness, convenience, commitment, altruism,* or *devotion.*

Selfishness

Selfish people seldom consider the needs and wants of others. Your relationship is based on selfishness if resources are allocated in order to convenience one individual--you or someone else whom you favor above others. This egocentric relationship is characterized by passive involvement with others, with more *getting* than *giving* taking place.

Spencer W. Kimball, in his book Marriage discusses the importance of motive when two people get married:

> "The marriage that is based upon selfishness is almost certain to fail. The one who marries for wealth or the one who marries for prestige or social plane is certain to be disappointed. The one who marries to satisfy vanity and pride or who marries to spite or to show up another person is fooling only himself. But the one who marries to give happiness as well as receive it, to give service as well as to receive it, and looks after the interests of the two and then the family as it comes will have a good chance that the marriage will be a happy one. [21]

Case illustration

Linda and Bill are living in student housing and are one month behind on their rent. Linda is working to put her husband through college, so money is scarce, and "making do" has become routine. When she comes home from work, Bill meets her at the front door. Stopping her before she can get through the doorway, he excitedly tells her, "Don't come in yet! I've got a surprise for you." Bill then asks her to shut her eyes and, taking her by the hand, leads her into the living room. "Stand still and keep your eyes shut," he says. A moment later Linda is blasted with 100 watts of compact disc high fidelity being generated by state-of-the-art matching tweeters and two 18-inch woofers. The stereo was something Bill had really wanted, and

besides, it was on sale.

List three ways you can be less selfish.

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Convenience

Your relationship is based on convenience if you allow only *limited access* to your resources—-if you consider the needs of others only if it is convenient for you. You may have consented, either implicitly or explicitly, to be useful, but the needs of the others are not your top priority. You want to be addressed only when you feel like being available.

Case illustration

Larry asks his wife, Marilyn, if he can borrow her car to go to the hardware store.

Marilyn asks, somewhat critically, "Why don’t you use your own car?"

Larry tells her, "Its almost out of gas."

"Well,” Marilyn counters, “I don't want you using up all of my gas. I'm going up to the mall in about a hour, and I can drop you off then."

"Can't we leave any sooner?"

"Hey, I'm offering you a lift. Take it or leave it."

Commitment

Your relationship is based on commitment if you have agreed to allow *unlimited access* to your resources, even if to do so becomes inconvenient. In a relationship based on commitment, you have consented, implicitly or explicitly, to be *used* (not exploited, which is to be used *without* your consent). In this type of relationship, you say, "When you are hungry, *use* my food. When you have no place to go, *use* my place. When you are lonely, *use* me as a companion. After all, you are my friend."

Of course, to avoid one-sided depletion of resources, this agreement must be *mutual* and *reciprocal* between the partners involved. In addition, the person being granted unlimited access to your resources must remain sensitive to the price you must pay in order to honor your commitment.

Case illustration

Hilda approaches her husband, Hector, with an excited description of the beautiful blouse in the window--the one he had said would look so terrific on her. Hilda exclaims, "It's on sale!"

Hector puts his arm around her and cautions, "On sale or not, we really can't afford it."

Hilda is thoughtful for a moment. Then, remembering the jar that Hector puts his loose

change in each night, she asks, "Couldn't we use some of the money in your change jar?"

At first he protests, reminding her that money is being saved for a computer program he has wanted for some time. But after a moment of reflecting and seeing the anticipation and excitement in her face, Hector smiles and agrees to use the money to buy the blouse. As she leaves for the store, he calls out jokingly, "You owe me one."

Months later, Hilda surprises Hector with a small package containing the computer program he had been saving for.

List two ways you can show your spouse that you are committed to your relationship.

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Altruism

Your relationship is based on altruism if your first priority is a willingness to be *charitable*, to give without expectation of reciprocation. When you are charitable, the needs of others are considered to be at least as important as your own.

The philosopher Alamshah defines the need to be charitable as "the urge to exercise feelings of gentleness, compassion, the higher levels of sympathy, and tenderness, . . . a kind of tension which motivates the self to identify with other beings." He believes that since all people

possess the same inherent needs, "empathy enables us to know or to sense the feelings or intentions of the other." [22] With empathy, you are better able to act or react appropriately, to relate in a sensitive and caring manner and to understand the impact of your behavior on others.

If you keep these principles in mind when giving or receiving gifts, then you will be less likely to offend or be offended and more likely to keep your expectations of reciprocation within appropriate bounds. It is empathy that enables you to experience *philos*, or brotherly/sisterly love, and to develop a strong sense of responsibility within a relationship.

Case illustration

Jan had been accepted to a university, and is to receive a partial scholarship. She and Satoshi are already working as much as they can and that their resources are really limited. Things are not looking too promising and Jan is feeling discouraged when, Satoshi comes into the room holding a check. "What do you have there?" she asks.

"Enough to make up for what your scholarship doesn't cover."

In a state of disbelief, Jan hesitantly asks, "But where--where did you get this kind of money?"

Satoshi has sold his car-—the one he had dreamed of owning for several years. With tears quickly forming in her eyes, Jan throws her arms around his neck and softly tells him, "Oh, how I love you. Thank you. Thank you so much." Then she leans back and asks, "How can I ever repay you?" Satoshi looks at her and says, "You owe me nothing."

The desire to be charitable stems from our ability to feel what others feel, recalling times when we were the ones who received help. Charity follows the same principle that governs sharing food at the dinner table: Take some and pass it on.

Describe a charitable act that was done for you. How did you feel?

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Devotion

Your relationship is based on devotion if you seek opportunities to serve, anticipating the needs of your partner even before they arise.

Case illustration

Indira and Pandit worked, scrimped, and saved for four years to get enough money for a

down payment on their first home. Indira tended other people's children during the day and typed resumes for pay at night. Pandit worked as a bricklayer's assistant during the summer, worked construction during the fall and spring, and did brake jobs for neighbors in his garage at night. He would call Indira during the day, realizing that she might need to hear an adult's voice after being surrounded by children all day.

Indira would drape some big bath towels on the bathroom counter and set out some lotion to rub Pandit's back with after a hot soaking in the tub. She knew the work he did was strenuous; a massage would help avoid a stiff back the next day.

Pandit and Indira were devoted not only to each other but also to their common goal. They both cut back on their spending and were willing to set aside many wants. Willing to sacrifice many things during those austere times, they were not willing to sacrifice their love for each other.

List six things you can do this week to serve your spouse.

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VALUES AND THE EXCHANGE OF RESOURCES

Far too many people in today's world seem to believe that how much they are loved is represented by how much money is spent on them. Many a hardworking parent, bending from the pressure of such a belief, will frequently combine money and affection in ways that further aggravate their already difficult financial situation.

Social scientist Uriel Foa proposes an economic model (see Figure 4.1) explaining some of the difficulties in trying to exchange certain resources such as love and money within a family unit. Some resources are *concrete* (tangibles like real estate, stocks, money, and cars), some *symbolic* (power, prestige, knowledge, originality, etc.). In some instances, we care very much

about who gives us some things (they are associated with a *particular* person, such as a loved one, parent, spouse, or family doctor), where as in other situations we care very little about who gives us something; its value has a universal quality which is independent of who gives it to you (money, jewelry, gold, information, etc.).

Foa shows in his model why an exchange of related resources (such as love and service) is more likely to be effective than an exchange of unrelated resources (such as love and money)[23].

Figure 4.1 illustrates where certain resources would fall within this framework. As you can see, Money is universal (it doesn't matter who gives it to you) and is midway between concrete and symbolic. Most goods are fairly concrete and also somewhat universal. Love, on the other hand, is very particular (who gives it to us is extremely important), and status tends to be more symbolic than love.

The key to Foa's model lies in the belief *that adjacent resources are more likely to bring about an effective exchange than opposing resources*. For example, money can be easily exchanged for goods, and goods can be exchanged for service. However, attempts to exchange money for love are less likely to succeed. Gifts (goods), being a little closer to love, might represent a more effective exchange. However, acting thoughtful and considerate toward someone (service) is even more likely to succeed as an exchange for love. Similarly, love can entice someone to want to do things for you (service) or can be used to generate feelings of being special to someone (status).

FIGURE 4.1 - Foa's Exchange Model Classification of Resources

Particular

Love

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Status l Service

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l

Symbolic----------Concrete

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l

Information l Goods

l

l

Money

Universal

Foa, Uriel. (1973) Interpersonal and Economic Resources. Science. January 29, 345-351.

A successful exchange, therefore, relies on being both responsible and considerate in

interpersonal relationships.

ACTING RESPONSIBLE AND BEING CONSIDERATE

To manage finances successfully within a relationship, a couple must achieve a balance between *acting responsible* and *being considerate*. To act responsible is to satisfy your needs and obligations without interfering with the ability of others to satisfy theirs. To be considerate is to have a genuine concern for the feelings and welfare of others.

Figure 4.2 illustrates the four possible combinations of these two characteristics and their opposites, as well as the emotional results of these combinations. Examples of these combinations are given in the following pages.

(Insert figure 4.2 - Responsible/Considerate about here.)

Considerate - Irresponsible

You are *Considerate* but *Irresponsible* when you think about the needs of others but are careless of the consequences of your actions. For instance, a husband buys his wife a new 21 gear mountain bike (considerate) at a time when they cannot even make the rent payments (irresponsible). As a consequence, the wife will most likely feel frustrated rather than pleased, because the husband has acted immaturely.

Case illustration

Tom would sometimes pleads with Carol, "I've bought you everything that money can buy, and you still don't act like you really love me. What do you want from me?" These are the

desperate words of someone trying to buy love.

Carol tries again to explain to him that although she appreciates his gifts, they are still gifts they cannot afford. She tells him that to be considerate, he doesn't have to buy her *things*. Unfortunately, Tom insists on buying gifts for her.

This example demonstrates that people can give money a symbolic meaning. Tom's gifts are intended to symbolize his love for Carol. But from Carol's perspective, his gifts are symbolic of how irresponsible he is. Until they can talk openly about the feelings behind their actions-—and reactions—-harmony between them will be impossible.

Describe an experience when a purchase was considerate but irresponsible.

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Irresponsible - Inconsiderate

When you care neither about the possible consequences nor about someone else's feelings, you are *irresponsible* and *inconsiderate*. For example, one spouse may be angry with the other and decide to get even by "maxing out" the credit cards on a spending spree. The couple has no way of paying off the debt, and could possibly face bankruptcy (irresponsible). It does not matter how the other spouse may feel about the spending spree (inconsiderate). After all, in this person's view, the other deserved it. In such cases, the "punished" spouse will usually

feel angry and hurt because the other is being self-centered.

Case illustration

Marquita believed for years that economic fluctuations in Juan's business dealings affected his commissions. Not until she received a call from a salesman who worked with Juan did she learn of his gambling habits. The salesman had loaned Juan a considerable amount of money to cover some of his debts and had wanted her to influence Juan to pay him back.

Marquita felt betrayed. When she confronted Juan about his gambling debts, he became angry and defensive. "Listen, lady, what I do with *my* money is *my* business. I doubt I'll hear you complaining if I come home with some big winnings. So stay off my case while I'm in a slump."

Marquita felt like she didn't really know the man she was married to. She wondered how else she had been deceived, and whether or not her whole marriage was just a sham. She also wondered whether or not she would ever be able to trust him again.

Habitual gamblers have a tendency to lose it all. Being irresponsible and inconsiderate usually leads to both financial disaster and the destruction of relationships.

Describe an experience when a purchase was irresponsible and inconsiderate.

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Responsible - Inconsiderate

As the head of the household, you may act Responsible simply because someone has to pay the bills and put food on the table. But because of the stress associated with these tasks, you may find yourself being inconsiderate of your family's feelings. Because of excessive debt, for example, you may decide to take on a second job to repay the debts (responsible), without really considering how your spouse and children might feel about not being able to spend as much time together as a family (inconsiderate).

The others may voice their complaints about not seeing you as much, but you tell them that you would not have to work so much if they would just turn off the lights when they leave a room and turn the thermostat down. Even though you are "doing it all for them," the others may feel insignificant, and you will most likely be seen as authoritarian.

Case illustration

Samual, upset about his chronic indebtedness, criticizes his wife, Sarah, for not showing more restraint in spending. Waving an unpaid bill at her, Samual accuses, "You act as if money grew on trees. You're spending it faster than I can make it."

Sarah responds defensively, "I've cut back on everything I can think of short of making underwear out of old pillowcases. I'm not sure what more I can do to help."

Without thinking, Samual retorts, "If you really want to help out around here, get a job and start bringing in some money so we can pay off these debts."

Describe an experience when a purchase was responsible and inconsiderate.

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Responsible - considerate

When you are not only acting responsibly but also being considerate of your partner's feelings, the chances are very good that you will achieve success in both your financial and personal life. Assume, for instance, that you wanted to withdraw funds from your savings account in order to gain what you think would be a higher return on your investment. However, being sensitive to your partner's needs for a feeling of security, you first ask how he or she would

feel about such a decision. In this situation, the spouse being asked would most likely feel loved, and you would be seen as mature and caring.

Case illustration

Martha thinks it would be wiser to spend the $1000 Christmas bonus on debts than to put it into savings. "I'm afraid it would take us until March or April to pay off our Visa card," she tells Kirk, "but if we use the bonus money, we could pay most of it off right away. What would you like to do with the bonus?"

Kirk is concerned about how well the company he works for will perform during the upcoming year. "I know how you feel about being in debt and paying all of that interest," he explains. "But I'm a little worried about possible layoffs. I'd like to put at least some of it into savings. How about if we were to put $500 on the credit card and the other $500 into savings?"

Describe an experience when a purchase was responsible and considerate.

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SUMMARY

The issues of allocation and control are integral to family finances—-and the quality of a relationship is integral to resolving issues of allocation and control. Appropriate questions to ask yourselves might be: What roles am I willing to play when it comes to financial management? Is our relationship based on power or on love? How do our financial priorities affect our relationship? Do I truly care about the needs of others? How do I show it?

These issues can be satisfactorily settled by: reinterpreting dominance and submission, understanding levels of moral reasoning, and working together responsibly with love and consideration rather than power and selfishness.

IMPORTANT TERMS

Acting responsibly: The ability to satisfy your own needs and obligations without interfering with the ability of others to satisfy theirs.

Allocation linked to the principle of scarcity -- that is, the more resources you commit to "A", the less you have left to commit to "B".

Being considerate: Having a genuine concern for the welfare of others.

Control deals with the problem of deciding who will establish the priorities, and who will actually oversee the allocation of funds.

Dominance: Consenting to assume responsibility for the welfare of others; does *not* mean being superior or a dictator.

Submission: Consenting to follow as long as one's feelings and needs are considered; does *not* mean being inferior or a slave.

Love:

If you trust the love within your relationship, you are trusting that the other person will not only try to satisfy your needs, but also want you to have that which would make you happy.

Power:

If you trust power rather than love in your relationship, you must rely on yourself to satisfy your own needs.

MORAL REASONING AND RELATIONSHIPS

Stage 1 - Avoiding Punishment: based on personal fear and the desire to avoid punishment. You act morally only if you think you would be caught if you were to act immorally.

Stage 2 - Self-gratification: moral reasoning has an egocentric motive. Morality is derived from a "What's in it for me" attitude; you would be nice to someone else only if there were something in it for you.

Stage 3 - Peer Pressure: moral values are based primarily on living up to the expectations of others; you think and behave how you believe your peers would think or behave.

Stage 4 - Letter Of The Law: you begin to think and behave according to established authority. Moral reasoning is very rigid and inflexible at this stage.

Stage 5 - The Contract: you are basing your moral reasoning on a more flexible interpretation of rules, regulations, and standards. You are willing to enter into a "contract" with another person, and pledge yourself to keeping that commitment. You honor the agreement as a matter of self-respect and personal integrity.

Stage 6 - Golden Rule: you base your moral values on universal principles integral to compassionate identification with humanity. You recognize the dignity and worth of others. Your moral reasoning derives from mutual trust and respect and is founded on the Golden Rule.

RELATIONSHIPS AND FINANCIAL PRIORITIES

Selfishness: resources are allocated in order to convenience you or someone that you favor.

This egocentric relationship is characterized by passive involvement with others--with more *getting* than *giving* taking place; the needs and wants of others are seldom consider

Convenience: you allow others only limited access to your resources; the needs of others are considered only if it is convenient. You have consented to be useful. The needs of the others are not your top priority

Commitment: you have agreed to allow unlimited access to your resources, even when it is inconvenient. You have consented to be used (not exploited, which is to be used <u>without</u> your consent).

Altruism: your first priority is a willingness to be charitable; to give without expectation of reciprocation. The needs of others are considered to be as important as your own.

Devotion: you seek opportunities to serve the other anticipating the needs of the other even before a need arises.

ACTING RESPONSIBLE AND BEING CONSIDERATE

Responsible: the ability to satisfy your needs without interfering with the ability of others to satisfy their needs.

Considerate: having a genuine concern for the feelings and welfare of others.

FIGURE 4.2

RESPONSIBLE AND CONSIDERATE INTERACTION PATTERNS

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                                RESPONSIBLE
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                                 / | \
          AUTHORITARIAN /         |   \      MATURE
                       /          |    \
                     /            |     \
                    /             |      \
                   /Insignificant|  Loved   \
INCONSIDERATE-------------------------------CONSIDERATE
                   \  Angry -    | Frustrated /
                    \  Hurt      |           /
                     \           |          /
                      \          |    /
                       \    |   /
          SELF-CENTERED    \      |  /     IMMATURE
                            \|/
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IRRESPONSIBLE

Figure 4.1 Responsible/Considerate

References

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22, Alamshah (1963)

23. Uriel Foa (1971)

Chapter 5

COMMUNICATION AND INTIMACY

Good communication is crucial to effective money management. Communication cannot be accomplished alone; at least two people must interact to create communication. When we have trouble communicating, it is not the fault of just one person; it happens because of the interaction process. For communication to improve, all involved parties need to take responsibility for their own contributions.

Describe an instance when there was miscommunication between you and your spouse. What could you have done differently?

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Circular Communication Systems

While we often think of events and their causes as linear (A causes B), this is often not true in the context of relationships. With people influencing each other as they interact, causality is often circular: Person A's actions influence person B's, B's influence C's, C's influence D's, which in turn may influence A's (see Figure 5.1).

B

A B A C

D

Linear Causality *Circular Causality*

Figure 5.1

The following interaction sequence, an example of the circular model of causality, might occur in a family.

A. The mother is having an argument with the father over their daughter's behavior and, during the course of the argument, the mother begins to withdraw.

B. The father, frustrated by the withdrawal, begins to yell.

C. The daughter begins to cry.

D. The father becomes even more frustrated and yells louder.

E. The daughter begins to cry harder.

F. The mother defends daughter.

G. The daughter, holding on to her mother, cries more.

H. The father withdraws by stomping out of the room.

I. The mother begins to yell at the father--and where it stops nobody knows.

In this illustration, father, daughter and mother have developed a system of interaction in which each influences the behavior of the other. However, since each person is part of the cycle that perpetuates the pattern, there is no "cause" for mother or father's withdrawal or for their yelling. Systems such as this one usually resist change. The pattern seeks to maintain a familiar

state of equilibrium, and each person plays his or her part in the process.

If you have ever found yourself thinking, “Here we go again,” or “We’ve been over all of this before,” then you have encountered circular communication systems. To achieve a different pattern, at least one participant needs to change his or here part of the cycle.

Changing The System

The characteristics of a particular circular communication system are guided by family rules. In our example family, one rule is that the mother will defend the daughter. The mother may or may not be aware that such a rule operates in her family, but her behavior would nevertheless be governed by it. For this communication system to behave differently, at least one participant would need to change. One individual's change will influence changes in the other members.

For example, if the father were to stop yelling, the pattern would change, and the daughter might be influenced to try something besides crying. If the daughter didn't cry, but negotiated instead, Mom would no longer have a reason to play her familiar "protector" role in the pattern. Instead, the mother might choose to talk to the father about what is bothering him. The father would not "cause" these changes by altering his behavior. Instead, when he changed *his part* in the system (or changed a rule that had governed his behavior), the system merely adjusts to his change in ways he could not predict.

Be aware that such changes in the family communication rules are often difficult to make. Frequently, when one person breaks out and tries something different, other family members try, either overtly or covertly, to bring the wayward member back so that the old, familiar balance can be maintained.

How can you change the system? List something that is happening in your family that you don't like. Make a plan of how you can change the situation.

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Perpetuating The System

Continuing this example, let's say that the daughter leaves her family to marry. Her marital system will be different from her family of origin system, but she may try to perpetuate some of her old, familiar patterns in her new system. If her new husband should yell at her for some reason, she may initially break down and cry, hoping that someone else (possibly her

mother or her best friend) will "take her side." If the daughter's husband comes from a family in which family members tend to yell back and then later apologize, he may be confused or even hurt by his wife's behavior.

In this example, family communication rules are in conflict (see Chapter 2). The daughter is following the rule "When someone yells at me, I will cry and go find help." The husband is following the rule "After I yell at someone, they can yell back, but then we both need to apologize." The difference between these two rules is likely to leave both spouses wondering what to do next.

Since these are not the kind of household rules that are written and hung on the refrigerator, neither spouse may understand that they are operating from different, unstated patterns. This conflict is not “caused” by either spouse independently of the other. They interact and influence each other's behavior in a circular way.

Case illustration

Francine shakes an accusing finger at Ralph and critically points out, "Whenever I try to talk to you about finances, you just get mad and stomp off." Ralph counters with "Well, you usually throw the checkbook at me, and tell me that if I'm so smart I can balance it by myself. Both Ralph and Francine would probably agree on at least one thing: they have a problem talking about finances.

The "Dance"

The communication pattern between Ralph and Francine could be compared to a dance.

Any two people who have been together for an extended period of time tend to develop interaction patterns. These patterns are like dance steps, and, like dance partners, spouses get used to responding to each other in certain ways. The “dance” involves both parties, and both are responsible for the patterns they have created. If a certain “dance step” isn’t working, both partners have the power to choose new steps. When one spouse takes a different step, the partner has an opportunity to respond differently. Even small changes on the part of one or both spouses provide opportunities to create new patterns that improve the relationship.

Case illustration

Example 1: Katya, looking frustrated, complains loudly, "This checkbook is a mess."

Boris shouts back, "Ha! You've got no room to be criticizing me for the way *I* keep a checkbook."

"Look who's talking,” Katya counters. “Your biggest problem is you can't take constructive criticism."

"That's because you never know what you're talking about," Boris snaps.

Katya comes in from the kitchen and says "You never listen to me long enough to know. I think it's a trait that runs in your family. You're just like your mother."

"*My* mother? If we're on the subject of mothers, let's talk about *your* mother . . ."

Each spouse continues to respond without attempting to understand the problem. The “dance steps” center on blame and irrelevant issues that hurt.

Example 2: Katya says, "This checkbook is a mess."

Boris, looking over her shoulder, and responds. "What's the problem?"

With frustration in her voice, Katya continues, "I sat down to balance our checking

account and noticed that check number 728. Do you remember when it was written?"

"You bet I do," Boris answers. "It was last Thursday when I took the kids to the doctor. I was so involved with how high their fevers were and how pale they looked that I just wrote out a check to the receptionist and bundled them back in the car."

Katya smiled knowingly. "It sounds like you had your hands full."

Boris smiled back and nodded, "It was like trying to keep puppies in a box."

Each spouse attempted to understand and support the other. In addition, the content of the messages remained relevant and to the initial problem.

Today's world is filled with the pressures of too many things to do and not enough time to do them. Mistakes are bound to happen. Our ability to look past the mistakes to see the effort put forth by another in our behalf allows us to be empathetic rather than critical.

Describe an argument you and your spouse had recently. How could you have changed things by your response? How could your spouse have responded differently?

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COMMUNICATION THAT WORKS

The Communication Goals Exercise

Take some time during the next week to look at your own communication patterns and the responses you personally make to the "dance" that you and your spouse perform. Write your observations on the Communication Goals Exercise, Worksheet 5.1.

THE ZAP RULE

To help yourselves become more aware of any problems being caused by ineffective communication patterns, you may also want to employ the “Zap rule;” a tool designed to help you communicate more effectively. The "Zap Rule" will let each of you know when something hurtful or demeaning has been said and to allow the other person a chance to express the same idea in a more loving, supportive way.

A *Zap* is anything that makes you feel as if you were not being treated as an equal or with dignity and respect, or as if you were being blamed, punished, or ridiculed. The zap rule requires that the conversation stop immediately when a participant perceives a zap, and that an attempt be made to rephrase the comment. This is how it works:

1. When you feel like you have been *Zapped*, raise your hand or stop the discussion.

2. Tell the other person, in a *non-accusatory* way, that you felt zapped. You need not justify your feelings. The zapped person is assumed to be right; therefore, the zapping person should not attempt to convince the other that "it wasn't really a Zap."

3. Ask the other person to rephrase the statement, or modify the tone of voice used to express the statement, so as to remove the Zap characteristics.

4. The other person should attempt to rephrase the comment so that the Zap is removed.

5. Thank the person for rephrasing.

6. Only three zaps are allowed per discussion. If more than three zaps occur, then you should take some time out from that particular topic (at least 30 minutes), but agree to come back to it later.

Think of five comments that were made to your spouse that he or she felt zapped. Now rephrase the comments so the zap is removed.

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LEVELS OF COMMUNICATION

One of the most common sources of dissatisfaction in communication is partners expressing themselves on different levels of intimacy. For example, after an evening of dinner and dancing, one spouse says "I had a good time tonight. Getting out like that really means a lot to me." The other spouse responds at a different level of intimacy. "The music was O.K. but I thought the price of dinner was outrageous. We could feed the whole family for a week on what

it cost us tonight." In this example, the first spouse is communicating at a *feeling* level while the second is communicating at a *cognitive* level. The most effective communication occurs when both the sender and the receiver communicate on the same level.

Harold Bernard and Wesley Huckins, in their book *Dynamics of Personal Adjustment*, discuss five levels of communication [24]. Each level has its own combination of content, meaning and emotional involvement, and each level can play an important part when discussing about finances.

Level 5: Clichés And Greetings

Level 5 is the least intimate. Most commonly used casual conversations, it includes greetings and clichés, such as "Easy come, easy go," and "Money just seems to burn a hole in my pocket."

Level 4: Information And Directions

Level 4 is used primarily to give directions and exchange information. Financially compatible couples inform each other of pertinent details: "I stopped by the bank today. The reason our checkbook doesn't balance is because we're not recording our automatic teller withdrawals."

Level 3: Feelings About External Events

Level 3 is the first level at which you express individual feelings, but only about the *external* world. You may share likes and dislikes, and feelings associated with values, attitudes, and beliefs. You may say, for example, "I hate going into debt as much as you do, but how else can we afford to get the car repaired unless we put it on a credit card?"

Level 2: Feelings About Internal Events

Level 2's attempts to express emotions go to a deeper level—-that of your *internal* world: what is going on inside you rather than what is going on outside. At this level, you may express high risk feelings such as love, loneliness, and hurt. You might tell your spouse, "I have never felt so unloved, so unimportant as when I saw you drive up in that new car, after I had pleaded with you not to buy it, not to bury us further in debt. For a moment I actually hated you."

Level 1: Intuitive

Level 1 is the most intimate level of communication; it communicates a sense of oneness and togetherness. In contrast to the other levels, this level is usually nonverbal. Because of the intensity of the emotions, communication often takes place through eye contact, embrace, and touch. Children are very good at interpreting this level of communication. When giving someone a gift, a child will immediately look up at the person's face to evaluate how the person *really* feels about the gift. They seem to know intuitively that most of what we communicate is nonverbal.

In general, 95 percent of what we communicate is nonverbal (tone of voice, gestures, posture, facial expressions, personal possessions, and so forth), while only 5 percent is verbal (words). When verbal and nonverbal messages contradict each other, we tend to believe that the nonverbal message.

Which level do you most communicate in? Which level does your spouse communicate in? Give some examples.

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The Importance of Communicating on a Feeling Level

Unfortunately, many married couples seem to spend most of their time trying to communicate on levels 5 (clichés), and 4 (information), which keeps their relationship on a fairly superficial level. For greater intimacy, couples must communicate as much as possible in the feelings levels (levels 3, 2, and 1).

Each of us are responsible for our own willingness to commit to a relationship, to risk being vulnerable, and to express our feelings openly and honestly. You are responsible for what

communication you send to your partner, and for interpreting what you receive. But you are *not* responsible for how your partner receives what you send. In handling these responsibilities, it is helpful to tell the sender what the communication *represented* to you and then ask if that was his or her *intent*.

Case Illustration

After putting the kids to bed, Jeff returns to the kitchen to confront his wife, Pat. "When you told me that you had already paid this month's bills, I felt like a complete failure. It came across like you thought I had been doing a lousy job of it and therefore you were going to take over. Is that what you really think?"

Pat, with a look of surprise at such an accusation, replies "For heaven's sakes, no. I think you're doing a fine job paying the bills. But I knew how time consuming, and upsetting, bill paying can be and I thought that since your final exams were at the beginning of the month, I'd save you the time and frustration by paying them for you."

Finding out what a person *means* by what he or she says is crucial. The same words can mean different things to different people. Verbal misunderstanding commonly stem from confusion between the *denotative* and *connotative* meanings of a word. The denotative meaning is the dictionary definition of the word; the connotative meaning includes the emotional overtones, or personal meaning, that the word carries. For example, the word *collateral* is defined in a dictionary as the security provided by a borrower in the form of pledged assets or endorsement by a cosigner. However, from a connotative stand point, *collateral* means something that can be repossessed, such as the tractor, house, or furniture, and thus generate feelings of anxiety, anger, and helplessness.

Communicating at the feelings levels is especially important when dealing with what was *expected* from the relationship in comparison to what is being *provided*. Most relationships that fail were built on promises that could not be kept and expectations that could not be met. For example, when someone has promised to *make* someone else happy, the person to whom the promise was made expects to be made happy. When that person remains miserable, he or she doesn't have far to look to find someone to blame.

What do you expect from your spouse? Is it provided? What does your spouse expect from you? Is it provided?

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One love-struck individual may say, "I've been miserable all my life," and the other replies, "So have I." In unison they exclaim, "Let's get married and make each other happy!" After they get married, if one of them is not happy he or she will assume that the other person is withholding the "happy power." This assumption, of course, releases the unhappy one from any personal responsibility for the current state of affairs.

In many cases, happiness is associated with being something, doing something, or having something. Happiness can be a result of Being important to someone else, feeling special or irreplaceable. It can come from having your feelings appreciated or having consideration given to your need to do something or have something. In the latter case, however, "happy power" can often translate into financial power. To you have the ability to meet the needs of your spouse and yet selfishly withhold resources--depriving your spouse of activities or things that make him or her happy—-you are misusing your power and are very likely leaving your partner disillusioned with the marriage.

NEGOTIATIONS

One of the most effective ways of meeting each others needs within a relationship is through the process of *negotiation*. A cooperative decision-making process in which two or more parties talk in an effort to resolve their differences, the primary purpose of negotiating is to achieve agreement; the secondary purpose is to establish and maintain long-term relationships. As with building a house, building a marriage requires a willingness to negotiate and compromise to reach mutually satisfying solutions.

Negotiating is an essential part of everyday life; the better you become at it, the more

often you can peaceably settle misunderstandings, including financial problems. Many of the problems associated with meeting needs within relationships, as well as some of those encountered when dealing with creditors, can be avoided by using some basic negotiation guidelines [25].

First of all, know that negotiations are *not* intended to be win-lose battles, but a means of arriving at solutions that are *mutually beneficial*. To avoid developing a "win-lose" mentality, you must separate the *people* from the *problem*. Remember that you are together for the purpose of attacking your financial problem and not each other. So one of the first things participants need to negotiate is how they are going to treat each other. From the first encounter, you should make every effort to ease tensions, safeguard the other person's self-esteem, and show appropriate consideration for the other person's position.

When negotiating, if a person insists on "winning it all", that person will ultimately lose, in terms of the relationship. The parties involved *are opponents that need each other;* and therefore they must be able to deal with each other with dignity--something that is especially important in the many negotiations called for within a family. The dignity with which a member of the family was treated during past negotiations has a major effect on how willing that person will be to negotiate future impasses. No one should ever be left with feelings of resentment or the belief that they were totally defeated.

Pre-negotiation Planning

A number of factors contribute to successful negotiations. One of the most essential is pre-negotiation planning. Pre-negotiation planning should include at least the following:

1. Know what you want and what the other person wants.

2. Know what is negotiable and what is not.

3. Establish priorities; know the relative importance of various items to be negotiated.

4. Know what you are willing to give up.

5. Acquire the necessary facts and information about each issue or item.

6. Develop a reasonable defense for your position.

7. Develop alternatives.

The Opening Proposal

The opening proposal should be realistic and should show some consideration for the opposite position. It should be credible--the other person must believe you are sincere. The degree of sincerity you project depends a great deal on your reputation: In the past, have you been ethical, fulfilled commitments, and acted expeditiously?

After you make an opening proposal, be prepared to settle for less than you expected. Then if negotiations result in more, you will be pleasantly surprised. But you will never get more than you ask for *originally*, so open a little high. The positions you take later may appear more reasonable or generous, and you will be able to give up more during the process. In this way, the "give and take" principle can more easily work, and the other person is more likely to make a greater number of counter proposals.

Making Concessions

Making a concession can be defined as making a change in your offer in favor of the other party that (1) reduces the benefits you are seeking, and (2) encourages the other party to either come to an agreement or make a concession in exchange. Keep in mind that the very fact that your opponent has agreed to negotiate is a sign of readiness to make concessions. So look

for areas of common interest and solutions that might be beneficial to both parties.

Keep your concessions small and infrequent. Your first concession should be your largest. Each subsequent concession should be smaller than the previous one. For example, if you were negotiating a selling price, you might propose a price of $200, and then make a $30 concession to $170. For your next concession, though, you should come down only $20, and only $10 on your third concession. Meanwhile, the buyer will increase his or her offers by a similar progression. As a consequence, both the seller and the buyer will soon be able to project the optimal, mutually satisfying price.

Similarly, when negotiating the distribution of financial responsibilities within a relationship, you might open with "I'll pay two of the fixed bills," followed by a proposal to pay four of the fixed bills but none of the variable bills. Later, you might concede to pay all o f the fixed bills and two of the variables.

Counter Proposals

Before making a counterproposal, review what has already been proposed, and evaluate how your counteroffer can serve a *common good*. Above all, do not phrase your counterproposal as a threat. For example, if someone has made a concession in good faith, do not reciprocate with an ultimatum: "You had better come up with something better than that or I'm walking out of here," or "Carrying just one check with you and leaving the rest at home may work, but if you bounce one more check, your name is coming off the account, and that's final!"

Reaching an Agreement

Remember your ultimate objective is to arrive at a mutually acceptable agreement, not to get the other person to agree to let you have your way. If you are willing to lower initial

demands, make frequent concessions, and consider the interests of the other, you can greatly improve your chances of reaching an agreement.

Should the negotiations become *deadlocked*--neither side willing to move from a particular position. Perhaps attitudes have become hostile because feelings have been needlessly hurt or past experiences have contributed to an atmosphere of distrust. When this happens, apologies are generally the most effective way to get beyond the deadlock.

Closing

Closing a negotiation becomes possible when both parties have achieved most of their objectives. For instance, a creditor was hoping to receive 100 percent of what was owed immediately, but settled for 80 percent in three equal installments. Or one spouse, who had hoped to avoid paying bills alone, may succeed in convincing the other spouse to assume responsibility for the fixed-payment debts. In both cases, the negotiations were closed successfully.

Sometimes you can close by proposing an overall final offer that ties smaller items into one cohesive package. Such a proposal is usually made when one party perceives that the other has made all the concessions he or she is willing to make, so a package of special concessions is included as an incentive to close. For example, one spouse may make a proposal such as "I'm willing to do it all: pay the bills, write the creditors, and do the shopping for one month while you study for your entrance exams if, in return, you will use the extra time for studying and nothing else."

Closing can also come about when a solution is proposed that is unique and simple, yet substantially different from the alternatives that have already been suggested: "Rather than

arguing over whether you should manage the finances or I manage them, why don't we hire an accountant to do it?"

Once you reach an agreement, have the details expressed in writing, and *do not try to make any changes*. In addition, try to maintain a sense of acceptance toward the outcome and avoid thinking about what you might have done or said differently. Above all, try to view both sides as victorious.

The real success of the negotiations lies in how each person chooses to interpret the outcome. In many cases, it is far easier for us to change our perspective of an event than it is to change someone else's behavior. The process of changing perspectives is called reframing.

Think of something you want right now. Now plan out your negotiation. Write out each step from your opening proposal to your closing.

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REFRAMING

The real success of the negotiations lies in how each person chooses to interpret the outcome. In many cases, it is far easier for us to change our perspective on an event than it is to change someone else's behavior. The process of changing perspectives is called *reframing*. Family therapist Paul Watzlawick believes that by *reframing*--changing one's conceptual or emotional point of view on an event--family members are better able to gain greater

understanding about some old family process [26].

John Milton, in *Paradise Lost*, provided us with the most poetic definition of reframing:

> The mind is its own place, and in itself
>
> Can make a heaven of hell, a hell of heaven.

Milton's view suggests that it is we who, through our ability to interpret the world in a variety of ways, determine the way we see the world around us.

Case Illustration

Amanda was feeling very frustrated and angry over the fact that her father was putting 15 percent of his paycheck into savings every month. She felt the family needed at least some of it for clothes and entertainment. Her father, however, was adamant about the amount to be set aside for savings and would not consider withdrawing any of it.

Amanda saw her father as stingy and mean, and she doubted whether or not he really loved her and the other children. But when she talked with her father, he revealed that when he was a child, his family had gone through the Great Depression. Having witnessed the agony and hardship that his parents, brothers, and sisters had gone through, he had vowed that when he grew up he would make sure that this kind of hardship would never befall his family. Reframing her father’s behavior within the context of the father's experience with the Depression enabled Amanda to see his saving money as an act of love and concern for the family rather than as an act of selfishness.

Reframing can also be very helpful when trying to communicate differences in how you each perceive the relative importance of a particular purchase. In this regard, reframing can be used to gain a clearer perspective of the dollar value associated with a particular purchase by

converting the dollar amount into.

Write down something you financially want that your spouse doesn't want. Now reframe it in a way that your spouse will understand it a little better.

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The concept of meaningful units, as discussed in Chapter 1, is an example of reframing. The cost of a pair of shoes for one of their children was that couple's meaningful unit. They were able to arrive at the relative value of other wants by appraising how many pairs of shoes they could buy with the amount paid for other items. A new garbage disposal, for example, cost

six pairs of shoes, subscribing to cable TV for a month cost two pairs, and one month's supply of beer cost four pairs.

In another case, a couple realized they could have opened an Individual Retirement Account (IRA) with what they had spent on credit card interest alone in the past year. An IRA became this couple's meaningful unit.

The relative value information provided meaningful units is often more useful than knowing an item's cost in money alone. With an increased understanding of the each other's values, a couple can achieve an even greater level of sensitivity and intimacy.

INTIMACY AND COMMUNICATION

Communication and intimacy go hand in hand. Before you can be emotionally intimate with others, you first must understand and accept their feelings, their aspirations, and their values. But gaining such understanding with regard to another person's finances can be difficult. According to a study by Blumstein and Schwartz, "Money is often a more taboo topic of conversation than sex, and courting couples may discuss their prior sex lives while never raising the question of their economic histories . . . [personal finances] are the last frontier of self-disclosure" [27].

Intimacy is created through the process of sharing and a willingness to trust. Trust is the ability to be comfortable while being vulnerable. When partners use communication ineffectively, each may develop a distorted view of the other and of their relationship. This distortion blocks true understanding, and lack of understanding can result in low level of intimacy in the relationship.

Case Illustration

Maria throws her purse down on the chair as she comes into the room. She sighs tiredly, "I had a really bad day today."

Jose does not look up from his paper, but mutters, "Really? Well, you should hear what my day was like. I can't believe I survived it."

Maria does not respond immediately, but starts for the medicine cabinet in the bathroom. "I have this horrible headache. I wonder if I'm getting sick or something."

Jose puts his paper down and raises his voice so she can hear him from the bathroom. "A headache's nothing. I almost got hit at a four way stop. These out-of-state drivers act like they learned to drive on another planet."

Maria comes out of the bathroom and heads for the kitchen. "I'm hungry. Maybe I just need to eat something."

Jose reaches for the phone as he comments half to himself and half to Maria, "I need to call my brother tonight . . ."

Effective communication skills result in a higher level of intimacy.

Case Illustration

Marsha comes in and flops down on the nearest chair. "I had a really bad day today."

Paul puts down his paper and asks, "Really? That's too bad. What happened?"

Marsha sighs, "I got this really horrible headache around lunch time, and I haven't been able to get rid of it."

Paul grimaces, "That doesn't sound to good. That's the second headache this week. Is there anything I can do?

Marsha gets up and heads for the kitchen. "I think I just need something to eat. I've had to work right through lunch a couple of times this week. Thanks for the offer. How about starting some toast while I get the eggs. By the way, how was your day?

Paul puts a couple of pieces of bread in the toaster and replies, "I can't believe I survived it."

"That bad? What happened?"

Paul continues, "I almost got hit at a four way stop."

Marsha nods knowingly. "That almost happened to me a couple of weeks ago. Scared the heck out of me."

Paul agrees. "Believe me, I was scared. The rest of my day was pretty well shot."

You can probably see the differences in the levels of intimacy being experienced by each couple. It is quite possible that there was a time when Paul and Marsha communicated with the same low level of intimacy that Jose and Maria use. Perhaps Paul and Marsha consciously decided they wanted more and then dedicated themselves to developing a greater level of intimacy through more responsive communication.

For a more detailed view of what is involved with being intimate, read the list of *"Characteristics of Intimate Relationships"* assembled by clinical psychologist Gerald Corey and Marianne Schneider Corey presented below [28].

List ten ways you and your spouse can increase your communication level of intimacy.

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Characteristics of Intimate Relationships

1. Each person in the relationship has a separate identity -- each can give and receive without losing separateness.

2. Each is able to talk openly about matters of significance.

3. Each assumes personal responsibility for his or her level of happiness and doesn't blame the other for unhappiness.

4. The couple are able to play together.

5. The couple are able to fight constructively.

6. Each makes some attempt to keep romance in the relationship.

7. Each considers the other an equal.

8. Each actively demonstrates concern for the other.

9. Each person is growing, changing, and open to new experiences.

10. Each person is able to find meaning outside of the relationship.

11. Each avoids manipulating the other.

12. Each recognizes the need for solitude and space.

13. Each avoids assuming an attitude of ownership toward the other.

14. Each shows flexibility in role behavior.

15. Neither expects the other to do for them what they are able to do for themselves.

16. Each discloses inner feelings and thoughts to the other.

17. Each allows the other a sense of privacy.

18. Each has a desire to give to the other.

19. Each encourages the other to become all he or she is are capable of becoming.

20. Each has a commitment to the other.

Intimate Relationship Excercise

After both you and your partner have reviewed the list, write down the answers to the following questions:

1. Which of these characteristics do you believe are part of intimacy?

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2. Which of these do you have in your relationships?

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3. What links do you see between communication and intimacy?

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Choose one of the characteristics of an intimate relationship, write it down on a note card, and carry it with you for the next week. Work toward implementing this characteristic to a greater degree in your marriage. After one week, choose another characteristic to work on. Continue this exercise until you have achieved the degree of intimacy you desire to have in your relationship.

SUMMARY

Effective communication skills and intimacy in a relationship go hand in hand. Recognizing and changing circular communication patterns and evaluating your level of communication are important aids to greater intimacy. Learning to reframe and to negotiate will be effective means of achieving favorable compromise with both creditors and members of your family.

and how to prevent financial problems in the future.

Personality, feelings, and relationships are tremendously significant to financial behavior. With this understanding, you are ready to explore your financial past, present, and future.

IMPORTANT TERMS

Circular Causality: A model of causality that acknowledges that one event may influence another event, which in turn influences another, which in turn influences the first. Communication patterns show circular causality.

Communication, levels of: The degree of intimacy expressed. Bernard and Huckins identified five levels of communication: Level 5, clichés And greetings; Level 4, information and directions; Level 3, feelings about external events; Level 2, feelings about internal events; and Level 1, intuition.

Intimacy: Closeness to and understanding of another person. A low level of intimacy is usually due to ineffective communication skills, while a high level of intimacy is usually a result of effective communication skills.

Negotiating: Talking with another person in order to settle some matter; a cooperative decision-making process consisting of pre-negotiation planning, the opening proposal, making concessions, counter proposals, reaching an agreement, and closing.

Reframing: changing the conceptual or emotional point of view of an event or circumstance.

Zap: Any message that makes you feel as if you were not being treated as an equal or with dignity and respect, that you are being blamed, punished, or

ridiculed. Zaps interfere with the communication process and are to be avoided.

The Zap Rule: If a zap is perceived during a communication, the conversation stops immediately and the offender then makes an attempt to rephrase the comment in a considerate and respectful way.

References

24. Harold Bernard and Wesley Huckins, *Dynamics of Personal Adjustment* (1975)

25. Poduska, (1987)

26. Paul Watzlawick (1974)

27. Blumstein & Schwartz, (1983, p.51)

28. Gerald Corey, (1978)

COMMUNICATION GOALS EXERCISE

In this exercise, you and your spouse should decide independently what communication goals you would like to achieve. After you complete your lists, briefly select and discuss three goals you hold in common. These common goals may be taken directly from the individual goals, or they may be some combination of the individual goals.

Wife - I would like to see us achieve these three communication goals:

1)_____

2)_____

3)_____

Husband - I would like to see us achieve these three communication goals:

1)_____

2)_____

3)_____

Couple - These are the three communication goals we have in common that we would like to achieve:

1)_____

2)_____

3)_____

PART TWO

THE PAST, PRESENT, AND FUTURE

One reason most budgets simply do not work is because they are developed around a time frame that is too limiting. Budgets have a tendency to focus only on the current month, and to act as if what happened during *that* month portrayed the entire financial picture. But this restricted view of finances inhibits the development of a successful financial management program. In order to develop a truly effective budgeting process, you must take a look at three different, but interrelated, time frames.

First, take a look at your financial *past* to better understand how you got where you are today, and to learn how to cope effectively with the debt load you have already accumulated.

Next, look toward the *future* to get some idea about how to avoid those budget sabotaging "eight balls" that always seem to come along just when you think you are getting your finances under control. Dealing with the future also includes making plans for retirement, insurance, and educational needs. It is important to decide where you eventually want to be financially, what kind of effort you will need to make to get there, and how much time it will take.

After you have a better understanding of how the past and the future can affect your current situation, you will be ready to begin managing your budget in the present.

Name ten budgeting mistakes you have made in the past.

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Chapter 6

UNDERSTANDING WHY YOU HAVE FINANCIAL PROBLEMS

It is important to explore your past as you attempt to understand what behavior has been most responsible for your current financial situation. Major considerations in this chapter are two principles from chapter 1--Principle 1: *Financial problems are usually behavior problems rather than money problems*, and Principle 2: *If you continue doing what you are doing, you will continue getting what you are getting*.

If you find yourself saying, "I've been trying to get out of debt for the past 12 years, and I haven't made it yet," then, although you may *talk* about getting out of debt, you are most likely set in a pattern of *behavior* that perpetuates chronic indebtedness. According to Principle 2, you will have to change what you have been doing or you will continue in debt for the rest of your life.

HOW DID YOU GET INTO THIS MESS?

We get into financial messes for many reasons; most of these stem from our emotions--impatience, envy, anger, love, craving, inadequacy, insecurity, and loneliness. For example, the interest you pay on a loan is usually the cost of impatience, the "I want it, and I want it now" syndrome. Impatience can be a very expensive emotion--but other emotions can be equally costly.

The following list of questions indicate some of the reasons people get themselves into financial messes. Try to identify the emotions associated with each type of behavior—-and which behaviors most closely match your own.

1. Do you buy items that are usually associated with a higher socioeconomic level than your income warrants? Do you been compete with someone else or with a particular comparison group? Do you buy things to compensate for feelings of inadequacy or because of a need to impress others? This behavior is identified as ***trying to move too far, too fast***.

2. Do you habitually live beyond your means, and are any increases in income already committed? Do you buy into "get rich quick" schemes or high risk investments? Does your financial system lack emergency funds or savings programs? This is identified as ***failure to***

determine what is sufficient.

3. Do you ***lack basic financial management skills***?

4. Do you have a history of ***impulse buying***? Have you been self-indulgent in an attempt to compensate for loneliness or the feeling that no one cares about you?

5. When you buy something, do you neglect to take into account the hidden, indirect, and relationship costs? This is identified as ***failure to determine the true cost of a purchase***.

6. Do you buy things that you use infrequently and that you could have rented for much less? This is ***called failure to analyze the cost per use***.

7. Do ***you lack sufficient medical or liability insurance coverage.***

8. Are you staggering under chronic debt load? This may be because of ***credit abuse***.

9. Do you have ***addictive behaviors***, such as gambling, hoarding, or substance abuse (alcohol, illegal drugs, nicotine, prescriptions)

10. Do you make purchases to express feelings of hostility, guilt, or revenge? Do you make purchases in an attempt to ***buy someone else's love***?

Describe what mistakes you have made that caused you to get into debt.

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TRYING TO MOVE TOO FAR, TOO FAST

Most of us live in an upwardly mobile society; however, the pace at which we attempt to move from one socio-economic level to another can have a dramatic impact on our financial situation. For the sake of simplicity, assume that there are only five socio-economic levels, and that these levels can be primarily identified by the amount of income earned and the types of purchases made (see Table 6.1).

TABLE 6.1 - SOCIO-ECONOMIC LEVELS & TYPES OF PURCHASES

Socio-economic Level	Annual Income	Boat Purchase	Housing
5. High	$100,000+	Yacht	Mansion
4. Medium High	$50-99,000	Cruiser	Large house
3. Medium	$30 -49,000	21'inboard	Medium house
2. Medium Low	$15 -29,000	12'outboard	Small house
1. Low	below $15,000	Canoe	Rental unit

The amount of effort (represented by the amount of change in income) needed to move from Level 1 to Level 2 or from Level 2 to Level 3 is relatively small when compared to the effort needed to move from Level 3 to Level 4, or from Level 4 to Level 5. As a consequence, more people live at Levels 2 and 3 than at levels 4 and 5. But this fact doesn't seem to discourage people with lower level incomes from trying to purchase the things normally associated with the more luxurious lifestyles of the higher income levels. Unfortunately, in order to buy these pricey items, those at the lower income level must go into debt.

List three things that you have purchased in the past that were out of your socio-economic level.

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Assets And Liabilities

For the most part, debt is a symptom of trying to live beyond your means--trying to obtain status symbols that are beyond your level of income. It's like going to a bank and explaining, "Now I'm going to be honest with you loan officers. I cannot possibly live the lifestyle I want to live or buy the things I'd like to buy unless you agree to contribute thousands and thousands of dollars toward making my dreams come true. It's obvious that I could not afford to live in the manner that I would like to become accustomed to on my current salary. So how about it? Do I get the loan?"

Another way to look at this situation is to view your equity as your contribution, and your liabilities as the contributions others make toward maintaining your current lifestyle. For example, assume you (and the bank) buy a car. You must divide the asset into your portion and the bank's portion. Your $2000 down payment represents your equity in the car. The loan you

took out from the bank ($8,000 paid to the dealer) counts as a liability.

List your assets and your liabilities.

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In contrast, purchasing items associated with your own level of income usually means having to save for a while before buying them. Buying items associated with lower levels of income usually means paying cash and being able to buy them immediately. For example, if your income were around $45,000 per year, and you wished to buy a 21 foot inboard power boat, you would merely have to save for a while and then buy the boat since the purchase would correspond to your income level. Similarly, if you wanted to purchase a 12 foot outboard (associated with a lower income level), you could probably pay cash for it without having to save. But if you were to attempt to purchase a boat associated with a higher socio-economic income (the cruiser), you would have to go into debt to buy it. Again, in most instances, going

into debt means you are consuming at a level that is not warranted by your current income. To avoid unnecessary debt, make purchases that are appropriate to your income.

The Cost Of Belonging

"Buying up" is an attempt to gain acceptance from those you "look up to." Trying to buy a sense of belonging can be very expensive, both directly and indirectly. Direct expenses are the cost of "membership" in the group; they might include joining a country club, spa, or private or professional organization, as well as purchasing privileged seating at sports, entertainment, or political events.

Indirect expenses come through other consumer habits, such as buying a house in a particular neighborhood or buying a certain type of car. The make and model of car you drive may represent an attempt to be included in a particular group, as may the logos found on clothes, and the bags that let others know where you do your shopping. Quite often, the indirect costs of membership in a social group are even higher than the direct costs.

Self-worth

Unfortunately, the logic behind Principle #6, "You can never get enough of what you don't need because what you don't need can never satisfy you," will often defeat the best of efforts to "buy" acceptance and belonging. In most cases, the need for belonging can be satisfied only through what you can contribute, not through what you can consume.

Spending to achieve a higher status, to control others, or to feel important are all expensive, wasteful motives--for most, unaffordable. In the long run, most of these efforts are futile. Such spending is so ungratifying largely because of the inherent lack of intimacy

associated with it--money or gifts often become a buffer between the giver and the receiver.

Another source of dissatisfaction is the gradual development of a dependence on the things that money can buy. Far too many people believe that their self-worth rests on the numbers found on their balance sheets rather than on the mutual respect found in their relationships. Unfortunately, such criteria usually stem from a widely held belief that individuals are worth more if they have lots of money and are worthless if they don't.

You may wish to explore your own beliefs by writing down the answers to these questions:

1) How do you judge self-worth and the worth of others?

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(2) What are your intentions when making purchases?

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(3) Have your intentions been to express your self-worth, or to impress others with your financial worth?

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People express self-worth through what they can do. In contrast, they attempt to impress others through what they can buy, and at what price.

Conspicuous Consumption

The need to impress others is often found in people who aspire to be accepted by those in a higher socio-economic level and who, at the same time, loath being regarded as equals by their peers who are in the same or lower socio-economic level. The emotions pride and envy are applicable to such a situation. David Krueger (1986) notes that "Money can concretely symbolize confirmation of worth and value, envy and admiration (and thus mastery of one's chronic envy of others). . . One will desire more and more money as long as nothing challenges the belief that money can command emotional as well as material goods from others . . . the desire for it is insatiable" (pp. 25 -26).

There is also a tendency for prideful individuals to engage in what is commonly referred to as conspicuous consumption--the process of acquiring goods and services not because they are needed, but because they are expensive, generate attention, and provide the appearance of affluence. Many times, such individuals see themselves as less successful than a particular group of high achievers, and as a consequence are constantly trying to catch up with others. In the process, they tend to "compare to lose": if they drive a Buick, they notice the Cadillac; if they are in a Cadillac, they want a Mercedes; if they drive a Mercedes, they compare themselves with Rolls-Royce owners. Regardless of how high they climb, they inevitably lose in the comparison. (And those in the higher brackets see to that!)

Part of the problem with comparing self to others is that, in many cases, even when there has been considerable professional and financial success some individuals feel like "impostors." They believe that the others really deserve their successes while they have just been lucky (Krueger, 1986). The fear is that sooner or later their secret will be discovered, and that the others will find out that all of the things they have surrounded themselves with are just for show-

-with no substance behind them.

What are some common conspicuous consumption purchases in our society today?

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FAILURE TO DETERMINE WHAT IS SUFFICIENT

When you buy a car, your main concerns are what you can afford and what would be enough. But money problems are more complex. When you budget your income, you must decide whether you are referring to an open-ended or a closed-ended amount.

Open-ended/Closed-ended

If you are discussing an open-ended income, then you have not determined how much money is enough, and no matter how much your current income is, you are probably thinking in terms of making more, and your budget will be unrealistically based on anticipated increases in income. Take for example the words of this over optimistic planner, "Can you believe that

between the two of us we made over $52,000 last year? If we play our cards right, we ought to make at least $60,000 this year, and maybe $70,000 next year. The size of that new house is looking bigger and bigger. If it keeps going like this, it won't be long before we're talking about a pool and a sauna."

In contrast, when you consider a closed-ended amount of money, you have already decided how much income you would consider sufficient. With the necessary income predetermined, you are in a position to regulate your expenditures accordingly and to experience the freedom that comes from living within your means. For instance, if you determined that $30,000 per year were a sufficient income and adjusted your spending to that figure, then any additional income would be uncommitted and could be saved or spent as you saw fit. Imagine the result: "I can't believe how much we have in savings already. Our decision to put half of every salary increase into savings and to use the other half to compensate for cost-of-living increases has worked out beautifully."

Open-ended budgeting--living beyond your means and having any increases in income already committed-- eventually leads to financial insecurity. Living beyond your means is like walking a tightrope--if you have no financial safety net, a fall will kill you. Nobody wants to live in a world that precarious. To make your world a little safer, you must prepare for the unexpected. Financial planners recommend that an emergency savings fund of at least three months' expenses be maintained at all times. Unfortunately, too few people have such a saving program. And too many people have no savings program to provide them with sufficient retirement funds. As a result, many never achieve a feeling of financial security.

Has your budget been an open-ended amount or a closed-ended amount in the past? How so?

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Financial Security

Just about everyone dreams of someday being financially secure; however since there are no guarantees in life, in most cases, what we are really trying to achieve financially is a feeling of security rather than actual security. For example, many people have had large amounts of savings in pension funds. However, more than a few pension funds have been exhausted due to poor management or fraud, and through no fault of their own workers have been left destitute. Having money in a pension fund does not necessarily mean that you are actually financially secure. In some cases, it merely means that, for the time being, you feel financially secure.

Feelings of security, or insecurity, are generated as much by what is going on inside as by what is happening on the outside. Internal threats are, for the most part, self-generated through the manufacturing of a "what-if" world: What if I lose my job? What if I can't keep up the

payments? What if I don't get the raise? Fortunately, most of these fears are seldom realized, nevertheless the stress from the worry is very real.

Because life offers few, if any, guarantees, “security" is most likely found in the self-confidence that comes from knowing that you can cope effectively with what does happen in life, rather than from futile attempts to control what might happen.

What can you do to feel more financially secure?

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What Is Enough Home

Included in the quest for security is the issue of safeguarding whatever we call "home." Being able to pay the rent, build a house, or pay the mortgage is often paramount to maintaining a sense of well-being and security. How close you are to eviction or how likely you are to face foreclosure is directly related to your income and savings when compared to your monthly bills and loan payments.

While most lending institutions recommend that home buyers limit their mortgage

liability to no more than twenty-five to thirty percent of their gross income, many people carry mortgage liabilities in excess of fifty percent of their income.

Attempting to impress others is often a major cause of excessive mortgage indebtedness. You may want to ask yourself questions like "How much of the house is for me and how much is for impressing others?" or "If these others were not involved, how much house would I really need?"

In the case of buying a home, renting an apartment, or leasing a condo, the primary questions are once again "What is sufficient? What is enough house?, . . .enough money?, . . . enough security?"

To answer these questions, it is helpful to establish a form of "goal alignment" between you and a loved one to determine what would be sufficient in your lives--what would be enough for you regardless of what others have. To accomplish this, each of you should separately list what you would consider sufficient income, house, car, and so on. Then you should share, negotiate, and compromise to make a mutual list of what would be sufficient for both of you in order to be satisfied with your lives. The primary goal, however, is to set limits on your needs and wants.

Is your home sufficient for your needs? If it is more than you need, what can you do to fix the problem?

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LACK OF BUDGETING AND MANAGEMENT SKILLS

Over a lifetime, the average family will manage between $1.5 and $2 million ($35,000 - $50,000 per year for 40 years in current dollars). Imagine running a business that will gross a couple of million dollars and deciding that it will not be necessary to write anything down--"We'll just wing it." Far too often this is exactly what families do.

Most families have only a rough idea of where their money goes. They simply live from paycheck to paycheck, regardless of the paycheck's size. As long as the paychecks keep coming, or until something unexpected happens, or until someone gets sick, all is well.

Most people have never been taught how to manage their money--only how to earn it. Such ignorance can mean losing in two minutes what it took you two weeks to earn. For example, you may be talking to a car dealer who has just shifted from "sales price" to "monthly payments." He tells you, "For just ten dollars a month more you can have the stripes <u>and</u> for an

additional five dollars a month you can have the tinted mirrors." If you say, "Hey, what's an extra fifteen bucks? I'll take both!" you have just added $900 plus interest to the price of the car over a five year contract ($15 x 60 monthly payments).

A more effective way of dealing with situations like the one just described is to incorporate the concept of marginal costs. Marginal (additional) costs involves a comparison of the amount of additional value you would receive for the amount of additional money it would cost you to buy a more expensive item. For example, would the addition of the stripes and tinted mirrors add an extra $900 to the value of the car, or, considering your personal preferences and wants, would having these items on your car be worth $900 to you? In other words, would you be getting your money's worth? One of the ways to increase your chances of answering this question is to take advantage of educational resources such as libraries, schools, and seminars within your community.

IMPULSE BUYING

Most phone solicitations and late night TV $19.95-plus-shipping-and-handling ads sell items very few people would ever put on their shopping lists. So the manufacturers, in hopes of selling their products, bring them to the buyer. For instance, you have probably never made out a shopping list that included buying some time-shares in an Icelandic condo, an inflatable raft with a battery-operated outboard motor (batteries not included), or a year's supply of avocado pits as a treatment for gout. But on impulse, you just might buy such items. Similarly, most supermarkets place items that are least likely to be on your list at eye level or near the checkout stand to encourage you to buy on impulse.

For some, buying things gives them a sense of power or control over their lives. For others, impulse buying represents a way of coping with a craving (usually an emotional need) that is not otherwise being satisfied. (Remember Principal #6: "You can never get enough of what you don't need because what you don't need can never satisfy you.") For most, however, impulse buying is merely a reflection of poor shopping habits and a lack of self-discipline. Such habits can often be overcome simply by making out a shopping list and sticking to it, by not carrying credit cards or checkbooks with you, and by agreeing to establish built-in time delays that are proportional to the size of the purchase. For example, waiting 24 to 48 hours before making large purchases. You should ask yourself, "Do I really need this, or do I merely want it?" A quick review of consumer products reveals that over fifty percent of the items you have the impulse to buy today didn't even exist ten years ago. Apparently there was a time when you got along without them.

Describe a purchase you made that was an impulse buy. What did you learn from buying the product on an impulse?

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FAILURE TO DETERMINE THE TRUE COST OF A PURCHASE

It's amazing how much denial and rationalization we use to convince ourselves that we can afford something we "know" we cannot afford. We might say, "The computer only costs $1,200, and it will pay for itself with what it saves us on balancing the checkbook." We use denial to deal with the $1,200 price tag, and rationalize the purchase with the projected savings from balancing the checkbook. But the $1,200 is not the true cost of the computer. In addition to taxes and interest charges, there can also be the cost of a color monitor, a printer, paper, printer ribbon, software, a computer desk, floppy disks, disk storage boxes, and so on, ad infinitum. And it could take a lifetime before the money saved from balancing your checkbook makes up for the cost of the computer.

You can barely afford many of the things you buy. And the true cost of the item often turns out to be far greater than the initial purchase price. The true cost of an item includes the

intial cost, hidden costs, indirect costs, and relationship costs. When these costs are taken into account, they can easily move you from the realm of "just barely" to "just buried."

After the initial purchase, there are often additional items you must buy to "make it work better," as a consequence, it is imperative that you calculate the additional costs beyond the original purchase price. For instance, if you buy a stereo, you may soon discover that to get full fidelity you need to add a compact disc player. Then you need compact discs to play. But by then the speakers are no longer adequate, and so on. Similarly, one definition of a boat is "a hole in the water that you pour money into," and swimming pools have been known to be "bottomless" from a financial point of view. It is not unusual to find that a large part of your indebtedness is a result of trying to meet the financial obligations associated with the hidden costs of buying something.

List three examples of common purchases people make that result in hidden costs.

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More subtle, but equally important, facets to consider when determining the true cost of a purchase are emotional and time costs. How might the new purchase affect relationships? For example, you may have got a real bargain on a "four wheeler" (all-terrain-vehicle) from a dollar-cost standpoint. Yet, since it will require a second income to pay for it, the time costs may interfere with your ability to take it out in the country and enjoy it. You may also find the emotional costs of a purchase to be very high. You may have less time to spend with loved ones. You may be more tired. And feelings of resentment may develop.

Resentment is especially likely when you make a purchase in spite of the protests of a spouse. Also there will be resentment whenever a spouse feels that the purchase is more important than the relationship. Some warning signs of this are statements like "Maybe if I wore a hood ornament, you'd spend as much time with me as you do with that car," or "Just where am I supposed to sit, since I can't sit on your precious white satin couch?" Relationships with things might appear safer than relationships with people, but they cannot be as satisfying.

Things to consider when determining the true cost of a purchase

In a world filled with attractive products and activities, it is tempting to rationalize your way into debt by denying factors that contribute significantly to the true cost of ownership. To help you identify these, it is recommended that you consider such factors as add-ons and operational costs.

Add-ons:

1. When purchasing a car, watch out for "back-end loading"--extras like undercoating, pin striping, and extended warranties can cost you.

2. Pay attention to items included in the closing costs when you purchase a home--is the buyer or the seller going to pay for certain items? (repairs, taxes, appraisals, inspections, etc.)

3. What accessories are needed for the item to operate as intended? Does it require battery packs, transmitters, additional games, soft-ware, printers, saddles, trailers?

4. What are the costs of "Holiday Extras": long distance calls, cards, stamps, travel, special foods, decorations, and additional electricity?

Operational costs:

1. What are the operational costs such as fuel consumption, tire replacement, electricity, updating, depreciation, food requirements (hay, oats, etc.)?

2. What are the maintenance and repair costs such as, oil changes, anti-freeze, air conditioning, veteranarian fees, and storage facilities?

3. What are the legal costs such as registration, insurance, license fees, and property taxes?

FAILURE TO ANALYZE THE COST-PER-USE CONSIDERATIONS

Let's say you want to finish off a section of your basement, and to frame the walls you need to attach the two-by-fours to the basement floor, which is made of concrete. To accomplish this, you buy a nail-gun that fires nails through wood into concrete. The gun costs almost $400

and you use it on one project. The cost per use is $400. If you use the gun on two projects, the cost per use drops to $200 ($400 / 2). But you could rent the gun for $20.

Cost per use consideration should be given to just about everything you have the urge to buy, including mountain cabins, boats, four-wheel-drive vehicles, cellular phones, airplanes, scuba gear, high-powered night vision scopes, and so on. For example, you may be considering buying a $25,000 mountain cabin (interest charges, property taxes, organizational dues, plus maintenance and repair can easily bring the actual cost to $50,000 - $75,000, not including furnishings). The cabin is snowed-in much of the year, and the roads are too muddy during the spring, so the primary use time would be summer and fall. If your family went to the cabin one weekend each month during those two seasons, the cabin would be used six times per year. The mortgage payments would run about $375 per month ($25,000 @13% for 10 years = $375/month). Taxes, dues, and maintenance cost about $125 per month for a total of $500 per month, or $6,000 per year. This means that the six visits to the cabin would have a cost per use of $1,000 per visit, not including any travel costs. Cost-per-use calculations can let you determine if there are more economical ways to fulfill your needs, such as renting, borrowing, sharing, or simply doing without. Sharing can be especially effective between cooperative neighbors and extended family members. For example, only one roto-tiller could be used for five yards, or one snow blower for three driveways.

Do you have a project you want to do? If so, calculate all the costs. Evaluate if there are more economical ways to fulfill your needs or if it's worth it.

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LACK OF ADEQUATE INSURANCE COVERAGE

Lack of adequate insurance can put people in financial straights almost as fast as unemployment. Some of the most neglected forms of coverage are major medical, disability, liability, and life. In many cases, the car and house are adequately covered, but the people are not.

Insurance protects us from rare but potentially very costly events. Unfortunately, the rarity of these events leads many to believe that they do not need insurance, so they try to get by without it, leaving themselves open to catastrophe. In addition, being under-insured can also

lead to financial disaster. Therefore it is important to periodically review medical, life, and property insurance policies on a yearly basis or whenever there is a change in the size or composition of the family. (More on insurance needs in Chapter 8.)

DANGER SIGNS OF CREDIT ABUSE

Many people do not realize they are getting into serious financial difficulties until it is too late. The following "Danger Signs" can be used as warnings of impending financial disaster.

1. Credit is not thought of as debt.

More than two-thirds of all families use some type of credit card, and nearly fifty percent of them pay off their account balance each billing period (Canner & Cyrnak, 1985). For those who don't pay off their credit cards on a monthly basis, credit cards are not seen as a short-term substitute for cash but rather as a convenient means of taking out a loan. Many will make statements like "I'll just put it on the Visa," or "Let's just charge it." In reality they are saying "Let's go in to debt for it." Stop thinking of your credit card's limit as a line of credit, and begin thinking of lines of credit as lines of debt.

2. You have to borrow to make payments to creditors.

Picture yourself on a boat out in the middle of the ocean. The boat has ten holes in the bottom and you have only nine corks. No matter how you move the corks around, endlessly pulling corks out of one hole in order to use them to plug another, your boat will eventually sink. The same principle applies to using cash advances from one credit card to make payments on another, or taking out a new loan on the car to make mortgage payments. To avoid getting into these kinds of financial binds, predetermine affordable payment amounts prior to acquiring

debt(s).

3. You have more than seven consumer-credit loans.

When you are living beyond your means you are in effect saying, "I am unable to sustain my lifestyle on my income; therefore, for me to sustain such a lifestyle, I will ask others to pump hundreds,--if not thousands,--of dollars into my financial program." As each creditor says, "That's all I care to contribute," you must find someone else who is willing to bankroll your lifestyle. In order to avoid such pretentious living, limit credit use to major purchases only, involving no more than two or three creditors.

4. Over 20% of take-home pay is used for credit payments.

Excluding your mortgage payment, installment debt should not exceed twenty percent of what you take home after taxes. For a person taking home $1,500, that means monthly payments of no more than $300.

In many cases, the car payments alone meet or exceed this criterion, but for some reason car payments are often thought of separately from other consumer debt, such as credit cards, furniture, household appliances, and clothes. Be sure to include everything but the mortgage, and keep credit payments to no more than 10% of your take-home pay.

5. All of the secondary earner's income goes to pay debts.

The actual amount realized from the secondary earner's income varys with the with which income group the wage earners belong (Hanson,1991). Lower-income, dual-income families lose about 46% of their increase to job related expenses, middle-income families lose about 56%, and upper-income families lose about 68%. Job related expenses include; tax, social security,

and health care deductions, life insurance premiums, contributions to retirement funds, union or professional dues, extra clothing needs plus uniforms and cleaning, meals out, additional transportation costs, and child care expenses. As a consequence, what's left will usually just pay some of the bills.

However, even with these additional expenses, the dual-income family has some advantage over the single-income family. Again, the size of this advantage varys with the wage earner's income group. The lower-income, dual-income family will usually realize a 70% increase over a single-income family. Those in the middle-income group will realize a 38% increase while high-income families will realize only a 16% increase. When these percentages are taken into consideration, it becomes clear why it is so important for you to predetermine what proportion of the secondary income is to be used for debt repayment.

6. Credit cards are used impulsively.

Another rule of thumb is that the item purchased should last longer than the payments do. The payments on vacations and meals usually last longer than the trip or dinner.

Imagine reading a particular restaurant's menu to a loan officer and saying, "The New York steak looks good to me, but then the fresh lobster is always superb. What do you think? Can we qualify for a loan that's big enough to get both?" At first this may seem a little ridiculous, but when you charge your dinner because you do not have the cash to pay for it, you are in effect asking the bank if you can borrow money to pay for your meal. As a mark of your dedication to use sound financial principles, agree to use credit cards only for preplanned purchases of durable goods or in emergencies.

7. Accounts are not paid on time.

From time to time, even large businesses experience a cash flow problems when the costs of purchases and overhead exceed the amount of money coming in. If this condition is only temporary, the businesses can ask their creditors for some additional time to fulfill their financial obligations. But if this condition continues over a long period of time, the businesses go bankrupt. These businesses are spending faster than they are earning; eventually it catches up with them. The same rule is true for individuals. In order to avoid this kind of dilemma, create a reserve account or subtract credit card purchases just as you would a check.

8. No more than the minimum due is paid each month.

Many bank card repayment plans are set up so the cardholder must pay only 1/36 of the principle due plus interest. In effect the bank is saying, "We don't want you to pay off your outstanding balance too quickly, because there is no other way we could loan the money out and make as much profit as we are making." The cardholder might pay up to 21 percent interest, in addition to an annual fee that is equivalent to another 1 to 3 percent. This plus the 3 percent that the retailer pays to the bank can result in a hefty twenty- seven percent return for the bank. That obviously beats the interest rates that could be earned on a home loan. To avoid paying high interest rates, accelerate pay-off schedules by adding as much extra principle as possible to each payment.

9. Debt repayment schedules that are longer than one year.

Excluding your home mortgage, student loans, and most car loans, the recommended duration of a loan should not exceed one year.

Ideally, this rule should apply to car loans as well, but with the average cost of a new car

approaching $15,000 it's unrealistic to expect to pay off a car in one year. In the "good old days," the car manufacturers operated on a three-year style-change cycle, and car loans were made for one- or two-year periods. But the price of cars has risen faster than has the buyers' ability to pay for them. To compensate for this discrepancy, car loans are now offered for five-, six-, and even seven-year periods. The car dealer is basically saying, "On your income, you could not possibly make the payments necessary to pay the car off in one year (translated: You can't afford it.)." So the amount of the monthly payments has been reduced, allowing you to make more payments over a longer period of time.

Three consequences of these financial manipulations, must be considered:

1. The buyer can end up with interest charges amounting to almost as much as the purchase price of the car.

2. About three years into the loan, the value of the car usually drops below the amount still owed on the loan.

3. The longer the term, the harder it is to count on financial stability. How stable can you expect your financial world to be during the next five to seven years? As you look back over the past five years, do you find that life has gone about how you expected, or did you have a few surprises?

If you would like to buy a $5,000 car but you only have $200 per month available for payments and you still want to be able to pay the car off in one year, try the following: make $200 payments to your <u>saving account</u> for one year. At the end of that year, you would have nearly $2,500 (including 6% interest). Buy the car with your savings and finance the remaining $2,500 for 13 months at just over $200 per month ($209 per month at 11%). If you were to have

financed the whole $5,000, you would make monthly payments of $200 for 28 months (at 11%). But by saving for a year you were earning interest instead of paying interest during the first year, and only in debt for one year instead of two. Thus your car is paid for 3 months earlier, and your net interest payments drop from $705 to about $100. Whenever possible, calculate and commit to a one-year payoff schedule--except for car and education loans.

10. Consolidation of loans is being considered.

Consolidation loans, are only helpful if the behavior that led to the problem in the first place has been corrected. Otherwise it will be just a matter of time before the problem resurfaces and drives you even deeper into debt. You may find that you will be better off if you were to use the fold-down method to decrease your debt load and the amount of your monthly payments.

List each danger sign that you are living under right now.

After each sign, write down how to remedy the situation.

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ADDICTIVE BEHAVIOR AND FINANCES

Sixty-six percent of the people in the United States over fifteen years of age drink alcoholic beverages on occasion. Fifty-eight percent drink at least once a month, and ten percent drink at least one ounce of alcohol per day (the equivalent of two mixed drinks, two glasses of wine, or two cans of beer). One in ten users become alcoholics (U.S DHEW, 1990).

All addictive behaviors are costly, in both financial and human terms. The financial and personal costs of cocaine addiction are well known, as are the costs of becoming addicted to other illegal drugs, prescription drugs, alcohol, and tobacco.

The financial devastation of an addiction stems not only from the exorbitant costs of some of these substances, but from the personal deception created to justify maintaining such habits. If the substance abuse involves an illegal drug, a family budget is useless because <u>all</u> of the family resources will eventually be devoted to obtaining more of the drug.

If legal drugs (alcohol, tobacco, or prescription drugs) are involved the cost of the substance should actually be included in the budget. In this way those both directly and indirectly involved will realize exactly how much money is being spent on useless addictive substances. For example, two or three cans of beer per day add up to two or three six-packs a week. At five or six dollars a six-pack, this can add up to between forty and eighty dollars per month.

In many instances, users deny how expensive their habit has become over time, or that the rate of consumption has increased. With the costs of the addictions being recorded as part of the family budget, denial becomes impossible. In addition, the accumulated costs of the habitual consumption can be assessed from a values standpoint (see Values, Chapter 1). For instance, the

beer consumption costs used in the previous example could reach $1000 per year. From a values standpoint, can you think of some other way you would have preferred to spend that $1000? You may wish to refer back to Chapter 1 and Principle #4. Is your money going to what you value?"

Gambling and compulsive buying are other addictive pathological behaviors that can bring financial ruin and personal heartache to both those directly involved and to their loved ones. In most cases, it is necessary to seek professional help regarding addictive or compulsive behaviors.

List the addictive behaviors you and your spouse are dealing with right now. Make a plan on how to get help and overcome the behavior.

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SUMMARY

The basic premise of financial counseling is that financial problems are behavior problems, not money problems (Reeves, 1983). Our individual, interactive, and financial behaviors are interrelated. Principles that govern one aspect of our behavior are likely to affect other areas of our lives as well.

This chapter has also discussed how you may have acquired your current debt load, what can be done to avoid accumulating additional debt, the danger signs of credit abuse, and the pitfalls of substance abuse.

The next chapter will deal with how to manage this debt load and how to reduce or eliminate your current debt.

CHAPTER REVIEW

1. What are some of the behaviors associated with having financial problems?_____

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2. What is meant by the statement "trying to move too far too fast?"_____

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3. How are assets and liabilities defined in this chapter?

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4. What is meant by the cost of belonging and what part might your feelings of self-esteem play in your financial behavior?

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5. What is an open-ended budget? a closed-ended budget?

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___6. How important is it so develop financial management skills?_____

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___ 7. What is meant by the term "true cost of a purchase" and what factors need to be considered?_____

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8. What are cost-per-use considerations?_____

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9. What are the danger signs of credit abuse?

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10. What role do habits and addictions play in managing family finances?_____

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IMPORTANT TERMS

Behaviors Associated With Financial Problems

1. Trying to move too far, too fast.

2. Failure to determine what is sufficient.

3. Lack of budgeting and management skills.

4. Impulse buying.

5. Failure to determine the true cost of a purchase.

6. Failure to analyze the cost-per-use considerations.

7. lack of adequate insurance coverage.

8. Pathological behavior.

Behaviors Associated With Effective Financial management:

1. Make purchases appropriate to your income.

2. Set limits on you needs and wants; what would be enough house, car, income, etc.

3. Take advantage of educational resources; libraries, schools, seminars, etc.

4. Agree to built-in time delays proportional to the size of the purchase being considered.

5. Calculate the additional costs beyond the original purchase price.

6. Consider if renting, borrowing, or sharing might be more economical than buying.

7. Periodically review medical, life, and property insurance policies.

8. Seek professional help regarding addictive or compulsive behaviors.

DANGER SIGNS OF CREDIT ABUSE

1. Credit is not thought of as debt.

2. You have to borrow to make payments to creditors.

3. You have more than seven creditors.

4. Over 20% of take-home pay is used for credit payments.

5. Secondary earner's income goes to pay debts.

6. Credit cards are used impulsively.

7. Accounts are not paid on time.

8. No more than the minimum due is paid each month.

9. Debt repayment schedules longer than one year.

10. Consolidation of loans is being considered.

EFFECTIVE USE OF CREDIT

1. View lines of credit as lines of debt.

2. Predetermine affordable payment amounts prior to acquiring debt(s).

3. Limit credit use to major purchases only, involving no more than two or three creditors.

4. Keep credit payments to no more than 10% of your take-home pay.

5. Predetermine proportion of secondary income to be used for debt repayment.

6. Agree to use credit cards only for preplanned purchases of durable goods or in emergencies.

7. Create a reserve account or subtract credit card purchases just as you would a check.

8. Accelerate payoff schedule by adding as much extra principle as possible to each payment.

9. Calculate and commit to a one-year payoff schedule-- except for car and education loans.

10. Use fold-down method to decrease debt load and amount of monthly payments.

Chapter 7

DEBT MANAGEMENT

Some equate the process of managing debt with juggling in a dark room: you never know what is going to come down on you next. Others seem to accept the stress associated with trying to manage debt as a fundamental component in the making of the twentieth century consumer. Still others avoid debt as they would the bubonic plague; debt to them is a destructive force capable of destroying the American promise to life, liberty, and the pursuit of happiness. In order to appreciate another concept of debt more fully, a brief venture into one aspect of history might prove helpful.

Indentured Servants

During the time when America was first being settled, many wished to come to the new land but didn't have enough money to pay for passage. Yet the desire to go to America was so great that many offered to work off the cost of their passage by becoming someone's servant if that person put up the money for a ticket. Those who agreed to work off the cost of their passage were called indentured servants. Such a servant might be defined as anyone who has contracted to pay off a debt by working for another person for a specified period of time.

There are a number of similarities to be found between the way indentured servants repaid a debt and the situation borrowers find themselves facing in today's money world. Let's say you wanted to buy a used car. The price of the car is about $13,500, and the bank agrees to finance the loan at a 13 percent rate of interest for a period of five years. The total price of the

car would come to about $18,000, made up of 60 monthly payments of about $300. You will have to earn around $500 in order to clear enough (after taxes are deducted) to make the $300 payments. Assume your gross income (before deductions) is about $2,000 per month. So the $500 you need to make the car payment represents twenty-five percent of your monthly salary. In essence, this means you have agreed to work one week out of every month for the next five years for the car dealer. You have just become an indentured servant for the next five years of your life. This is what indebtedness really means.

DEBT MANAGEMENT CONSIDERATIONS

Coping with debt can be much easier if you follow a few sound financial principles. Some of these principles were illustrated in the example of the indentured servant. Consider the following:

1. The rate at which you have been going into debt -- the amount of time it has taken you to assume your current debt load. How fast are you continuing to go into debt?

2. The gross income consideration -- the amount of money you have to earn before taxes (gross income) to clear (net income) the amount of money you need to make the payments.

3. The time and emotional considerations -- the amount of time you must work to make your payments, and the emotional stress you experience as a result of your indebtedness.

4. The need to determine whether to increase your income or decrease your expenses to get out of debt.

5. The need to pay off the debt you have already accumulated.

STOP GOING FURTHER INTO DEBT

Remember the second theme presented in Chapter 1? "If you continue doing what you are doing, you will continue getting what you are getting." This is especially true for chronic indebtedness.

To understand this financial principle, imagine a couple in a boat trying to survive in the middle of the ocean. One person asks the other, "What are you doing?" and is told, "I'm plugging the holes in the bottom of the boat. What are you doing?" The first person answers, "I'm poking holes in the bottom of the boat." This analogy clearly describes the dilemma of one person trying to get out of debt while someone else continues to get them in debt. To get out of debt, everyone involved must stop doing whatever it is that has been getting them into debt.

It stands to reason that if you are an alcoholic and wish to recover, you must stop drinking. Likewise, if you are an impulsive gambler, you must stop betting; and if you are chronically in debt you must stop borrowing. Otherwise, things will just go on as before. Those who truly want to get out of debt must decide to get out now: no more charging, no more borrowing, and no more buying until they have enough money to pay for the purchase.

What can you do to stop going further into debt?

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DELAY BUYING

One of the prime causes of debt is impatience: "I want it and I want it NOW!" And for that privilege we are willing to pay enormous interest charges. Again, impatience can be a very expensive emotion. Besides, in many cases, with the passage of time and a look at the consequences, "I want it" often becomes "I thought I wanted it." For this reason, delays should be built into your decision making process when you make a major purchase. You may want to use the principle "The larger the purchase, the longer the delay." In other words, if something is going to cost $500, then agree to wait at least 24 hours before making the purchase. If the

purchase is over $1,000, wait 36 hours; over $5,000, wait 48 hours, and so on. You may be surprised at how many times you will be glad you decided to wait, then decided not to make the purchase after all, and (perhaps most important) decided not to apply for yet another loan.

STOP QUALIFYING FOR LOANS YOU DO NOT REALLY QUALIFY FOR

When you take out a loan, you are usually asked to fill out a statement of financial position, or balance sheet, that lists your current assets and liabilities. You are also asked to disclose your current income and to list your current debts, such as credit cards, and car loans. After you have completed your loan application, the bank will run a credit check and take a look at your income-to-debt ratio to decide whether or not you qualify for the new loan. However, as the old saying goes "The only time a bank is willing to give you a loan is when you don't need one." Because of this, on loan applications people have a natural tendency to make themselves appear better off than they actually are.

The real problem arises when you exaggerate your income a bit, "forget" to list a couple of expenses, and still just barely qualify for the loan. For example, assume that your take-home pay is about $2,000 per month. Twenty percent of that amount, or $400 per month, is the maximum amount most banks would allow you to have obligated to consumer debt. Your credit card, car loan, and furniture payments add up to $350. The loan officer recognizes that the new loan would put you slightly above this credit-limit guideline, but you have been a good customer, so somewhat reluctantly, she approves your loan application for a new hot tub. After you sign the papers, you nudge your spouse and whisper, "It's a good thing we didn't list the $200-a-month boat payments on our loan application. If we had, we probably wouldn't have qualified

for the loan." With a puzzled look, your spouse asks "What boat payments? We don't own a boat."

You are absolutely right about not getting the new loan if you had included anything near $200 more per month on your list of liabilities. Your spouse is also absolutely right about the fact that you do not own a boat. The "boat" is merely a representation of a financial obligation that is not written down in the form of an official contract, but can nevertheless epitomize very high priority values. For instance, for those with religious affiliations, the "boat" may be called the U.S.S. Tithing or the U.S.S Church Offerings. For some, it could be called the U.S.S. Home Care, representing their share of nursing home care for an elderly parent; for others, it could be called the U.S.S. Friendship, representing payments to friends or relatives who were generous enough to loan you money when you were in a bind.

The point is, you assume many financial obligations without contracts or official records. Yet these agreements are just as much a part of your financial indebtedness as is a loan with a bank. But because these informal obligations usually don't show up on loan applications, you may very well qualify for a loan you do not really qualify for. Even worse, as pointed out in Chapter 6, the actual loan payments probably represent only a fraction of what your new toy will eventually cost you each month. As a consequence, you may end up needing to earn even more money in order to meet all of your financial obligations.

What financial obligations do you have?

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WHY IT'S SO HARD TO EARN YOUR WAY OUT OF DEBT

One of the overriding financial principles that governs all debt management problems is "You must either increase your income or decrease your expenses." Most of those who find themselves buried in debt tend to favor increasing their income over decreasing their expenses. Usually, though, decreasing expenses is a far more effective way to manage debt than increasing income.

To illustrate the differences between these two debt managing approaches, look again at the situation in which you had to earn $500 to make a car payment of approximately $300. Continuing this line of reasoning, you would have to earn $1,000 to make $600 worth of payments. But if you were to decrease your debt load by $600 per month (perhaps by selling a

car, the boat, or one of the horses), it would have the same effect as increasing your income by $1,000 per month--that would be the same as getting a $12,000-a-year raise!

What are you making payments on right now? How much would it save you to sell one or two of these items?

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Case Illustration

The way one California family handled their debt problems illustrates beautifully the principle of decreasing expenses. The father taught school and the mother tended neighborhood children whose parents both worked outside the home. One of the couple's two daughters became seriously ill, and even with insurance, the medical bills were close to $500 per month. As a result, medical debts accumulated rapidly. At first the father tried working evenings at a convenience store to increase his income, but the combined stress of the extra hours and constant worry began to take their toll on his health.

As an alternative to trying to earn their way out of debt, they decided to sell one of their cars. The car payments were $300 per month. Insurance for the car was running almost $100 per month, and monthly gas bills were over $50. In addition, the costs of registration, licensing, property taxes, and maintenance fees easily amounted to $50 per month. Altogether, selling the

car saved the couple about $500 per month--just what they needed for the medical bills. From that point on, the father carpooled with other teachers at his school.

Although this example illustrates how a couple avoided going further into debt, the principle is effective when used as a means of getting out of debt as well. An additional point worth making is the possibility that your attempts to earn your way out of debt could end up putting you in a higher tax bracket, which would leave you with an even smaller percentage of your extra income available for debt payments.

START GETTING OUT OF DEBT

The basic idea behind getting out of debt is to pay off as much as possible, as fast as possible, without acquiring any additional debt. Two helpful techniques can make getting out of debt much more conceivable: accelerated schedules of repayment, and the fold-down plan.

Accelerated Schedules Of Repayment

The basic idea behind accelerated schedules of repayment is to pay off the principal quickly in order to reduce the interest charges. In a new long-term loan, most of the money included in the payment goes to interest charges, and only a small amount goes toward paying off the principal. In contrast, when extra money is added to a regular payment, all the extra money goes toward paying off the principal, thus accelerating the repayment of the loan and reducing the future interest charges.

The Table Four Ways To Pay off A Mortgage (Table 7.1) illustrates this concept. (by the way, the accelerated repayment method can be applied to almost any loan). This table shows that by adding an extra $25 to the mortgage payment each month, you reduce the term to

maturity from 30 years to 25 years and 10 months and the total interest paid over the life of the loan by $36,645. By paying an extra $100 per month toward the principal, you reduce the term to maturity to 19 years and 3 months and the total interest by $90,509. Finally, if you take out the mortgage for a 15-year period, payments increase to $1,059 per month (about $180 more than for the 30-year mortgage), but you save $125,241 in interest compared to a standard 30-year mortgage.

In each of the four cases, payments per month are higher, but the savings in total interest are much greater than the total payment increases.

TABLE 7.1 - FOUR WAYS TO PAYOFF A MORTGAGE

$100,000 loan at a 10% rate of interest

Payment Period	Payment Amount	Interest Paid
1. 30 year loan	$878	$216,000
Adding $25 per month		
2. 25 years 10 months	$903	$179,000
Adding $100 per month		
3. 19 years 3 months	$978	$125,000
4. 15 year loan	$1,059	$91,000

How much can you put into your loan each month to help pay off your loan? How much would that save you over the life of the loan?

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The Fold-Down Plan

The fold-down plan of debt elimination entails paying off one debt and then applying (folding down) that payment to another debt in a cumulative progression. The first step in this plan is to pay off one of your debts, perhaps by using your tax refund, reallocating money budgeted for entertainment or riding the bus. Once the first debt is paid off, the money that had been allocated to making those payments can now be applied to paying off a second debt. When the second debt is paid off, the payments for that debt and the first debt are folded down into yet a third debt, and so on until all of the debts are paid off. During this process, monthly expenses remain constant, but this amount progressively focuses on fewer and fewer debts (See Table 7.2).

TABLE 7.2 - FOLD DOWN REPAYMENT PLAN

Creditors	Monthly Payments							
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.Sept.

Visa		
($50.00)	$50 paid	
MasterCard		
($250.00)	$100 $150 paid	(Interest Saved)
Sears		
($225.00)	$25 25 175 paid	
Furniture		
($850.00)	$100 100 100 275 275 paid	
Car loan		
($2,650)	$300 300 300 300 300 575 575 paid	
Second Mortgage		
($5,650)	$500 500 500 500 500 500 500 1,075 1,075	
Total owed		
($9,675)	$1075 1075 1075 1075 1075 1075 1075 1075 1075	

On the left-hand side of the table are the creditors and the dollar amounts (in parentheses) owed to each. To the right of the creditors are the monthly payments. In this example, $50 each month goes to Visa, $100 to MasterCard, $25 to Sears, etc. A total of $1075 per month is distributed in loan payments. After the January payments are made, the Visa bill is paid in full. However, instead of using that $50 somewhere else ("Now that we have our Visa card paid off, we can afford to buy the dining room set.") the Visa payment is applied to the MasterCard bill. As a result, in February, a total of $150 dollars is applied to the MasterCard bill. All other payments remain the same for that month. In March, the MasterCard bill is paid off, and the $150 that had been allocated to the credit cards can now be added to the regular $25 payment to Sears. Again, regular payments are made to all other creditors during the month of March. In April, the Sears bill is paid off, and $175 dollars can be added to the $100 furniture payments. After only two months of $275 payments on the furniture, it is completely paid off. This process continues until the entire $1075 is being applied to the second mortgage.

In this example, all debts were repaid after eight months. The amount of time it will take for you varies with your total amount of indebtedness and how much extra money you can dedicate to a fold-down program. Remember, all extra money goes toward paying off the principal. To move this process along even faster, you can apply additional money to the fold-down plan. Extra money might come from income tax returns, garage sales, cutting back on long-distance phone calls, or not playing so much golf, brown-bagging lunch instead of eating out, or reducing the utility bills.

By using the fold-down method, you can save a great deal of interest charges. However, for this method to be successful, it is absolutely necessary that all nonessential consumption be curtailed. People have a tendency to pay off one thing and then turn around and buy something else with the extra cash, or believe that they can now afford the payments associated with buying something else on credit; if they do so, they remain perpetually in debt.

Fold-up Method

As an added bonus, after your last debt is paid off, you would be wise to continue making the payments as if you were following the original payment schedules, even though everything has been paid off. This time, however, the payments are going into your savings account and earning interest rather than costing you interest. Using the figures from table 7.2 ($1075 per month), in six months you would have over $6,500 in the bank (including some earned interest). The family in this example went from being almost $10,000 in debt to having over $6,500 in the bank in just 14 months. They rose from the bewildering stress of financial crisis to financial solvency and peace of mind.

Make your own fold down repayment plan:

Creditors Monthly Payments

Jan. Feb. Mar. Apr. May June July Aug. Sept.

FINANCIAL CRISES AND STRESS

Both medical doctors and financial planners complain that many of those who need their professional help seldom contact them until their problems have become all but insurmountable. When people finally do seek professional help, they expect the professional to "make things right again," regardless of the severity of their condition. In most cases, it is much easier to prevent a crisis than to cure one. However, no matter what efforts are put forth, in some situations sometimes a financial crisis cannot be avoided.

The word crisis is derived from the Greek word krisis, which means decision. Therefore, a financial crisis is a situation in which you are obliged to make a financial decision. Financial crises often occur because of death, divorce, problems with employment, major medical costs, or overwhelming consumer debt. But whatever the cause, the inevitable by-product of a financial crisis is stress.

Have you and your spouse had a financial crisis in the past? How did you deal with it? What did you learn from it?

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Reactions To Stress

The way people react to stress is often related to their ability to see things in perspective, resolve conflicts, and make decisions. These abilities are closely related to the degree of maturity a person has achieved; the reactions are therefore classified as Infantile, Immature, or Mature.

Infantile reactions. An infantile reaction to stress is a "total" reaction, in which emotions are expressed in the extreme without regard for the consequences. This often results in a state of panic or rage--an overreaction that is disproportionately severe compared to the cause. This kind of reaction most likely includes a venting of pent-up emotions.

Such a zealous emotional reaction to "mild" stress often indicates that certain external cues have somehow been linked with an "internal danger." For example, Greg's wife fails to enter the amount of a check in the record portion of the checkbook (external event). Greg comes unglued. Much to his wife's surprise, he rants and raves about how he will never trust her again and confiscates her checkbook. Greg's first wife had cleaned out their checking account just before she filed for divorce, and he was emotionally linking back to his feelings of anger and helplessness (internal danger).

When the cumulative effect of stress threatens to overwhelm coping abilities, anything can become "the last straw." At this point, people often become incapable of exercising proper self-control, and they "blow up."

Immature reactions. An Immature reaction involves a tendency to take things personally, distorting happenstance so as to perceive it as a personal affront. Individuals who demonstrate an immature reaction to stress are usually very ego-oriented and have little concern for how consequences might affect others.

Fear of losing the esteem of others is also a familiar component of an immature stress reaction. This fear often leads to "faking it" in order to maintain an image. As a consequence, the person focuses a great deal of energy on image enhancement rather than on coping with the source of the stress.

In addition, those who display this type of reaction will often show signs of depression, and they frequently make statements such as "Why do these things happen to me?" or "Jack just told me that he wrecked his car. Now how am I going to get to work?" Immature individuals often cling to habitual ways of seeing things, agonize over conflicts, and procrastinate decision

making.

Mature reactions. Individuals who have a Mature reaction to stress usually have a high tolerance for frustration. Mature individuals usually accept responsibility for their decisions and confront the inevitable with the necessary courage. They also give considerable thought to the possible consequences of any action that they might take, and yet are willing to try new things. Mature decision-makers attack the source of the stress. They see overcoming the source of the stress merely as a task to be completed--something that needs to be taken care of as effectively and efficiently as possible. They know they may lose this time, but things will improve in the future. Such individuals fully understand the concept that the good and bad experiences of life tend to balance each other out over time. As a consequence, they are never overwhelmed by fears associated with not knowing what might happen next.

How do you react to stress? How does your spouse react to stress? Are these healthy or unhealthy reactions?

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Anticipatory Fear And Stress

Stress is usually a consequence of your concern for what is yet to occur--what you fear might happen. Such would be the case if you were notified that foreclosure proceedings would begin in thirty days unless you caught up on all of your back payments by a certain date. This kind of ultimatum can cause a great deal of anxiety. Anxiety about the future is called anticipatory fear. Irving Jarvis (1971) classified the patterns of anticipatory fear into three general categories: high, low, and moderate.

High anticipatory fear. Individuals who experience high anticipatory fear are most likely to undergo extreme feelings of vulnerability before the threatening event occurs and are more likely than others to be anxiety-ridden afterwards. For example, when people with high

anticipatory fear are informed that the thrift in which their life savings are deposited has failed, they expect a worst-case scenario. They believe that they will never get any of their money back and that they will be destitute after they retire.

Sometimes, the intensity of high anticipatory fears can increase to a state of panic. At this level, people may become overwhelmed by fear and incapable of rational thought. Three conditions are most likely to induce a state of panic: (1) being threatened by an impending danger that cannot be avoided, (2) lacking time or opportunity to act effectively during a crisis, and (3) losing emotional ties, support, or reassurance from loved ones or a financial planner.

To avoid a panic, establish contingency plans before the fact. For example, you could avoid a crisis arising from a drop in the stock market if you were to develop a diversified stock portfolio, or place a "stop order" with your stock broker directing the broker to sell should the stock drop to a certain level. Another way to avoid panic is to act quickly and if possible, gain more time. You can get a great deal of relief by gaining an additional 30 days to resolve the crisis.

Make your own contingency plan so you can avoid panic.

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Low anticipatory fear. In contrast, individuals demonstrating low anticipatory fear often perceive themselves as being nearly invulnerable before the crisis. These individuals tend to overextend their credit and leverage far beyond their means. They do not believe that their "day of reckoning" will ever come: somehow everything will get paid off; their luck will continue to hold out; some kind of miracle will happen; or at the last moment someone (like a friend, a relative, or their financial planner) will come to their rescue.

However, after the financial crisis does occur-- and it usually does--these same individuals have a propensity to blame and find fault; and they often make statements like "You'll be hearing from my lawyer."

Moderate anticipatory fear. Fortunately, some people--those with a moderate anticipatory fear--do not operate at either extreme. These people usually require less support than do those with high levels of fear. People with moderate anticipatory fear tend to see themselves as being "somewhat vulnerable" but are usually confident in their abilities to cope with an impending threat, and optimistic about the outcome. In addition, they are much less likely than others to display emotional disturbances following the traumatic event. As a consequence, after these kinds of individuals have filed for bankruptcy, they may feel some remorse, but once their debt situation is resolved, their thoughts will turn to plans for the future.

One of the most outstanding characteristics of these individuals is that they are task-oriented: they formulate a plan of action and then implement the plan as quickly as possible.

IMPLEMENTING A PLAN

One of the most distressing emotions associated with a crisis is a feeling of helplessness. During the initial stages of a crisis, most of us feel both helpless and hopeless--we believe there is nothing we can do to change the situation. To counter these feelings, when a financial crisis does occur we must immediately develop and implement a plan to cope with the possible consequences.

Following are ten recommendations for developing and implementing a plan designed to resolve a financial crisis (Poduska, 1989).

1. Reframe The Situation

Since you cannot change what has happened in the real world (stock market fluctuations, swings in the real estate markets, changes in employment, etc.), the next best alternative

available is to "reframe," that is change, your perception of those events. Reframing is the process of reinterpreting the meaning or significance of an event; it means seeing things from a different perspective. For example, you might realize that a loss in the value of your stock will have a major financial impact on your life only if you sell your stock. Otherwise, it is only a "paper loss"; and if you hold on to the stock until it regains its value, then you will not experience any real financial loss.

2. Avoid Procrastination

Since most financial crises involve both time and money, it is essential that you not procrastinate. You should immediately establish dates and deadlines to take certain actions. Another critical step is to develop contingency plans in the event your first plan of action is blocked. You should also establish priorities, wherein you deal first with the most pressing tasks (legal action about to be taken or foreclosure about to be filed), and the most unpleasant tasks (contacting a creditor who has been particularly obnoxious).

3. Distance Yourself

Putting a crisis behind you as quickly as possible can be very beneficial. Therefore, try to focus on the future rather than on the past. This is easiest if you can distance yourself, that is, remove or reduce factors in the present that keep reminding you of the past.

For example, Brian and Katya divorced each other, and their divorce decree stipulated that Katya was to receive custody of their two children and Brian was to be assessed $200 per month for each child until the children reached eighteen years of age. Shortly after the divorce, Katya remarried. Katya and her new husband wanted to establish their own family unit and raise the children as their own, without the hassle of Brian's visits and of contending with two fathers.

They made a verbal agreement that if Brian would not bother them about visits, they would not bother him about child support. After the agreement was made, Katya and Brian went their separate ways.

Twenty years later, Katya sue Brian for tens of thousands of dollars in unpaid child support. The court decided in Katya's favor, and Brian, who had remarried and begun to raise a second family, was faced with writing a check for hundreds of dollars every month for the next fifteen to twenty years. Brian not only was upset about the court's decision, but agonized over the thought of having to be reminded of the injustice by writing a check each month. To put some distance between himself and this unpleasant task, Brian deposited a lump sum in a special account that would draw a reasonable amount of interest. He gave instructions to the bank to make an electronic transfer each month from this account to Katya's account until both the money he deposited and the interest it earned were consumed. He would then deposit another lump sum, and the process would continue.

4. Appraise The Alternatives Available

If your stress comes from feeling trapped, you should attempt to generate at least three alternative courses of action. Try to remain receptive to suggestions from others. Don't disqualify a suggestion too quickly. For example, if your financial crisis has resulted from the death of your spouse, you might consider the following:

1. Is employment an option?

2. Can you make your current assets work harder?

a. Could some of your Savings be transferred to income-producing investments?

b. Could your spouse's life-insurance policy be invested to compensate for

pension reduction?

c. Could assets such as the house be sold to take advantage of the one-time capital gains exemption for the elderly?

d. Would either an equity loan or a reverse annuity be an option?

5. Take One Thing At A Time

Set priorities, incorporate time buffers, and concentrate on one thing at a time. Your first priority should be to separate the people from the problem. Make it clear to your spouse or creditors that you are meeting for the purpose of attacking the problem and not each other.

Each of you should make a list of your top three priorities. What are your greatest concerns? What are your greatest sources of stress? When doing this, consideration of feelings about a particular factor is essential to your development of a crisis-management plan. For example, some of the amounts you owe to creditors will be larger than others, but the feelings associated with a certain debt can be completely independent of the amount. You may find yourself saying something like "A hundred and fifty dollars might not seem like much, considering what I owe everybody else. But I swear, if I can't get this mechanic off my back, I'm going to end up in some kind of institution."

6. Delegate Tasks And Authority

Draw on the expertise of others; don't try to solve the entire crisis by yourself. Contact a credit counseling service, a lawyer who specializes in bankruptcies, or a tax expert to help you resolve your financial situation. Their experience can save you time and resources that could be better used in dealing with the stresses in your relationships.

7. Act Responsibly

Make yourself available to your creditors. Always open the mail and answer the telephone. Focus on negotiating rather than on winning. Negotiating means to confer with each other so as to arrive at a mutually beneficial settlement.

8. Select Alternative Means Of Achieving Goals

The principle of equifinality simply means you can start from different places, take different routes, and in the end, arrive at the same destination. So be imaginative and courageous. For instance, assume you had previously planned to maintain long-term savings to finance your children's college educations, but because of an unforseen financial set back, your savings have been depleted. In order to still achieve your original goal of financing college educations, you might (1) transfer some of your inheritance prior to the time of death, (2) establish a recyclable college fund, wherein each user pays back into the fund after graduating, (3) help your children apply for scholarships, grants, and loans, (4) sell some assets, (5) borrow on the cash value of your life insurance, or (6) decide not to take a particular trip or make a major purchase, and so on.

9. Adjust Levels Of Aspiration

In most cases, levels of aspiration are based on adaptation level principles that propose that we use past experiences to establish future expectations which, in turn, leads to an upwardly mobil orientation. In other words, yesterday's luxuries become today's necessities (Ludwig & Myers, 1979). When families experience a prolonged period of prosperity, the expectations regarding an ever increasing ability to consume becomes an integral part of the family financial management process; "The more the family members feel they must have, the smaller the chance of gratifying their wants and the greater the possibility of these expectations creating financial

problems (Hogan & Bauer; 1988).

Adjusting your level of aspiration often involves a degree of compromise or accommodation. In such cases, you must attempt to negotiate a compromise; often those involved must be willing to settle for only part of what they had originally wanted. Sometimes, though, only the time or sequence needs to be adjusted, while the expected amount remains the same. For example, you may decide not to buy a new car until next summer instead of this summer; or you may decide to fix up the family room first and re-model the kitchen at a later date instead of the other way around.

During such negotiations, however, it is essential that everyone try to express what their goals and aspirations really represent to them.

Often, by adjusting the levels of aspiration, everyone will be able to realize a portion of their demands and not only satisfy their financial needs, but also maintain feelings of personal integrity and self-worth.

10. Cooperate With Creditors

When dealing with creditors, it is helpful to remember back when you were first taking out the loan and you looked upon them as "friends in a time of need"--or, if not friends, at least members of a cooperative team. Even though you may have fallen on rough times, the "cooperative team" perspective is still one of the most effective ways to deal with creditors.

In your initial contractual arrangement, both you and your creditor agreed to fulfill your obligations, and to act honorably and responsibly. In most cases, regardless of what has transpired since the signing of the original agreement, the moral obligation to treat the other as you would want to be treated still holds (see Moral Reasoning and Relationships, Chapter 4).

This attitude is essential to achieving a mutually satisfying arrangement through negotiations (see Chapter 5).

Apply five of the ten recommendations to your financial crisis. How will these recommendations help you resolve your crisis?

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SUMMARY

After reading this chapter, you should have a little more insight into how to manage your current debt--and how to get out it as well. Contrary to popular belief, debt is not a natural state of being. Debt can rob you not only of your money, but also of your time and your peace of mind. This chapter has also discussed ways to cope with the emotional side of indebtedness, especially with fear and stress reactions.

Recommendations have been given to help you develop and implement a plan to manage your current debt, and to help you arrive at a reasonable settlement with your creditors.

By applying some of the principles presented in this chapter, you should be able to manage more effectively the financial obligations acquired in the past. The next chapter deals with some of the financial obligations associated with the future. Both of these perspectives will be brought to bear in Chapter 9, which will help you put together a financial management program--budget--designed to deal with the present.

CHAPTER REVIEW

1. What is an "indentured servant" and how does this relate to managing finances in today's world?

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2. What are five debt management considerations?

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3. What is meant by the phrase "Stop qualifying for loans you don't qualify for?

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4. Why is it so hard to earn your way out of debt?

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5. LWhat are two methods recommended for getting out of debt quickly?

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6. What are three ways people can react to stress?

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7. What are ten recommendations regarding the development of a plan to resolve financial crisis?

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IMPORTANT TERMS

Indentured Servant = anyone who has contracted to work for someone else for a specified period of time to pay off a debt.

Debt Management Considerations:

1. The rate at which you have been going into debt 2. Gross income considerations
3. Time and emotional considerations
4. The need to determine whether to increase your income or decrease your expenses in order to get out of debt.
5. The need to pay off the debt you have already accumulated.

Stop Going Further Into Debt! - if you are chronically in debt, you must stop borrowing.

Delay Buying-impatience can be a very expensive emotion

Stop qualifying for loans you don't really qualify for- financial obligations assumed for which there are no contracts or official records.

Why It's So Hard To Earn Your Way Out Of Debt - decreasing your expenses can turn out to be a far more effective means of managing debt than increasing your income.

Start getting out of debt! - pay off as much as possible, as fast as possible.

Accelerated Schedules of Repayment - pay off a debt quickly to save as much as possible on the interest charges.

Fold Down Method - debt elimination is based on the principle of paying off one debt and then folding that payment down into another debt.

Fold Up Method - to continue making the payments into your savings account after you have

paid off debts.

Reactions To Stress

Infantile reactions - involve a "total" reaction in which emotions are expressed in the extreme without regard for the consequences--an overreaction that is disproportionately severe compared to the cause.

Immature reactions - include a tendency to take things personally, maintain an ego-oriented point of view, and have little concern for the consequences.

Mature reactions - include a high tolerance for frustration, an acceptance of responsibility for decisions, and thought is given to the possible consequences of any action that might be taken.

High anticipatory fear - To have extreme feelings of vulnerability before the threatening event occurs and high anxiety afterwards.

Low anticipatory fear - To perceive oneself as being nearly invulnerable before the crisis, tend to overextend credit and leverage, espect to be rescued, and have a propensity to blame and find fault.

Moderate anticipatory fear - People who tend to see themselves as being "somewhat vulnerable" but are usually confident in their abilities to cope with an impending threat, and optimistic about the outcome.

STEPS TO TAKE TO RESOLVE FINANCIAL CRISIS

1. Reframe

2. Avoid Procrastination

3. Distance Yourself

4. Appraise The Alternatives Available

5. Take One Thing At A Time

6. Delegate Tasks And Authority

7. Act Responsibly

8. Select Alternative Means Of Achieving Goals

9. Adjust Levels Of Aspiration

10. Cooperate With Creditors

Chapter 8

PLANNING FOR THE FUTURE

One of the most common complaints about family budgets is "They don't work!" Many get discouraged with budgets because "Budgets look great on paper, but the moment you think you're getting on top of things, an "eight ball" ruins everything." Eight balls, the things that sabotage budgets, are usually unexpected and often come at the worst possible time. The car battery goes dead, the washing machine breaks down, someone chips a tooth, a daughter decides to get married and wants a big wedding, a son wins the debate competition which, requires a trip to the capital and two nights in a hotel--all these are examples of eight balls, and they just keep rolling in.

Since traditional budgets are not designed to handle these unexpected events, most families try to cope by consolidating old loans, taking out new loans, or using credit cards. "Robbing Peter to pay Paul" becomes a way of life; budget allocations are juggled so much that the original categories and amounts are no longer recognizable--the budget "doesn't work."

The purpose of this chapter is to help you better understand how future events, both expected and unexpected, can affect your budget; and to help you develop ways to cope more effectively with these events. After reading this chapter, you should have a firmer grasp on what is needed to keep those "eight balls" from destroying your budget.

In order to achieve this purpose, you must become more future oriented by stressing the importance of careful planning. Careful planning and goal setting seem to be essential to

successful living.

SETTING GOALS

Because wants usually exceed resources, it is vital to establish priorities and set financial goals. In most financial situations, "We can't afford to satisfy all of our wants at the same time." More often than not, we fail to achieve a particular goal because we had other conflicting goals that seemed, at the time, more important. We most often fail to meet long- range goals because funds keep getting diverted to short-range goals. Often, setting goals and reaching them involves strict maintenance of a step-by-step process of achieving one goal before taking on another.

Goals

Goals are objectives worth working toward, such as saving for a down payment on a home, paying off a debt, buying a new car, or paying for an education. A goal is long-range if it will take more than one year to achieve. Short-range goals are those which can be achieved in less than a year. In either case, you must establish some goal seeking-behavior before you will ever reach a goal.

Behavior

Actions that bring people closer to their goals, that is, the steps needed to achieve an objective, are compatible behaviors. In contrast, behavior that is incompatible with achieving goals will postpone, or even prevent, the reaching of a goal. For example, for a goal to save $15,000 for college tuition, a compatible behavior is to save $100 each month for the next ten years. In contrast, spending $100 a month on stereo equipment, $100 per month on computer

payments, and $100 per month Visa payments represents incompatible behavior.

What Are Your Goals?

This exercise will help you define your short-term and long-term goals. Most goals, unless actively planned for, will not be achieved (see Figure 8.1 and 8.2).

The worksheets provided are intended to help identify specific goals and provide suggestions of steps you can take to achieve them. The worksheets are also designed to act as a starting place for a family discussion of future goals and ways to achieve them.

(Insert Figure 8.1 - WHAT ARE YOUR GOALS worksheet about here.)

(Insert Figure 8.2 - GOALS WORKSHEET about here.)

Because most goals are in some way related to finances (feelings of security, buying a home, paying for college), the money allocation to fund these goals is a prime consideration. Establishing a dependable, savings program with consistent payments is essential to goal achievement. To help attain this end, you will find it helpful to stabilize both your income your spending. One method of stabilizing income is through an income-draw system.

THE INCOME-DRAW SYSTEM

The financial ideal is to have both income and spending as constant and steady as possible. Monthly income is usually pretty predictable, but if yours is not, you should place yourself on an income-draw system. Such a system is helpful, for instance, when income is seasonal, based on commissions, or relies on successful project bids.

An income-draw system is based on a predetermined monthly withdrawal from a particular account. For this system to work, you will need to set up two separate bank accounts.

You deposit all of your income into Account A as it is received. You then decide how large your "salary" (monthly draw) will be. For instance, if you were to decide to draw $2,000 from Account A once a month on a specific date, this withdrawal would be your "salary." The amount should not change from month to month. This "salary" is then deposited in Account B, from which you pay all monthly financial obligations.

The amount you actually deposit in Account A will vary from month to month, but it should accumulate enough of a reserve to assure continuous availability of funds in excess of the monthly "salary." For example, assume your January income is $2,500, and you withdraw only $2,000. Your reserve would be $500. February's income is $3,500 (only $2,000 is withdrawn leaving $2,000 in the reserve); March's income is only $1,500 (you can still withdraw your $2,000 salary leaving a reserve of $1,500); April's income turns out to be only $1,000 (never-the-less, you are able to withdraw $2,000, leaving $500 in the reserve).

An income-draw system allows you to enjoy a steady income without worrying about "good" and "bad" months. As a consequence, you can get off the financial "Yo-Yo" that most people with irregular incomes tend to experience--having money to burn one month and buying food on credit the next.

Unless you happen to be having a "good" month at the time you start your income-draw system, you may have to take a reduced draw until your reserves build up. You may wish to put aside small amounts each month until you accumulate enough to cover normal monthly draws. At the end of the year, if you have money left over in your Account A reserves, you can consider increasing your salary for the upcoming year. If you find your reserves frequently being depleted, you may consider decreasing your draw during the next year. In addition, most banks

are able to arrange for an automatic transfer of funds to facilitate the income-draw system.

Once you have stabilized your income, you are in a better position to project amounts to budget for various expenditures. In order to stabilize your spending, you must consider both current and future expenditures. One way in which current expenses can become more stabilized is by opting for consistent payment programs when ever possible. Such programs are often offered in conjunction with fuel, utility, and city services.

Future expenditures can also be effectively stabilized through the creation of reserves and a mental perspective toward certain categories referred to as spent but not collected.

Do your own income-draw system. List your scheduled money to go into bank account A. What is the estimated amount to go into bank account B?

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SPENT BUT NOT COLLECTED

Most budgets are set up to pay the monthly bills. But what happens when you owe money that is not collected during the current month? Most likely, you spend it on something else, and when the bill does arrive you are unable to pay it. When the creditor gets upset, you decide to pay him or her with the food money--and from there your budget goes out the window.

This kind of financial crisis usually comes from thinking that since you do not have to pay a particular bill during the current month, you are free to spend the money on something else. In reality, however, you have already spent the money--it just has not been collected.

To illustrate the problem, let's take a look at last month's long-distance telephone bill, utility bill, or credit card bill. When a long-distance phone call is made, money is spent; its just not collected at that moment. When the lights are on, water is heated, or the air conditioner is run, money is spent but not collected. As your house just stands there, taxes are being assessed and money is being spent, but again, nothing is collected at the moment.

Think of a vacation in a nice hotel. Your linen is changed daily, your meals are brought to the room, you eat dinners at the fine rooftop restaurant and enjoy drinks in the lounge. All you have to do is write down your room number and sign your name. No one collects any money from you until the day you check out (or even later if you put it on a credit card).

Now think back. Was there ever any doubt in your mind that the room was costing you $120 a day, that it cost you over $45 to have the meal brought to your room and $63 for the dinner on the roof top? The hotel didn't cost you $820 just for Friday, the day you checked out. The total cost of the vacation was $1,248, which means it cost you $208 per day for six days. The money was being <u>spent</u> but not <u>collected</u>, and the same thing happens at home. When this concept is not considered, the "eight balls" will keep rolling in and budgets will continue to self-destruct.

So what's the answer? How can a person who wants to develop a viable budget incorporate the idea that money is continuously being spent but not collected? The answer lies in <u>amortization</u>.

Describe a time when you budgeted an amount for an activity and it ended up costing more. What did you learn?

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AMORTIZATION

Amortization merely means spreading the payments over a period of time, as when you pay something off in installments rather than in one lump sum. This is not a recommendation to take out a loan, but rather a recommendation to pay as you go by making average monthly payments on bills that come due semi-annually and annually.

The purpose of calculating average monthly payments is to keep your monthly expenditures constant. To achieve this you must amortize periodic financial obligations that come due only a few times per year. Obviously, your income will not suddenly go up when these periodic bills come due, so to have money available, you will need to set aside the cost of

these services and items on a regular basis. In other words, rather than pay a lump sum of $1,200 for taxes in January, you amortize your annual property tax bill by depositing $100 per month in a bank account throughout the year. Similarly, you may need to deposit $28 per month to pay for the annual car registration fee, and $12 to cover the costs of professional dues when membership renewal comes around. When you follow this principle, things like taxes, car registration, and dues are no longer "eight balls," but normal budgeted obligations.

As was pointed out before, most people have a pretty good idea of their monthly income, but unfortunately, monthly expenditures are much less predictable. One month might have few expenditures; the next might be very expensive. Most budgets are unable to adapt to such fluctuations and soon become inoperative. The purpose of amortization is to make the outgo as steady and predictable as the income. To help you do this, we will discuss four categories of expenditures to account for when amortizing: Scheduled-Fixed, Scheduled-Variable, Unscheduled Variable, and Savings/Investments.

Scheduled-Fixed

Scheduled-Fixed items are usually either legal agreements such as car insurance and registration, life insurance, and property taxes, or large yearly or bi-yearly expenses such as tuition, school fees, etc. All debts that come due according to a predetermined schedule and the amount of the payment is fixed fall into this category.

Even though we know when these things are coming and how much they will cost, we often fail to plan for them. As a result, when we can least afford it, we get a nasty surprise when we open the envelope. To incorporate fixed obligations into a budget, you must remember that the car registration does not cost $84 for the month it comes due, it costs $7 every month of the

year, collected once a year. Each month you should include $7 for car registration, and that money should be set aside as if it were already spent. Then, when the $84 comes due, the money is sitting in a bank account ready to be used, and your budget remains intact. All Scheduled-Fixed expenditures should be divided into monthly payments and this amount should be set aside in a similar manner.

Amortization Schedule Sheet

The Amortization Schedule Sheet (see Figure 8.3) provided at the end of this chapter includes blanks to record the due date and dollar amounts of some Scheduled-Fixed items. Write down the amounts, then add the items recorded in each row and enter the totals at the end of the rows. Add these totals to obtain a Scheduled-Fixed Subtotal. This amount will be divided by twelve so that the money needed can be set aside on a monthly basis until the time comes to make the actual payments.

(Insert Figure 8.3 - Amortization Schedule about here.)

As a side note, if you are paid weekly or twice a month, amortizing your monthly bills can also be beneficial. Most people pay each monthly bill from the paycheck that arrives nearest to the bill's due date. This process usually results in "feast or famine." Assume, for example, you pay rent out of the first $350 check of the month and the car payment out of the second. Rent is $250, so you have only $100 left to live on during the first two weeks of the month. The car payment is only $100, which leaves $250 to live on the second two weeks of the month. To smooth this roller-coaster existence, amortize the bills by taking $125 rent money and $50 car payment money out of each paycheck. In this way, you will have the same amount of money ($175) to live on during both two-week periods of the month.

Scheduled-Variable

Scheduled-Variables are those expenses that come due on a predetermined schedule, but are variable. Examples of Scheduled-Variables are birthdays, anniversaries, Christmas, family vacations, etc. We know exactly when these events will occur, but the amount spent on them is somewhat flexible. Of course, it is up to you just how much you decide would be an appropriate amount to spend per year on these events, but the amounts should be predetermined so they can be amortized over the entire year.

Once you have decided on amounts for each occasion, record them in the appropriate spaces on the Amortization sheet. Enter the totals of these amounts at the end of each row. Then add up these totals to obtain a Scheduled-Variables Subtotal. This amount will later be divided by twelve so that the money needed can be set aside on a monthly basis.

The costs associated with special occasions, like birthdays and Christmas, are often far more than anticipated. (Refer to the "Failure To Determine The True Cost" section in Chapter 6.) For instance, the cost of a birthday is not just a gift; it also includes food and decorations for a party, wrapping paper, invitations, and perhaps long-distance phone calls. The cost of Easter could include new clothes and Easter baskets for each child. If on Mother's Day you spend only $10-$12 per mother, the event could cost at least $30 in an average family, including your own mother, your mother-in-law, and your wife if she also happens to be a mother. If you make no plans for these events and make no payment toward them each month, you will probably end up using your credit cards excessively.

Unscheduled-Variable

Unscheduled-Variables are events that may or may not happen during the year. Chances

are, though, some of them will happen. These are sometimes unhappy events, such as unemployment, a death in the family, a car accident, or a prolonged illness, and other times happy events like weddings or births.

Emergency funds and insurance are ways to manage these expenses; both will be discussed in detail following the section on Savings. The amount you calculate by filling out your Emergency Fund Worksheet will be recorded on the Amortization Schedule Sheet as your Unscheduled Variables Subtotal. This amount will later be divided by twelve so that the money needed can be set aside on a monthly basis.

Savings/Investments

Finally, it is vital that each individual or family have some savings. Because of its importance, many people choose to include Savings in their Scheduled-Fixed category, so they remind themselves to make a "payment" to savings on a regular basis in much the same way that they pay their debts. In this way, future goals--dreams that give meaning to life--become not just feasible but probable.

For most people, stopping the foreclosure, getting out of debt, and having enough food on the table are not enough. Most need to formulate a financial management plan that goes beyond keeping them alive. They need a plan that helps give meaning to life. Meaning plays a vital role in goal setting (refer to Values in Chapter 1). After achieving a meaningless goal you are left with the ominous thought of "what difference does it make?" For instance, people without meaningful goals might ask themselves, "What difference does it make whether I work overtime or not? It all seems to go for taxes anyway," or "We used to barely make it on one salary. Now both of us are working and we're still just barely making it. No matter what we do, we never

seem to get anywhere." Savings have a way of letting you know that you are getting somewhere, that you are closer to achieving your goal, and that you are doing more than just "getting by." The earlier you begin a savings program, the more you will benefit from the effects of time and interest (See Table 8.1).

The Effects Of Time And Interest

Table 8A shows how much you would have to save each month at a certain interest rate in order to save a specified amount in a given time period. For example, if you wanted to save $20,000 in ten years at a 5 percent rate of interest you would have to save $293 per month; at a 10 percent rate of interest you need to save $256 per month. If you wanted to save $20,000 in five years at a 5 percent rate of interest you must save $376 per month and at 10 percent you would only need $337 per month.

If the exact year or interest rate you need are not shown on the chart, either use the next higher number, or make an estimate based on the given numbers below and above the one you need (see Table 8.1).

(Insert TABLE 8.1 about here.)

Note, however, that the money set aside for amortization is not savings, for in a very real sense that money has already been spent. Savings refers to money set aside in excess of the amortized expenses; it is not intended to be spent during the current year.

The amount allocated for savings and investments will vary according to the circumstances and goals of each family. The yearly amount allocated for Savings should be written on the line labeled Savings Program Subtotal. This amount will later be divided by twelve so that the money needed can be set aside on a monthly basis.

To complete the Amortization Schedule Sheet, simply add the subtotals for the Scheduled-Fixed, Scheduled-Variable, Unscheduled-Variable, and Savings/Investments Program. Then divide the total for all four categories by twelve to obtain the total amount you need to set aside each month. The amount that you must set aside will probably shock you. However, keep in mind that you are probably paying this amount--plus interest--right now. Once your debt load is reduced by the fold-down method, the payments can go into your amortization program.

ESTIMATING THE SIZE OF AN EMERGENCY FUND

This activity is designed to help you become aware of how much money you need in order to be prepared for any eventuality.

The ideal Emergency Fund would be large enough to cover all your expenditures for a three-month period. However, the actual creation of an Emergency Fund is usually done in a progressive fashion: three months' worth of mortgage payments may be the first goal, three months' of utilities next, and then three months' supply of food.

Emergency Fund Worksheet

The Emergency Fund Worksheet can help you determine the optimal size of your Emergency Fund (See Figure 8.4). The Ideal Emergency Fund typically covers (1) the deductibles on those items covered by insurance, (2) the costs of services and property not covered at all by insurance, and (3) minimal living expenses for three months. These amounts should be totalled and entered on the line TOTAL A. On line B enter resources that could be applied toward the emergency fund, such as the cash value of your life insurance and any savings

that have already been accumulated (keeping in mind the difference between amortized expenses and savings). The total amount still needed to complete emergency fund C is obtained by subtracting line B from line A. The amount on line C should be transferred to the line labeled Unscheduled-Variables Subtotal on the Amortization Schedule Worksheet, and a total of all four categories computed.

(Insert Figure 8.4 EMERGENCY FUND Worksheet about here.)

KEEPING TRACK OF YOUR AMORTIZATION RESERVES

Keeping track of your amortization reserves is easier than you might think. The first step deals with how you handle the deposits into your checking account. Normally, when you make a deposit you add the amount deposited to what you already had available. For example, let's say you are making a $1,200 deposit, and according to your checkbook records, you have $100 left in your checking account. By adding the two together, you now have $1,300 available in what will be referred to as the active portion of your checking account.

Active Account/Reserves Account

You are now ready to transfer money from the active account portion of your checking account to your amortization reserves account. The amount you transfer is deducted from your active checkbook records just as if you were writing a check. For example, if you had $1,300 in the active account and wanted to put $200 into your amortization reserves, you would subtract $200 from the $1,300, leaving $1,100 available in the active account. Instead of recording a check number adjacent to the $200 "withdrawal" (the amount being transferred to your reserve account), you place a capital "R" in the appropriate space (See Figure 8.5).

FIGURE 8.5 - ACTIVE ACCOUNT

Check #		Amount	Deposit	Balance
			100.00	
		1,200	1,300.00	
R		200.00	-200.00	
			1,100.00	
238	City Utilities	89.50	-89.50	
			1,010.50	

You can record the amount you transfer to your reserve account in the back of the checkbook or in a separate accounting system. Record the date of the reserve account "deposit," and then distribute the deposit among the various amortized categories. The categories are arranged in columns so you can easily keep a running total for each category. For example, to record and distribute the $200 mentioned earlier, place $30 under the category labeled Taxes, $20 under Car Registration, $100 under College Tuition, and $50 under Auto Insurance.

After having distributed the "deposit", add up the amounts in each amortized category to determine the total accumulated to date. For example, if you had accumulated $120 in your reserve account for taxes and just "deposited" an additional $30, your new total in the Taxes column would be $150 (See Figure 8.6).

FIGURE 8.6 - RESERVE ACCOUNT

Deposit Date and Amount	Car Taxes	College Registr.	Auto Tuition	Insurance
balance		105.00	70.00	600.00	175.00
1/25/91 ($100)	15.00	10.00	50.00	25.00
balance		120.00	80.00	650.00	200.00
2/28/91 ($200)	30.00	20.00	100.00	50.00
balance		150.00	100.00	750.00	250.00

Again, it is imperative that you continue to perceive these amounts as money spent but not collected! You should never view the money in the reserve account as available for uses outside of the categories for which they have been designated. The only money available for current expenses appears in the active portion of your checking account records. When you write a check on an item covered by one of the reserve categories, you merely record the check normally, but instead of subtracting the amount of the check from the active portion of your checking account, you place a "R" under the last amount shown in the active account and then subtract the amount of the check from the appropriate reserve account column in the back of the checkbook (See Figures 8.7 and 8.8).

FIGURE 8.7 - RECORDING DEPOSITS AND WITHDRAWS IN THE ACTIVE ACCOUNT

Check #	Date		Amount	Deposit	Balance
					100.00
				1,200	1,300.00
R	2/16		200.00		-200.00
					1,100.00
238	2/21	City Utilities	89.50		-89.50
					1,010.50
239	2/31	Auto Insurance	240.00		- R
					1,010.50

FIGURE 8.8 - RECORDING DEPOSITS AND WITHDRAWS IN RESERVE ACCOUNT

Deposit/Withdrawl Date and Amount	Car Taxes	College Registr.	Auto Tuition	Insurance
balance	105.00	70.00	600.00	175.00
1/25/91 ($100)	15.00	10.00	50.00	25.00
balance	120.00	80.00	650.00	200.00
2/28/91 ($200)	30.00	20.00	100.00	50.00
balance	150.00	100.00	750.00	250.00
2/31/91				-240.00
balance	150.00	100.00	750.00	10.00

During the course of a lifetime, some good things will happen to us, as will some bad things. Risk management is designed to minimize the financial impact of the bad.

The principles associated with risk management focus primarily on two variables: (1) the frequency at which a loss occurs, and (2) the severity of the loss when one does occur. Risk management is usually handled through one or more of the following approaches: Risk Avoidance, Risk Reduction, Risk Retention, and Risk Transfer (see Figure 8.9).

(Insert Figure 8.9 - Risk Management about here.)

Risk Avoidance

Risk Avoidance includes risks that can result in very high financial loss and are very likely to occur. An example is keeping an attack dog while living next to a preschool. The chances are fairly high that the dog will bite a child, and resulting liability suits could bankrupt the owner. This type of risk is best handled by risk avoidance. In this case, the owner would be wise to sell or give the dog to someone else, move the dog to a kennel, or move the owner and dog.

Similarly, if you do not own a swimming pool, you avoid the tragedy of someone drowning as well as a possible lawsuit; if you do not skydive, you avoid being killed because of a faulty parachute; if you do not walk through a high crime district at night, you avoid being mugged, and so on.

Risk Reduction

Risk reduction is concerned with ways of lowering financial losses involving events that tend to occur with a fairly high freguency. Risk reduction involves activities designed to reduce both the frequency and the severity of losses. One of the primary objectives is to reduce the

probability of a loss occurring. Examples of reducing the probability of a loss include conducting regular safety inspections around the home and workplace, exercising, losing weight, and having annual health checkups.

Unfortunately, despite even the most diligent attempts at prevention, accidents and injury still occur. But the severity of the loss can still be reduced if risk reduction programs are in place. For example, losses can be reduced by installing sprinkling systems, by having fire extinguishers readily available, or by wearing seat belts.

Risk Retention

Risk retention deals with events that are characterized by low frequency and low severity of loss. An example would be the potential theft of a hose from your front yard. The chances are low that it will occur, and even if it were to occur, the cost would be minimal. In these cases, risk retention is your best option. It would be wasteful for you to pay for insurance against the loss of a ten-dollar hose--the premiums would cost more than the theft. Instead, we recommended that you practice risk retention; that is, retain the risk rather than trying to transfer it to someone else, and just pay for such losses out of your own pocket. In essence, the deductible portion of your insurance policies is a form or risk retention.

Risk Transfer

Risk transfer deals with the types of risks that should be covered by an insurance company. These risks have a low frequency, but the costs of loss are high. Examples of these risks are fires, medical emergencies, and liability suits. If these risks are retained, the individual or family faces financial catastrophe should the event occur. For such events, we recommend risk transfer, because the cost of insurance premiums is far less than the cost of such a

catastrophe.

List ten things you need to do to minimize your financial risk.

_____

_____

_____

_____

_____

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_____

ESTIMATING YOUR LIFE INSURANCE NEEDS

The primary reason for buying life insurance is to provide financial security for dependents. Although some individuals may use life insurance as a supplemental savings program, arguing that an insurance program provides greater assurance that the saving will actually take place, most savings alternatives (Certificates of Deposit, employee tax deferred matching funds, savings bonds, etc.) provide a higher rate of return.

However, for the death protection life insurance provides, there is no substitute. You may be tempted to use your life insurance for savings, but, again, the primary reason you need life insurance is to guarantee financial resources for your dependents.

A couple with young children has a greater need for life insurance than does a well established couple on the brink of retirement. Life insurance should be used to help survivors meet their financial needs after the premature death of a breadwinner. Most people either under- or overestimate the amount of protection they need. Those who have dependents are more likely to underestimate their needs, while those who do not have dependents, and therefore do not need as much protection, tend to have too much insurance.

To avoid this paradox, it is advisable to review your life insurance needs on a regular basis; at least once every three years. Life insurance needs should also be re-evaluated whenever there is a major family change, such as a birth, wedding, death, or remodeling your home.

Two of the most common techniques used to determine the amount of life insurance you will need are the human life value approach and the need approach (Rejda, 1982). The human life value approach projects the future income that is lost due to premature death. This lump sum amount is then replaced by life insurance. To calculate this amount, it is necessary to (1) estimate the average annual income that would be earned through age 65, (2) deduct the amount that would be paid to all federal and state taxes, insurance premiums, and costs for self-maintenance, (3) multiply this amount by the number of years left before retirement.

The need approach to life insurance analysis focuses on the projected cost of meeting the needs of the survivors rather than merely replacing the income that is lost. The amount of life insurance needed is determined by adding up the estimated costs of such needs as income needs

of the survivors, educational needs of the children, and medical needs for the chronically ill. Consideration also needs to be given to such items as the need to pay off mortgages and certain debts, funeral and probate expenses, and special needs such as providing for weddings and travel.

The money to cover all of these expenses must come from selling off assets, earnings provided by the survivors, or from your life insurance proceeds. After you calculate how much your survivors can earn on their own or receive from the liquidation of your assets, you can subtract that amount from what will be needed. The rest must be covered by life insurance.

LIFE INSURANCE NEEDS ANALYSIS

This activity will help you better understand the purpose of and need for life insurance, and decide how much life insurance you need. A Life Insurance Needs Analysis worksheet has been provided (see Figure 8.10).

The first part, labeled Liquidity Needs, determines the amount of money the survivors would need to eliminate existing debt and pay funeral expenses, estate taxes, and other expenses. Calculate this line separately for the husband and the wife, and enter the amounts on the line labeled "total needs."

The next section lists Assets of the family that could go toward meeting the needs of the survivors. The total for this section is listed on line B. The next line is the difference between line A and line B. If this number is negative (deficit), then the amount needed to correct the deficit should go on line C.

In the next section, Survivor Income Needs Analysis, list the amount of money needed to provide for the family for one year in your absence. This does not mean you must provide for a

year of luxury, but there should be enough for the family to survive. Other income needed until the survivor's retirement, including money for education, also falls in this category. Place the total for this section on line D. List Sources of Income in the next section, and record the total on line E. Subtract line E from line D to determine if you have a surplus or deficit F. Add lines C and F to determine the total amount of additional life insurance you need.

(Insert Figure 8.10 - LIFE INSURANCE NEEDS about here.)

SUMMARY

This chapter has dealt primarily with how to manage future financial obligations. Goal setting was one of the first steps discussed, with emphasis on the need for behavior to be compatible with the goal to be achieved if there is to be any hope of reaching the goal. Goal-related worksheets were also provided.

The chapter then presented some ways in which you could stabilize your income through methods such as the income-draw and the use of two bank accounts. This information was followed by suggestions on how to stabilize your expenses, by amortizing periodic bills over several pay periods, and employing the concept of "Spent But Not Collected." A variety of budget categories were also introduced to help you better understand how your money is being spent.

This chapter also explored issues concerning risk management, and the need to take precautions in anticipation of a particular event occurring. Proper consideration of these issues can help you decide to avoid the risk, reduce the risk, retain the risk, or transfer the risk to an insurance company. Worksheets and guidelines were provided to help you estimate the size of

your Emergency Fund and Life Insurance Needs.

The information provided in chapters 6, 7, and 8 provide you with a broad financial view of both the past and the future. This information will be incorporated in the process of developing a monthly budget, explained in chapter 9.

CHAPTER REVIEW

1. What are some of the main reasons most budgets do not work?

_____

_____

_____

___

2. How does an "income-draw system" work and what is it's primary purpose? _____

_____

_____

__

3. What is the rational behind the concept "spent but not collected?"

_____

_____

_

4. What does amortization mean? _____

_____

_____

__

5. What are some examples of the following budget categories? Scheduled-Fixed, Scheduled-Variable, Unscheduled-Variable, Savings/Investments _____

_____

_____

_____

_____

_____

_____

6. What items need to be considered when estimating the size of your Emergency Fund?

_____

_____

_____

_____

_____

_____

7. What are the two variables that must be considered when analyzing risk? _____

_____

_____

_____

_____

8. What are the four ways in which risk can be managed?

_____

_____

_____

_____

_____

9. What do you need to consider when estimating your life insurance needs?

_____

_____

_____

_____

_____

_____

IMPORTANT TERMS

Goals: objectives worth working toward, such as saving for a down payment on a home, paying off a debt, buying a new car, or paying for an education. A goal is long-range if it will take more than one year to achieve.

The Income-draw System: Set up two separate bank accounts. All income is deposited into Account A. A "salary" (monthly draw) is withdrawn once a month on a particular date. This amount does not change from month to month. This "salary" is then deposited in Account B from which you pay all monthly financial obligations.

Spent But Not Collected: the concept that certain debts are incurred (money is being spent) even though there may be a delay (the money is not collected immediately) before payment is requested.

Amortization: spreading the payments over a period of time, as when you pay something off in installments rather than in one lump sum. This is a pay as you go program in which you make average monthly payments on bills that come due semi-annually and annually.

Category Definitions

1. Scheduled-Fixed: Legal agreements--Those debts that are fixed and calendared

2. Scheduled-Variable: Those debts that are calendared but can vary in amount

3. Unscheduled-Variable: Those that are not calendared, may or may not happen, but are likely to occur

4. Savings program: Funding for those goals that require long term planning

The Emergency Fund: includes

(1) the deductibles on those items covered by insurance

(2) the costs of services and property not covered at all by insurance

(3) minimal living expenses for three months.

Active Account: portion of your checking account that is available for immediate use after the reserve amounts have been transferred.

Reserves Account: The amount you have deducted from your active checkbook records in order to accumulate the amounts needed to pay bills that come due semi-annually or annually.

Risk Avoidance includes risks that can result in very high financial loss and are very likely to occur. Risk Reduction is concerned with ways of lowering financial losses involving events that tend to occur with a fairly high frequency; involves activities designed to reduce both the frequency and the severity of losses.

Risk Retention deals with events that are characterized by low frequency and low severity of loss.

Risk Transfer deals with the types of risks that should be covered by an insurance company.

These risks have a low frequency, but the costs of loss are high.

FIGURE 8.1 - WHAT ARE YOUR GOALS?

Try to answer the following questions as imaginatively as possible. Consider your hopes and dreams and wishful aspirations.

1. What are five of your most important goals for your lifetime?

_____

_____

_____

_____

_____

2. What are five of your most important goals for the next year of your life?

_____

_____

_____

_____

_____

3. What would be five of your most important goals if you had only six months to live?

_____

_____

_____

_____

_____

FIGURE 8.2 - GOALS WORKSHEET

Select one of the goals listed on the worksheet "What Are Your Goals" and complete the following exercise. Be as specific as possible when completing the blanks.

Goal_____

Time within which
goal is to be achieved_____

Method of measuring
progress_____

Obstacles to be
overcome_____

What will be
required_____

Resources
_____

Action now
being taken_____

Additional action
that could be taken_____

Costs
_____
_____

FIGURE 8.4 - ESTIMATING THE SIZE OF EMERGENCY FUND
(Listing Unscheduled-Variables)

Amounts Deductible before losses are covered by insurance
(for example, car insurance with $100 deductible)
Automobile..... _____ Other property..... _____
Medical..... _____ Other..... _____
Loss for which individual or family is responsible under co-insurance provisions (for example, insurance may pay
80 percent and you pay the other 20 percent) for:
Property..... _____ Medical..... _____ Other expenses not covered by insurance..... _____
Minimal Family Living Expenses for Three Months
Contractual Obligations:
Rent or mortgage payments..... _____ Debt payments:
Installment credit..... _____ Charge accounts..... _____
Outstanding bills..... _____ Other..... _____
Insurance Premiums (on a monthly basis)..... _____ Variable Obligations
Food..... _____ Utilities..... _____
Transportation..... _____ Other..... _____ Other obligations (specify)..... _____
Unexpected replacement or major repair of equipment
Automobile..... _____ Major Appliance..... _____
Legal expenses..... _____
Veterinary Bills..... _____
[A] TOTAL.....$

[B] Current cash value of life insurance
and demand deposits .....$

[C] EMERGENCY FUND SAVINGS GOAL ([C]=[A] - [B]) $
==========

FIGURE 8.9 - WAYS TO MANAGEMENT RISK; CONSIDERATION GIVEN TO THE SEVERITY OF THE LOSS AND THE FREQUENCY WITH WHICH AN EMERGENCY IS LIKELY TO OCCUR

```
                    Severity Of Loss

              LOW                 HIGH
                        l
                        l
                        l
          Risk Reduction      l      Risk Avoidance
   HIGH                     l
                        l
                        l
Frequency of_____________l_____________ Occurrence                    l
                        l
                        l
          Risk Retention      l      Risk Transfer
   LOW                      l
                        l
                        l
```

FIGURE 8.10 - LIFE INSURANCE NEEDS ANALYSIS

Survivor Immediate Expense Analysis

Assets	Husband	Wife
Life insurance	_____	_____
Cash (savings/checking)	_____	_____
Securities	_____	_____
Property	_____	_____
Other assets	_____	_____
[A] TOTAL ASSETS	_____	_____
Immediate Expenses and Debts		
Mortgages	_____	_____
Outstanding Debts	_____	_____
Uninsured medical expenses	_____	_____
Estate taxes	_____	_____
Probate	_____	_____
Funeral	_____	_____
Additional expenses	_____	_____
[B] TOTAL IMMEDIATE EXPENSES	_____	_____
[C] SURPLUS / DEFICIT = [A] - [B]	_____	_____

If this figure is a deficit, it represents the amount of additional life insurance required to meet this need.

Survivor Income Needs Analysis

Sources of Income	Husband	Wife
Liquid assets	_____	_____
Spouse earnings	_____	_____
Pensions	_____	_____
Social Security	_____	_____
Other assets	_____	_____
[D] TOTAL RESOURCES	_____	_____
Income Needs		
Family income until retirement	_____	_____
Education for children	_____	_____

Education for spouse _____ _____

[E] TOTAL INCOME NEEDS _____ _____

[F] SURPLUS / DEFICIT = [D] - [E] _____ _____

If this figure is a deficit, it represents the amount of additional life insurance required to meet this need.

Total Additional Life Insurance Needed [C]+[F] _____ _____

TABLE 8.1 - THE EFFECTS OF TIME AND INTEREST

Amount Needed	Interest*	Years until needed 1	2	3	4	5	10	15	20
$50,000	15%	3,836	$1,773	$1,091	$754	$555	$177	$72	$32
	12%	3,901	1,833	1,147	806	604	214	98	49
	10%	3,944	1,873	1,185	843	639	241	119	65
	7%	4,010	1,935	1,244	900	694	287	156	95
	5%	4,055	1,977	1,284	939	732	320	186	121
$20,000	15%	1,534	709	436	302	222	71	29	13
	12%	1,560	733	459	323	242	85	39	20
	10%	1,578	749	474	337	256	96	47	26
	7%	1,604	774	498	360	277	115	63	38
	5%	1,622	791	514	376	293	128	74	48
$10,000	15%	767	355	218	151	111	35	14	6
	12%	780	367	229	161	121	43	20	10
	10%	789	375	237	169	128	48	24	13
	7%	802	387	249	180	139	57	31	19
	5%	811	395	257	188	146	64	37	24
$5,000	15%	384	177	109	75	55	18	7	3
	12%	390	183	115	81	60	21	10	5
	10%	394	187	119	84	64	24	12	6
	7%	401	193	124	90	69	29	16	9
	5%	405	198	128	94	73	32	19	12
$1,000	15%	77	35	22	15	11	4	1	1
	12%	78	37	23	16	12	4	2	1
	10%	79	37	24	17	13	5	2	1
	7%	80	39	25	18	14	6	3	2
	5%	81	40	26	19	15	6	4	2

*Compounded monthly

AMORTIZATION SCHEDULE SHEET

Chapter 9

GETTING THROUGH THE MONTH

Today's family often complains, "There always seems to be more month than money." In the "good old days," when money ran out before the end of the month, most families simply tightened their belts, stopped spending, and waited for the next payday. Those, of course, were the days when the primary medium of exchange was cash. Unfortunately, today's families usually do not stop spending when money runs out. Instead, they use credit cards as a life jacket to keep them afloat until the next payday arrives.

Most of today's families simply add the newly acquired credit card payments (including interest) to their other monthly expenditures. As a consequence, next month's money will run out even sooner than last month's, and the credit cards will get used earlier each month. Too often, this insidious progression continues until the families see bankruptcy as the only way out.

Until that day of reckoning does arrive, many families will go on believing they are living within their income--and in a sense they are. Their problem is that they are not living within their budget.

LIVING WITHIN YOUR INCOME

Families that live within their income are able to pay all the monthly bills, but they have

nothing left over for amortization, reserves, or savings. In most of these families, the amount needed to get through the month increases at about the same rate their income increases. Often these families look back ten or fifteen years and marvel how they used to get by on so little (even adjusting for inflation). The following statement is not uncommon: "I used to bring home $1,500 a month and we still had a few dollars left over to play around with. Now, with both of us working, we're bringing home over $4,000 a month and we have to charge a pizza dinner."

LIVING WITHIN YOUR BUDGET

In contrast, families that live within their budget keep monthly expenditures relatively constant as income increases. As a result, these families usually have money left over for amortization, reserves, and savings; and they gradually experience an increase in the amount of money left over at the end of each month as their income goes up over time.

Such a surplus is possible because these families have determined what is sufficient (see Chapter 6). They have already determined what is enough house, car, and vacation; so even though they might be able to qualify for more, they know their values and are satisfied with what they have. Should some aspect of their lives become unsatisfactory, they merely modify their budgets to accommodate the necessary changes. For example, if family members "outgrow" a house, they must either add to the existing home or buy a new one. The decision will be based on how much they want to budget for a home improvement loan or new mortgage rather than the size of loan they could qualify for with their current income.

To become a family that lives within its budget, you must become more aware of certain budgeting processes, such as (1) ways to cut expenses, (2) distinguishing between wants and

needs, and (3) incorporating the financial obligations associated with both the past and the future. These techniques have been covered in Chapters 5, 6, and 7.

CUTTING EXPENSES

The time to cut expenses is before you start spending. The moment you make the decision not to spend, or at least not to spend as much as you had originally planned, you have started the process of cutting expenses. This occurs, for example, when you decide to limit the purchase price of a new car to $10,000 instead of $15,000. It happens when you decide to rent rather than buy, or decide to repair rather than replace (see Chapter 6). It also begins when you borrow something from a friend or neighbor (unless this is contrary to your value system), or cut costs by being creative.

Sharing

Sharing can be an effective means of reducing your spending. For example, neighbors on one cul-de-sac went together to purchase a snow blower. Friends and relatives sometimes go together on the purchase of cabins and boats. Although such arrangements are not without drawbacks, in most cases cooperation and imagination can solve the logistical problems. But whatever the stresses associated with sharing might be, they seldom compare to the stresses associated with heavy indebtedness.

List two ways you can cut expenses by sharing.

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Plugging The Holes

The next step in cutting expenses is to "plug the holes"--the places where money seems to disappear without much evidence to show exactly where it went. "Holes" are the little things in your spending patterns that tend to consume a large portion of your income. Consider, for example, a lady who worked for a company that made canvas awnings. The work was hard, and the factory was hot. On her morning break she would get a can of pop from one of the machines in the snack room. She would get another on her afternoon break. Each can of pop cost seventy-five cents: $1.50 per day, $9.00 per week, or $35.00 per month. In addition, she was often tired when she got home, and sometimes she did not feel like cooking a meal, so at least twice a week she would pick up fried chicken, burgers, or pizzas. The take-home meals usually ran about $15.00 each: $30.00 per week, or $120.00 per month. The woman was unknowingly, spending over $155 a month on pop and pizza. She had to earn about $250 a month just to clear the $155 that then went into the "pop and pizza hole."

What are three small expenses you can stop that will add up to a large savings each month? How much will the savings be?

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The $22,000 Snack

Snacks can also be a hidden hole in the budget. Imagine saying to your spouse, "I think we should set aside $22,000 for family snacks." In most cases, the suggestion would seem both ridiculous and irresponsible. But you might be surprised at how money for snack food can add up. For example, if a child were to have half of a popsicle in the morning ($.10), a glass of Kool-Aid and homemade cookie with lunch ($.08 + $.07), the other half of the popsicle in the afternoon ($.10), and a bowl of ice cream that evening while watching TV ($.15), the total cost for snacks would come to fifty cents. But what if Mom, Dad, and three or four kids join in? Now the daily total comes to $3.00, or almost $100 per month. That translates into $1,200 per year, or almost $22,000 over an 18-year period.

These numbers are probably too conservative. Many parents who read this example respond in mock surprise, "One popcicle? One class of Kool-Aid? One cookie? Surely you jest.

That wouldn't even make one snack break." Also the example does not include trips to the convenience store, candy bars, big mugs of soda pop, store-bought cookies, or slurpies, which all help dig the "snack hole."

This is not to suggest that you should cut out all snacks; we cannot "live by bread alone." These examples are merely intended to help you review your values and make a conscious decision about how much you really want to spend in this category. Consider having an extra $50 to $100 per month to help you pay off some bills, pay for the car, or go on a vacation.

What snacks do you buy? How much do you spend on each snack?

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Habits

In a similar fashion, alcohol and tobacco can consume enormous portions of the family income. Sometimes the costs of these items are hidden in grocery bills or the entertainment category, so that no one is fully aware of the exact amounts. This "hole" can be much bigger and deeper than you would expect. If a chunk of your money is going into this hole, you need to discuss the problem together with openness and honesty.

Additional Holes

Additional "holes" can appear in "extras" added on to necessities: extra phones, special phone services (call waiting, forwarding, etc.), excessive long- distance calls, extra cable channels, eating lunches out, oversubscribing to magazines and newspapers, grocery shopping without a list, or running the kids back and forth to the mall.

Extra mileage in the car can create a large hole in the budget--one you can easily reduce. The cost of driving 1,200 miles per month at 15 - 20 miles per gallon with gas prices of $1.30 per gallon is about $80 to $100 per month. A two-car family can expect to pay between $160 and $200 per month.

The first step to filling this "hole" is to monitor your driving habits for a month. Record the mileage to frequently visited locations like malls, parks, movies, supermarkets, and friends' homes; then convert the milage into cost-per-trip figures. To obtain a cost-per-trip figure, divide the miles to your destination by the miles per gallon your car gets, and multiply this answer by the price of a gallon of gas (miles / mpg x cost per gallon). By doing this, you can begin thinking consciously about how much it costs you to drop the kids off at Ralph's, dash down to the store, go for a drive, or visit some friends who live fifteen miles from you, since you have no money for entertainment. There are literally no "free trips" in life.

After you have monitored your driving habits for a month, begin cutting out unnecessary "extra" trips. A reduction of around fifteen miles a day per car could save $25 to $40 per month in a single-car family and $50 to $80 in a two-car family. In addition, consider having children take public transportation, or pay from their allowance for the extra "taxi service" you provide. Most children do not realize that costs something to take them places.

Imagine the following conversation between a parent and child: "Mom, could you take us down to the mall so we can hang out for a while?" Mom replies, "Well, things are a little tight this month, and running you down to the mall would take about a dollar and a half worth of gas. Why don't you contribute a dollar toward the cost of the trip?" In shocked disbelief, the child wails, "A dollar! Why should we have to pay you a dollar? It doesn't cost you anything to take us!"

In a similar fashion, try mentally adding the cost of driving to some of your own destinations. For example, if you are going to a sporting event, the cost would be $5 for the ticket, $3 for the snacks, and $2 for the gas: a total of $10, not $8. If you don't attend the event, you are not as likely to have to fill up on the way to work because you used so much gas for the sporting events and little league.

To further cut expenses, check into increasing the amount of your insurance deductible on your car and home. You may save quite a bit on your yearly premiums by increasing your deductible from $50 to $100 or $250. Also, if your car is an older, look into whether or not you need collision coverage (the part of the insurance that covers the cost of repairing damage to your car). For example, if you own a $1,000 car and you are carrying a $200 deductible on collision insurance, the most you would receive from the insurance company if it were "totaled" is $800. If you were paying $300 every six months for collision in a year and a half you would have paid more in insurance than the car was worth. In this example, canceling the collision portion of your car insurance is a more practical way to manage the risk (see the Risk Management section in Chapter 8). You should always, however, maintain the liability portion of your car insurance.

List five holes you can fill that will save you money each month.

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Thirty-day Menus

A Thirty-day menu can make your grocery shopping not only more efficient, but also less expensive. Ask family members to make a list of their favorite meals. Taking into account how much you wish to spend on food each month, draw from their lists to develop menus for the next thirty days. You are now able to calculate exactly how many cans of peas you will need, how many pounds of hamburger, how many potatoes, and so on.

Once you compile this shopping list, you can use it again and again. Most family members will not remember that one month ago they had meat loaf, or that it's been four weeks since the

Lets start your own 30-day menu by making 15-day menu. Each day is one line.

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_____15._____

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last tuna casserole. By using this method, you stabilize your food budget so that it is almost the same every month. In addition, you can also take advantage of sales on food items without worrying about over- or understocking your pantry. For example, if your menu calls for eight cans of corn per month, you can take advantage of a case sale (twenty four cans) and know that

your family now has exactly three months' supply of corn.

Spending Limits

Spending limits are preestablished check points that are designed to prevent impulsive or inattentive purchases. A spending limit may be as simple as limiting the amount of cash you carry with you. If you carry ten dollars, you are likely to spend ten, but if you carry only one dollar with you, you will most likely spend no more than that.

Other spending limits involve negotiating with others. You and your spouse might each agree to never make a purchase greater than an agreed-upon limit without first consulting the other. You may set a spending limit of $25, $50, $100, or even higher. By incorporating spending limits, you are likely to have fewer surprises like "Well, what do you think of our new Saab?" or "But we needed new drapes, and they were on sale. Don't you like them?"

Spending limits can also set ultimate limits on individual categories. If the family decide that they will spend no more than $300 for skiing one season, that is it. The family has the choice of spending the $300 early in one weekend, or spreading it out over the entire season, but they will not use any additional funds.

Similar arrangements can be made for entertainment, treats, or eating out, with set amounts being allocated for a given week or month. Setting the limit helps you live within your budget.

Describe a time when you or your spouse spent more than what was set as a limit. Describe a time when you or your spouse spent only what was in your spending limit. What was the difference?

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This activity is designed to help you distinguish between your needs and your wants, and is an important first step in creating a survival budget (see Figure 9.1; NEEDS AND WANTS excercise). The first section lists alternatives that satisfy the need for transportation. Some examples of how to meet this need are listed (walk, bike, public transportation). Write any additional alternatives of your own choosin, such as using one car, using two cars, or car pooling, in the blanks provided. Next to the alternatives, write in the estimated cost of each. For example, it might cost $30 for a pair of walking shoes for the "walk" alternative, $40 for bike repairs for the "bike" alternative, and so on.

In the blank below "Alternative Chosen", write the alternative you have chosen and its cost. You need transportation, but way you have chosen to meet this need usually reflects what you want. Compare the cost of the alternative you have chosen with the estimated costs of the other alternatives listed to arrive at a "want cost - need cost" difference. For example, if you choose a personal car that costs $400 dollars a month in payments, insurance, and gasoline, subtract $30 (estimated cost) for the "walk" alternative from the $400 "car" alternative to produce a $370 "want cost - need cost" difference. Record the amount in the blank provided. This indicates that your "want" is costing you an additional $370 per month over what it would cost you to walk. Compared to a $100 per month public transportation cost, the car alternative has a "want cost - need cost" difference of $300. Ask yourself, "Is it worth it? Is it really necessary?"

Use the same procedure for shelter, food, clothing, and long-distance communication needs. The illustration below highlights the difference between writing letters and making long-distance phone calls:

Possible Alternative	Estimated	Want Cost-Need Cost
		Costs
Long Distance Communication		
1) Write letters 2/month	$.60	$15.40
2) Phone 2/month	$16.00	0
3) Send audio tapes 2/month	$2.00	$14.00
Alternative chosen (Want Cost)		
Phone	$16.00	

The chart indicates that by phoning instead of writing you pay an extra $15.40 (down the hole) each month; by not choosing to send audio tapes you pay out an extra $14.00.

(Insert Figure 9.1; NEEDS AND WANTS Worksheet about here.)

BUDGETS

Although about 50% of the families in America use some kind of budget, only about 12% have one that is written down (Yankelovich, Skelly & White, 1975). Yet effective financial management plans were considered to be the most important factor in determining the amount of satisfaction couples received from their resources (Williams, 1985).

A budget is a systematic plan for meeting expenses during a given period. A budget should be seen not as something that restricts your financial behavior, but as something that can actually provide you with greater financial freedom. A budget is your "road map" showing how to get where you want to go financially. Remember, your overall goal should be to spend your money on things you value--things that will last. (Theme #4, Chapter 1).

Remember that the budget you are about to develop has a much better chance of working than did those budgets you may have developed in the past, because (1) you will include both past and future obligations to help you avoid the "eight balls" that often sabotage budgets, (2) you will consciously decide where to cut expenses and plug the holes so that this money can be applied toward what you value, and (3) you will take a good hard look at what is sufficient: what is enough to satisfy what you need and what you want.

The following steps will help you develop a workable budget:

1. Evaluate your currently perception of how much is coming in and from what sources, as well as how much is going out and for what purposes.

2. Compile a validated budget to obtain an accurate account of what is actually going on financially.

3. Distinguish between your wants and your needs.

4. Develop a survival budget to show just how little is required to take care of your needs.

5. Develop a projected budget to make a relatively accurate guess about how much you expect to bring in and how much you expect to spend in each budget category.

6. Compare the projected budget to the actual income and expenditures in order to fine-tune your budget.

BUDGET CATEGORIES

Following are suggestions of budget categories and items. The list is not exhaustive. Rather, it is designed to give you an idea of what items are commonly included in each category.

INCOME

Salary/Wages: All earned income.

Other Income: Includes interest, dividends, child support, welfare payments, rent subsidies, food stamps, education grants, garage sales, and inheritance.

FIXED EXPENSES

Taxes: Federal, state, and local income taxes.

Contributions: All contributions to retirement plans, FICA (Social Security), company-sponsored plans, IRA, and Keogh plans.

Insurance Premiums: Total insurance premiums paid--includes life, medical, auto, and homeowner's, and any other premiums you pay.

Rent/Mortgage: Mortgage payments (principal and interest). Do not include property tax unless they are included in the mortgage payment.

License/Dues and Registration: All car, boat, trailer, and airplane licensing and registration fees, plus union and professional dues.

Debt Repayment: One debt per line. The figure should reflect the total monthly payment (principal plus interest).

Other: Any other fixed expense your family has that is not included in a previous category, such as care for elderly parents, and chronic medical costs.

VARIABLE EXPENSES

Food: All money spent on food, both at home and away from home (groceries, school meals, restaurants, meals delivered).

Utilities: Gas, electricity, water, sanitation, cable TV, garbage pickup, and sewer.

Telephone: Local and long-distance service, leasing, and access fees.

Household Operations: Maintaining the home and its operations (household repairs, cleaning supplies, and gardening supplies.

Furnishings/appliances: Household furnishings, and both large and small appliances.

Transportation/maintenance: All bus fares, gasoline, and automobile maintenance and repair.

Apparel/upkeep: Purchases of clothing and accessories, as well as laundry and dry cleaning expenses.

Personal care: Permanents, haircuts, and styling; makeup, weight-loss and fitness programs.

Child care: Baby-sitting, day care centers, and other forms of child care.

Education: Tuition, books, and all other costs of formal or informal education for parents or children; also, subscriptions to magazines and newspapers.

Recreation/entertainment: Theater and sporting events, club memberships, hobbies, and sporting goods.

Holidays/birthdays: All special events, like Christmas, Easter, birthdays, graduations, and anniversaries.

Medical: Any medical expenses not covered by health insurance.

Vocational expenses: All expenses associated with work.

Donations: All contributions made to religious or charitable organizations.

Personal allowance: Miscellaneous category--"mad" money for parents, and allowances for children.

Savings: Any amount put into either savings or investments and not spent during the year.

Vacation: All expenses associated with family vacations, weekend getaways, and day trips.

Other: Any other variable expense not included in a previous category.

PERCEIVED SPENDING PATTERN

This exercise is designed to help partners express the amount they perceive they are spending each month. Two worksheets are included (see Figures 9.2 and 9.3), one for each partner. Each person should fill out a worksheet, and then compare it with the other's perceptions.

The "budget categories" are also part of this activity. Listed on these pages are items that could be included within a budget; they may be used to clarify what goes in each category for the perceived spending plan. This activity must be completed before going on to the validated spending pattern (the next activity), so that the comparison of what each of you perceive will be more beneficial.

(Insert Figures 9.2 and 9.3; Perceived Spending Pattern Worksheets about here.)

VALIDATED SPENDING PATTERN

This activity is to be completed after you have finished the perceived spending pattern. The same categories are included here, but in this case you are instructed to list the actual price of each item to obtain a validated spending pattern. Validating where your money is being spent means digging out loan contracts, mortgages, sales receipts, W-2 forms, pay stubs, and income tax filings, and noting the exact figures. A validated spending pattern lets you know where your money has actually been going, and gives you a pretty good indication of how you got into your current financial situation (see Figure 9.4).

After you fill out your validated spending pattern, you should compare it with your perceived spending pattern to see how close your perceived views were to the actual numbers.

You will probably find some minor discrepancies between partners' responses, but major differences are a sign that you need more communication in those areas (see Chapter 5).

This exercise is designed to point out discrepancies between what couples think they are spending and what they are actually spending in various categories. This activity should be combined with a discussion between family members about where their money is really going: Is the money being spent on things that are valued? What would the family like to change?

(Insert Figure 9.4; Validated Spending Pattern Worksheets about here.)

SURVIVAL BUDGET

The survival budget is designed to demonstrate how little your family actually requires to meet minimum needs. This budget could be used in emergencies, when income is low, or when expenses become exceptionally high (for example, because of unexpected medical costs). The worksheet provides blanks only for basic needs, so try to consider only needs when making up this budget (see Figure 9.5). You may be surprised just how little your family really needs to survive; it is wants that really cost. Remember:

> Few people ever have to declare bankruptcy because of trying to take care of their needs. It is trying to satisfy their wants that most often brings financial ruin.

(Insert Figure 9.5; SURVIVAL BUDGET Worksheet about here.)

PROJECTED SPENDING PLAN

This activity will help you begin an accurate, effective budget. The projected spending plan lists the amounts the family expects to spend in each category (see Figure 9.6). Make an

effort to be as accurate as possible in your estimations. Projected amounts, even carefully considered, do not always reflect actual needs; therefore, you may make adjustments over a three-month monitoring period. The projected plan will be compared with the actual pattern after you have lived for a month on the new budget.

(Insert Figure 9.6;PROJECTED SPENDING PLAN about here.)

ACTUAL SPENDING PATTERN COMPARED TO PROJECTED PLAN

This activity compares the projected amounts with what was actually spent in each budget category for an entire month. This will highlight discrepancies between the projected amounts and the money actually spent in each category. By using this comparison, families can gradually adjust either their projected budget or their spending (or both), so that projected costs become fairly accurate approximations of the actual amounts spent. Create a file of the adjusted, actual monthly budgets, so you have them available for reference when you develop next year's budget for each month.

You will need to develop a projected-actual comparison budget sheet for each month of the year (see Figure 9.7). Try to keep the expenses for each month as consistent as possible by amortizing. In this way your income and expenses will both remain relatively stable, regardless of fluctuations in income or the arrival of a particular holiday or special event.

(Insert Figure 9.7; ACTUAL SPENDING COMPARISON Worksheet about here.)

SUMMARY

This chapter has presented techniques to help you organize a monthly budget. It has discussed the distinction between living within your income and living within your budget. One

of the primary considerations given to living within your budget was the need to cut expenses by plugging "holes," setting spending limits, and making a distinction between wants and needs.

In addition, it has discussed a variety of budgets, such as perceived spending plans, which provide insight into how you perceive your financial situation; validated spending plans, which provide a view of what your financial situation really looks like; survival budgets, which provide a picture of just how little you could get by on only considering needs (no wants); projected budgets, which provide an estimation of what you think things should cost per month; and actual budgets, which provide a view of what things actually cost.

You are now ready for Part Three, which will present a variety of real-life family and financial arrangements, and life-cycle issues you will need to address in order to manage family finances effectively.

CHAPTER REVIEW

1. What is the difference between living within your income and living within your budget?

_____

_____

2. What are some of the recommendations made for cutting expenses?_____

_____

_____

_____

3. What is a pre-arranged spending limit?

_____

_____

4. What is the difference between wants and needs?_____

_____

5. What is a budget?

_____

_____

6. What is the purpose of filling out a perceived budget?

_____

7. What is a survival budget?

_____

_____

8. What is a projected budget?

_____

_____

IMPORTANT TERMS

Living Within Your Income: The ability to pay all the monthly bills, but afterwards, there is nothing left for amortization, reserves, or savings. Usually, the amount needed to get through the month increases at the same rate the income increases.

Living Within Your Budget: Monthly expenditures relatively constant as income increases. There is money left over for amortization, reserves, and savings; and a gradual increase in the amount of money left over at the end of each month as income increases over time.

Ways to cut expenses:

1. Decide not to spend, or not to spend as much as you had originally planned.
2. Sharing: Cooperating with others on certain purchases and sharing the use privileges.
3. Plugging The Holes: Holes are the "little things that add up" in a budget that tend to add up such as snacks and other "extras" added on to necessities.
4. Habits: alcohol, tobacco, hobbies, etc.
5. Thirty-day Menus: a list of meals (including favorite meals) for the next thirty-days. This schedule is repeated each month in order to stabilize the monthly food bill.
6. Spending Limits: are preestablished check points that are designed to prevent impulsive or inattentive purchases.

Needs: that which is required for survival; provides a means to go on living, accomplishing, or contributing.

Wants: that which provides greater convenience, enrichment, or pleasure; provides reasons to want to continue living, accomplishing, or contributing.

Budget: A spending plan; an allocation guideline;

Perceived Spending Pattern: a guess as to how much income is available and how much is spent in various budget categories.

Validated Spending Pattern: The amount of income that is actually available and the exact amounts being spent in various budget categories; based on actual records and documents.

Survival Budget: The barest minimum you would need to take care of basic needs (wants and luxuries are not included).

Projected Spending Plan: Your best guess as to how much should be allocated to each budget category.

Actual Spending Pattern Compared To Projected Plan: The calculation of the differences between the amounts you had allocated for various budget category and what was actually spent in each category.

FIGURE 9.1 - NEEDS AND WANTS

Possible Alternatives Estimated Want Cost -

Cost Need Cost

Transportation

1) Walk _____ _____ _____ 2) Bike _____ _____ _____

3) Public Transportation _____ _____ 4) Car Pool _____ _____ _____ 5) Owning One

Car _____ _____ _____ 6) Owning Two Cars _____ _____ _____

7) _____ _____ _____

Alternative Chosen (What you want.)

_____ _____

Shelter

1) Live With Relatives _____ _____ 2) Rent Apartment (one room) _____ _____ 3) Rent

Apartment (two room) _____ _____ 4) Buy A Trailer _____ _____ _____ 5) Buy A Condo

_____ _____ _____ 6) Buy A House _____ _____ _____ 7) _____ _____ _____

Alternative Chosen

_____ _____

Food

1) Staples Only _____ _____ _____

2) Pre-prepared (Frozen) _____ _____ 3) Fast Foods _____ _____ _____ 4) Restaurants

_____ _____ _____

5) _____ _____ _____

Alternative Chosen

_____ _____

Clothing

1) Hand-made _____ _____ _____ 2) Second-hand _____ _____ _____ 3) Chain Stores _____ _____ _____

4) Designer _____ _____ _____ 5) _____ _____ _____ Alternative Chosen

_____ _____

Long-Distance Communication

1) Write Letters _____ _____ _____ 2) Phone _____ _____ _____ 3) _____ _____ _____ Alternative Chosen

_____ _____

FIGURE 9.2 - PERCEIVED SPENDING PATTERN

Estimate the amounts spent in each category. Those amounts that are paid other than monthly are indicated by an asterisk (*). Divide annual amounts by twelve, semi-annual amounts by six, and so forth, to provide the monthly equivalent.

INCOME

Husband's Salary/Wages _____

Less: Withholding taxes _____ FICA taxes _____

Contributions _____

Net Income _____

Wife's Salary/Wages _____

Less: Withholding taxes _____

FICA taxes _____

Contributions _____

Net Income _____

Other income _____

TOTAL NET INCOME _____

FIXED EXPENSES

Rent/mortgage_____

Retirement _____

*Property taxes _____

*Insurance premiums _____

*Car license/registration _____

Debt repayment_____ _____

Debt repayment_____ _____

Debt repayment_____ _____

Debt repayment_____ _____

Debt repayment_____ _____

Other_____ _____

Total Fixed Expenses _____

VARIABLE EXPENSES

Food _____
Utilities _____
Phone _____
Household operations _____
Furnishing/equipment _____
*Transportation/maintenance _____ Apparel _____
Personal care _____
Child care _____
*Education _____
Recreation/entertainment _____
*Christmas/birthday _____
*Medical _____
*Professional dues/expenses _____
Contributions _____
Personal Allowance _____
Savings _____
*Vacation _____
Other_____ _____

Total Variable Expenses _____
(From previous page) Total Fixed Expenses _____

TOTAL EXPENSES _____

TOTAL INCOME COMPARED TO TOTAL EXPENSES _____

FIGURE 9.3 - PERCEIVED SPENDING PATTERN

Estimate the amounts spent in each category. Those amounts that are paid other than monthly are indicated by an asterisk (*). Divide annual amounts by twelve, semi-annual amounts by six, and so forth, to provide the monthly equivalent.

INCOME

Husband's Salary/Wages _____

Less: Withholding taxes _____

FICA taxes _____

Contributions _____

Net Income _____

Wife's Salary/Wages _____

Less: Withholding taxes _____

FICA taxes _____

Contributions _____

Net Income _____

Other income _____

TOTAL NET INCOME _____

FIXED EXPENSES

Rent/mortgage_____

Retirement _____

*Property taxes _____

*Insurance premiums _____

*Car license/registration _____

Debt repayment_____ _____

Debt repayment_____ _____

Debt repayment_____ _____

Debt repayment_____ _____

Debt repayment_____ _____

Other_____ _____

Total Fixed Expenses _____

VARIABLE EXPENSES

Food		_____
Utilities		_____
Phone	_____	
Household operations		_____
Furnishing/equipment		_____
*Transportation/maintenance		_____
Apparel		_____
Personal care	_____	
Child care	_____	
*Education	_____	
Recreation/entertainment		_____
*Christmas/birthday		_____
*Medical	_____	
*Professional dues/expenses		_____
Contributions	_____	
Personal Allowance		_____
Savings		_____
*Vacation	_____	
Other_____		_____

Total Variable Expenses _____

(From previous page) Total Fixed Expenses _____

TOTAL EXPENSES _____

TOTAL INCOME COMPARED TO TOTAL EXPENSES _____

FIGURE 9.4 - VALIDATED SPENDING PATTERN

Calculate the actual monthly amounts spent in each category. Those amounts that are paid other than monthly are indicated by an asterisk (*). Divide annual amounts by twelve, semi-annual amounts by six, and so forth, to provide the monthly equivalent. Compare the actual amounts with the perceived category amounts listed previously. Note any major differences.

INCOME

Husband's Salary/Wages _____

Less: Tax withholding _____

FICA taxes _____

Contributions _____

Net Income _____

Wife's Salary/Wages _____

Less: Tax withholding _____

FICA taxes _____

Contributions _____

Net Income _____

Other income _____

TOTAL NET INCOME _____

FIXED EXPENSES

Rent/mortgage_____

Retirement _____

*Property taxes _____

*Insurance premiums _____

*Car license/registration _____

Debt repayment_____ _____

Debt repayment_____ _____

Debt repayment_____ _____

Other_____ _____

Total Fixed Expenses _____

VARIABLE EXPENSES

Food		_____
Utilities		_____
Phone	_____	
Household operations		_____
Furnishing/equipment		_____
*Transportation/maintenance		_____
Apparel and upkeep		_____
Personal care	_____	
Child care	_____	
*Education	_____	
Recreation/entertainment		_____
*Christmas/birthday		_____
*Medical	_____	
*Professional dues/expenses		_____
Contributions	_____	
Personal Allowance		_____
Savings		_____
*Vacation	_____	
Other_____		_____

Total Variable Expense _____

(From previous page) Total Fixed Expenses _____

TOTAL EXPENSES _____

TOTAL INCOME COMPARED TO TOTAL EXPENSES _____

FIGURE 9.5 - SURVIVAL BUDGET

The following is a survival budget (needs only). Estimate the minimal monthly amounts needed for survival in each category. Those amounts that are paid other than monthly are indicated by an asterisk(*). Divide annual amounts by twelve, semi-annual amounts by six, and so forth, to provide the monthly equivalent.

INCOME

Husband's Salary/Wages _____
Less: Tax withholding _____
FICA taxes _____
Contributions _____
Net Income _____

Wife's Salary/Wages _____
Less: Tax withholding _____
FICA taxes _____
Contributions _____
Net Income _____

Other income _____

TOTAL NET INCOME _____

EXPENSES

FIXED EXPENSES
Rent/mortgage _____
Retirement Contributions _____
*Property taxes _____
*Insurance premiums _____
Other_____ _____

Total Fixed Expenses _____

VARIABLE EXPENSES
Food _____
Utilities _____
Household Operations _____
*Transportation/maintenance _____
Apparel and upkeep _____
Personal Care _____
*Medical _____

Other_____ _____

Total Variable Expenses _____

TOTAL EXPENSES _____

FIGURE 9.6 - PROJECTED SPENDING PLAN

Project the monthly amounts you will spend in each category. Use the monthly amortization amounts calculated in previous worksheets where appropriate.

INCOME

Husband's Salary/Wages _____
Less: Tax withholding _____
FICA taxes _____
Contributions _____
Net Income _____
Wife's Salary/Wages _____
Less: Tax withholding _____
FICA taxes _____
Contributions _____
Net Income _____
Other income _____

TOTAL NET INCOME _____

EXPENSES

FIXED EXPENSES
Rent/mortgage _____
Retirement Contributions _____
Scheduled fixed amortization _____
Savings _____
Debt Repayment_____ _____
Debt Repayment_____ _____
Debt Repayment_____ _____
Debt Repayment_____ _____
Debt Repayment_____ _____
Other_____ _____

Total Fixed Expenses _____

VARIABLE EXPENSES
Food _____
Utilities _____
Phone _____
Household Operations _____
Furnishing/equipment _____
Transportation _____
Apparel and upkeep _____
Personal Care _____
Child care _____
Recreation/entertainment _____

Personal Allowance _____
Scheduled variable amortization _____
Unscheduled variable amortization _____
Savings _____
Other_____ _____
Total Variable Expenses _____

TOTAL EXPENSES _____

FIGURE 9.7 - ACTUAL SPENDING PATTERN COMPARED TO PROJECTED PLAN

Compare the monthly amounts you spent in each category with the amounts you projected at the beginning of the month. Either adjust the budget or spending for next month so the projected and actual amounts will agree.

INCOME

	Projected	Actual	Difference
Husband's Salary/Wages	_____	_____	_____
Less: Tax withholding	_____	_____	_____
FICA taxes	_____	_____	_____
Contributions	_____	_____	_____
Net Income	_____	_____	_____
Wife's Salary/Wages	_____	_____	_____
Less: Tax withholding	_____	_____	_____
FICA taxes	_____	_____	_____
Contributions	_____	_____	_____
Net Income	_____	_____	_____
Other income	_____	_____	_____
TOTAL NET INCOME	_____	_____	_____

EXPENSES

FIXED EXPENSES			
Rent/mortgage	_____	_____	_____
Retirement Contributions	_____	_____	_____
Scheduled fixed amortization	_____	_____	_____
Savings	_____	_____	_____
Debt Repayment_____	_____	_____	_____
Debt Repayment_____	_____	_____	_____
Debt Repayment_____	_____	_____	_____
Debt Repayment_____	_____	_____	_____
Debt Repayment_____	_____	_____	_____
Other_____	_____	_____	_____
Total Fixed Expenses	_____	_____	_____
VARIABLE EXPENSES			
Food	_____	_____	_____
Utilities	_____	_____	_____
Phone	_____	_____	_____
Household Operations	_____	_____	_____
Furnishing/equipment	_____	_____	_____
Transportation	_____	_____	_____
Apparel and upkeep	_____	_____	_____
Personal Care	_____	_____	_____
Child care	_____	_____	_____

Recreation/entertainment _____ _____ _____
Personal Allowance _____ _____ _____
Scheduled variable amortized _____ _____ _____
Unscheduled variable amortized_____ _____ _____
Savings _____ _____ _____
Other_____ _____ _____ _____
Total Variable Expenses _____ _____ _____
TOTAL EXPENSES _____ _____ _____

PART THREE

YOURS, MINE, AND OURS

During the twentieth century, the main Borisosophical purpose of the family has shifted. In the turn of the century agrarian society, the primary function of the family was survival through production, so the needs of the family took precedence over the needs of individuals. In contrast, today's industrial- society family is consumption-oriented, so the needs of individuals often take precedence over the preservation of the family unit. As a consequence, family members think of their belongings as either "yours," "mine," or "ours."

Some of the factors that contribute to this financial and interpersonal perspective were explored in Parts One and Two of this book. Part One examined how our personalities and families of origin affect both our relationships and the way we manage our finances.

Part Two discussed financial principles that can lead you into and out of financial problems; and it emphasized principles to help you avoid, manage, and reduce debt.

Part Three combines the information found in the first two parts, and applies them in ways designed to enhance your financial and personal relationships, and address real-life situations typical of the problems faced by today's families.

Chapter 10 presents guidelines for developing and maintaining effective financial and personal relationships; how to attain financial freedom, satisfy your

needs, and forgive past mistakes.

Chapter 11 presents some of the problems uniquely associated with specific types of family relationships, such as single wage-earners, dual incomes, single parents, and blended families.

Chapter 12 broadens our scope by exploring a life span perspective of family financial-management issues, such as intergenerational transfer of values, career planning, making the transition from single to married life, the cost of raising and launching children, use of leisure time, and retirement and estate planning.

Chapter 10

LIFE BY DESIGN

William James, in his book The Will to Believe (1956), admonished, "Be not afraid of life. Believe that life is worth living and your belief will help create the fact" (p. 62). James' quote seems to be especially true with regard to finances and relationships. Perhaps at no other time does life seem so "worth living" as it does after you have surmounted the insurmountable: after you have successfully coped with a financial or relational crisis.

After the struggle, after you have made it through the hard times, you may justifiably experience a feeling of inner pride--a feeling of self-confidence, and a sense of independence that comes from being self-reliant.

You may also experience a feeling of relief, a reevaluation of your limitations and capacities, and in many cases a redirecting of your resources toward growing rather than merely maintaining. The availability of this rechanneled energy often allows you to become more creative, more courageous--life indeed becomes worth living.

LIFE BY DESIGN VS LIFE BY DEFAULT

Some of this rechanneled energy can be directed toward living your life by

design rather than by default. Living your life by design implies a certain level of coordination between establishing your values, setting your goals, and controlling your behavior; it enables you to become, as William Henley suggests in Invictus, the master of your fate.

In the fell clutch of circumstance
I have not winced or cried aloud.
Under the bludgeonings of chance
My head is bloody, but unbowed.
It matters not how strait the gate,
How charged with punishments the scroll,
I am the master of my fate:
I am the captain of my soul.

Living your life by design means careful planning and preparing to take advantage of opportunity rather than relying solely on fate or luck. In fact, one definition of "good luck" is when preparation meets opportunity. For example, an office worker might comment, "Boy, was Carol lucky to get transferred to the Paris office." But, if you were to look behind the scenes, you would find that Carol had studied French for five years. When the opportunity came to work in the Paris office, she was prepared. Carol was living a life by design. She knew where she wanted to go and what she needed to do to get there.

In contrast, when you live your life by default, you allow your destiny to be determined by the fickleness of fate. Think what such a life would be like.

Imagine being asked, "How did you manage to end up living here?" and replying, "About twelve years ago, I was traveling through this part of the country in my old station wagon. This is where the transmission went out. I've been here ever since." Life by default often means standing still--waiting for the next role of the dice.

Knowing where you stand, however, is not nearly as important as knowing where you are headed. Oliver Wendell Holmes (1841 - 1935) once said,

> I find the great thing in this world is not so much where we stand, as in what direction we are moving; to reach the port of heaven, we must sail sometimes with the wind and sometimes against it--but we must sail, and not drift, nor lie at anchor.

As you have probably already discovered, heavy debt can often seem like being stranded on a sandbar; leaving you unable to respond to the winds of change--unable to take advantage of the opportunities that may come your way. In contrast, being free of debt leaves you free to choose, to save or spend, to buy or sell, to stay or move, to change jobs or keep the one you have. Financial freedom enhances a very important part of personal freedom--freedom of choice.

What choices will you make in the future so that you can live your life by design and not by default?

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FINANCIAL FREEDOM

Chapter 7 explained why it was so difficult to earn your way out of debt--you would have to increase your income by as much as $1,000 (before deducting taxes) to achieve the same results you would get from reducing your debt load by only $600. In a similar manner, it is usually more difficult to earn your way to financial freedom than it is to gain financial freedom by reducing your expenditures. Stated in the form of a maxim:

Principle #7

Financial freedom is more often the result of decreased spending than increased income.

Case Illustration

Spending Inflation

Unfortunately, most families have been practicing the very opposite of what Principle #7 advocates--most families try to achieve financial freedom by increasing their incomes. For example, in 1970 the nation's total consumer credit outstanding was $131.6 billion; by 1980, this amount had grown to $349.4 billion and to $728.9 billion by 1988. Credit card debt alone increased from $81.2 billion in 1980 to $180 billion in 1988. During this same period (1980 - 1988), family income also increased, but the ratio of credit outstanding to disposable income rose from 18% to 21%, meaning that the amount families were spending was increasing faster than the amount they were earning (U.S. Department of Commerce, 1990).

Has your spending habits increased when your salary stayed the same? How so?

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For many families, the ever-increasing debt load meant only one thing: "We just can't make it anymore on one income." But was this really the case? Perhaps it would have been more accurate to say "We just can't continue to sustain our increased level of spending on one income." This perspective is supported by the relationship between family income and spending patterns over the past few decades.

In 1955, the median family income was $17,693 (in 1986 dollars) when only the husband was working. By 1986, the median family income (only husband working) had grown to $24,390; a 40% increase after adjusting for inflation. A comparison of personal income to personal consumption cost during that same time period indicates very little real change; both approximately doubled (see Table 10.1)(U.S. Bureau of Economic Analysis, 1990).

TABLE 10.1 - Comparison of Personal Income With Personal Consumption Expenditures.

(Constant 1982 Dollars)

Year	Personal Income	Disposable Income	Personal Consumption Expenditures
1955	$ 6,439	$ 5,714	$ 5,287
1986	$12,645	$10,905	$10,123

Adapted from U.S. Bureau of Economic Analysis, The national Income and

Product Accounts of the United States, 1929 -1982 and Survey of Current Business July.

In spite of this parallel growth, more and more families began to believe "We just can't make it on one income." Because of this belief, and for a variety of personal reasons, an ever-increasing number of wives and mothers began to enter the labor force in an attempt to compensate for the perceived shortfall, thereby creating the "Dual-Earner Family."

In 1986, the Dual-Earner family's median income (with husband and wife working full time) was $44,666. This combined income was over two and a half times the income their parents used to raise their families in 1955, and almost twice the 1986 median income for families in which only the husband was working. Yet the belief that "We just can't make it on one income" persisted. On the basis of an analysis of the spending and earning patterns of families during the past thirty years, Robert Rector (1989) concluded, "We have experienced not a decline in earnings capacity but a profound upward 'revolution of expectations' in living standards; . . . we have largely forgotten the actual income levels and standards of living of the preceding generations" (p. 522).

Need For Extra Income: Real, Perceived, or Preferred

Certainly one of the reasons such a belief persists is found in the extremely high cost of housing in certain parts of the United States. In these areas, housing costs are so high that the entire income of one of the dual-earners is required just to make the house payments. For other families, high medical costs and the need for

medical insurance demand a second income. For these and similar situations, "We just can't make it on one income" is an irrefutable fact. But these families may still need to distinguish between a real need for extra income, a perceived need for extra income, and a need to maintain a preferred standard of living.

In a 1980 survey of working women, 90% of the women reported they were working for economic reasons (Fox & Hesse-Biber, 1984). Shehan found similar results in (1984), when 94% of the women surveyed reported they were working because of economic need. But only 6% of those surveyed reported they would miss their income if they did not work. David Eggebeen's and Alan Hawkins' (1990) interest in this paradox led them to analyze data gathered from over 60,000 white families with at least one child under eighteen. The families were divided into two economic groups: those in which the husband's income was twice the official poverty cut-off level were designated "adequate income" families; those in which the husband's income was less than twice the poverty level were considered "inadequate income" families.

These researchers found that in 1960, only 9% of the mothers from the adequate income families were employed (part or full time), while 18% of the mothers from the inadequate income families were employed. However, by 1980 the percentage of employed mothers from the adequate income group had more than tripled to 31%, while the percentage of employed mothers from the inadequate income families had increased by only two percent. Given these findings, it would appear that the mothers were entering the labor force not to provide basic family

needs but to provide a higher standard of living. Eggebeen and Hawkins (1990) concluded that "when married mothers cite economic motives for their employment outside the home, they are referring to standard-of-living preferences rather than basic economic necessities" (p. 54).

There is ample evidence that having the married mothers enter the work force has increased the American family's standard of living. In 1950, less than five percent of the families surveyed had clothes dryers; by 1984 ownership had risen to 62%. Only seven percent of the families surveyed owned more than two cars in 1950, while over 52% were two car families in 1984. Similarly, television sets were found in only 12% of U.S. homes in 1950, but the proliferation of T.V. sets reached 97% by 1974 (U.S. Energy Information Administration, 1986; Vickery, 1979). How does this trend increase the need for income? As Claire Vickery points out, "The sophisticated and diverse goods that advanced technologies produce . . . cannot be produced at home. As a result, families need less household production and more income to purchase goods and services" (1979, p. 171).

THE QUEST

Campbell, Converse, and Rodgers (1976) found that when trying to determine financial satisfaction, knowing a person's income is not nearly as important as knowing how a person feels about what he or she has. In a like manner, what a person wants is more of a determinant of financial satisfaction than

what needs have been met. In reseach conducted by Williams, Nall, and Deck (1976), the more severe the family's financial problems were perceived to be, the less adequate the family's income was perceived to be--independent of the actual level of income. Similar research indicated that the degree of satisfaction a person felt about what he or she had was more important than was the amount of real income being earned when determining the level of satisfaction with the quality of their lives (Hafstrom & Dunsing, 1983). However, Davis and Helmick (1983), found that the higher the aspirations of both husbands and wives, the less satisfied they were with their current financial situation. In other words, as long as the wants of family members exceed the family's income the family's income will be perceived as inadequate--regardless of it's level or how much it increases.

List your financial needs that have been met in the last year.

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Perhaps, however, you have come to the conclusion that enough is enough; and you no longer wish to participate in "the quest." Perhaps you have determined what is sufficient for your needs (see Chapter 7) and are able to devote your energy to something besides earning the almighty dollar. If you do decide to pull out of the "rat race," you might find that your lot in life is not all that bad. For instance, an instructor in a sociology course once asked the class three questions:

1. Do you own more than one pair of shoes?
2. Do you expect to eat more than just one kind of food each day?
3. Do you have access to your own personal form of transportation?

The instructor then pointed out that if you could answer yes to these three questions, you would be among the top ten percent of all the people who had ever lived on Earth! Comparing yourself to history instead of the people across the street can place you in a pretty good light. Begin appreciating what you already have rather than worrying about what you don't have. Even a crummy job can look better than no job at all; renting a small apartment sure beats being homeless; and eating leftovers again is preferable to going hungry. In other words,

FREEBIES

If you can remember having gone through such "hard-loving" times with

someone special, then you know the importance of thoughtful gestures, and the humor in trying to creatively "make do." For example, one couple would go to a local mall and see if they could each spend $10,000 dollars on things they really wanted in less than an hour. Of course they really didn't have the $10,000 to spend. They just pretended. But it was fun picking out expensive watches, strange looking sweaters, and oversized pictures. It didn't cost them a cent, and it was fun--most of the time. However, from time to time, you may still have felt periods of loneliness and despair because you "could not afford to do anything."

Fortunately, there are an incredible number of pleasurable things you can do in life, and the enjoyment you derive from them depends a lot more on your attitude than on your wealth. The following exercise is designed to help you, and those you love, rediscover some of the activities you enjoy doing.

Freebie Exercise

List twenty activities that you consider fun or that have made you happy. There are no other restrictions. For example, you may enjoy snowball fights, diving into piles of autumn leaves, walking by a stream, going to foreign films, talking to a friend, reading a good book, going to a sports event, attending a concert, traveling, gardening, fishing, taking guitar lessons, and so on. Complete your list before reading further.

Make your list of activities.

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After you have completed your list, place a heart next to those activities you prefer to do with others. Complete this part of the exercise before you read further.

After you have placed a heart next to the items you prefer to do with others, place a "$" next to those activities that cost more than $10 per person to perform. Again, complete this part of the exercise before reading further.

Now review your list. If you are like most people, you will find you prefer to do about one-third to one-half of these activities with another person. Even more important, you will most likely discover that most of the things you associate with being happy cost less than $10 or are absolutely free--these are your freebies.

This exercise illustrates that you don't need a lot of money to be happy. You need enough money to take care of your basic needs, a little more to take care of some of your wants and to add a certain degree of quality to your life, and a bit more to give you a sense of security; but money beyond these requirements will not

necessarily bring you more happiness. The old adage is true:

SATISFYING YOUR NEEDS

Eric Fromm (1955) proposes that humans have four basic needs: the need for identity, transcendence, rootedness, and relatedness.

The Need For Identity

The need for identity refers to the need for recognition, respect, and self-esteem.

Encouragement. A spouse's recognition of your effort is especially important during times of struggle and financial hardships. These times often occur during the years in which your efforts are concentrated more on learning than on doing. A show of appreciation for the effort you put forth is called encouragement.

Encouragement is often what motivates you to want to keep trying, even after an initial attempt at reaching a goal has failed. Encouragement is necessary when you study for an exam but receive a grade lower than you had expected, or when you try out for a sport but don't make the team. Under such circumstances you would hope to hear encouraging remarks, like "Even though you were well behind the front runners, when I saw you put on that extra burst of speed as you came around that last turn, I felt a thrill go through me because I knew then that you had a courageous heart and would never give up in the face of adversity."

Less fortunate partners will be reminded by their spouses of their ineptness and shortcomings through statements like "Can't you do anything right? Look at the mess you've made of the checkbook," "I know you can do better. You're just

not trying," or "I don't care how much you've cut back on spending. You're not going to get a cent more until I think you can be trusted again."

Since most of our lives are spent trying to achieve goals, and only a small fraction of that time is spent savoring our accomplishments, most of us can benefit from a support system that cheers us on during the hard times rather than one that discourages us or merely shows up to celebrate our accomplishments.

What kind of encouragement do you need? What kind of encouragement can you give your spouse?

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Praise. In addition to encouraging each other during hard times, we should recognize each other's accomplishments by expressing our appreciation for a job well done. Most of us thrive on praise--words like, "Hey! I hear you got accepted.

That's fantastic!" or "I know you worked hard for that promotion. Congratulations!"

Unfortunately, some people concentrate more on what is wrong with their partners than on what is right about them, and as a consequence these people deny their partners the opportunity to derive even the smallest sense of worth from their achievements. They may even degrade their partners with remarks like "Things come to easy for you. That's the trouble with you," "You just got a lucky break. Anyone could have done what you did," or "Now will you start listening to me? Didn't I keep telling you that you could get that position if you would only try harder?"

The Need For Rootedness

The need for rootedness refers to the need for humans to identify with the world immediately around them as well as with the past and the future.

When others recognize our contributions, we realize our self-esteem must be based not on what we can get out of life but on what we can give to others--our self-worth is going to be derived not from what we can consume but from what we can contribute.

The way we choose to recognize our partner's contributions can be either positive or negative. For instance, a funny person could be described as "a real comedian. She has us in stitches most of the time," or she could be told, "Stop being so silly. You'll end up making us the laughingstock of the neighborhood." One spouse might hear comments like, "Well, I'll have to admit that you were being

your usual inventive self, and it just might have gotten off the ground if the Henderson's barn hadn't been in the way," while another spouse may hear, "You and your fool ideas are going to end up putting us in the poorhouse. Your foolishness is nothing but a waste of money." The choice of how we relate to our partners is up to us, and much of the quality of the relationship depends on it.

What has been your partner's positive contributions this week?

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Not only is the quality of the relationship affected by how we relate to each other, it also affects the quality of life itself. Life, like relationships, needs to be more than just "enduring 'till the end."

The Need For Transcendence

The need for transcendence refers to the need to be creative, to be productive, and to go beyond merely sustaining one's life.

Faith In Each Other. Like the expert appraiser who is faced with being able to appreciate the potential of a diamond in the rough, you, as a partner in a relationship will frequently be called upon to recognize potential that is as yet unrealized in the other.

In Hamlet, Shakespeare writes, "We know what we are, but know not what we may be." Much of "what we may be" is influenced by how those who we esteem respond to us as individuals. For example, the spouses of far-sighted partners will hear statements like "Someday, somebody is going to have the good fortune to hire you, and when they do they'll soon realize that they got the best," "I wouldn't be a bit surprised to see you head of sales someday," or "Honey, I think the world had better get ready for another great designer, because we've got ourselves a real winner here."

These kinds of statements really communicate "I believe in you and in your potential to grow," and we tend to respond, "If you believe in me, then I believe in me." Such faith in each other's capability to enhance our talents reflects our ability to see others as well as ourselves as unique individuals. Such self-knowledge enables us to recognize our own potentials.

Unfortunately, some partners appear to be either unable or unwilling to recognize another's potentials, and as a consequence their partners will hear

statements such as "You have got to be the laziest good-for-nothing I have ever known," "You'll never amount to anything. I doubt if you'll ever graduate from college," or "You've got to be the dumbest person I've ever met. For crying out loud, if you had a brain, you'd be dangerous." Under a constant bombardment of such appraisals, it usually isn't long before the partner becomes discouraged and decides that even to try to succeed is a waste of time and effort, and as a result of such discouragement, many will give up not only on themselves, but on life as well.

List five positive statements you can make to your spouse that will help the faith between each other grow.

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The Need For Relatedness

The need for relatedness refers to the need to establish positive love relationships with others. It means commitment and a willingness to be vulnerable. When the outcome of a love relationship is marriage, it means even more. Spencer W. Kimball, in his book Marriage (1980), expresses the meaning of marriage rather well:

> Marriage is not a legal coverall. Rather, it means sacrifice, sharing, and even a reduction of some personal liberties. It means children who bring with them financial burdens, service burdens, care and worry burdens; but also it means [feeling] the deepest and sweetest emotions of all. (p. 20)

Unconditional Love. One of the emotions you might experience is unconditional love. When you are loved unconditionally, you know that your existence is sufficient reason to be loved. You know that you don't have to accomplish anything or have to earn a certain amount of money to be loved. All you have to do is be yourself. In addition, you soon learn that there is nothing you can do to lose this love. In some cases, you may catch your partner just watching you while you go about your business and then make a comment like, "I'm sure glad I married you," or "You know, I really do love you."

Unfortunately, not everyone will receive such spontaneous gifts of affection. Far too many will hear hurtful statements like "You've been nothing but trouble since the day I met you," "I'm sorry we ever got married," "If it hadn't been for the kids, we would have been divorced a long time ago," or "I can't believe I

almost quit my job because of you." Strangely enough, even though some individuals may not experience being loved unconditionally, they may still choose to "love" their partner. Unfortunately, even those who have been physically, emotionally, or financially abused over a long period of time will sometimes continue to "love" their abuser, hoping that someday they will be loved in return. However, Spencer W. Kimball (1980) cautions,

> Love cannot be expected to last forever unless it is continually fed with portions of love, the manifestation of esteem and admiration, the expressions of gratitude, and the consideration of unselfishness. (p. 8)

Describe a time when you felt unconditional love from your spouse.

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Conditional love. In most cases, however, conditional love will gradually be introduced even for those who are loved unconditionally at the beginning of their relationship. Conditional love differs from unconditional love in that this love is expressed when certain standards are met and the expression of this love is withheld when these standards are not met. For example, one spouse may tell the other, "It's not that I don't love you. I just don't feel like being sexually intimate when there is so much distance in the rest of our marriage."

The purpose of conditional love is to teach you to be responsible and that there are consequences for your behavior. It is imperative, however, that the

standards that are set be indeed reachable, that the partners convey their confidence in each other's ability to meet them, and that conditional love be not the only kind of love to be found in the relationship.

If you are exposed solely to conditional love, you will usually develop the belief that love must be earned, and that to be loveable you must be productive. In such situations, it is not uncommon to believe that only if you earn a lot of money, come in first place, or become a success will you ever be worthy of being loved. You may even become convinced that if you were to stop and rest for a moment you would automatically cease to be loveable. As a consequence, you may become preoccupied with keeping yourself busy--staying productive to remain "worthy" of being loved.

You may also develop the belief that "Unless I am perfect, I am not loveable." As a consequence of this belief, once you have made a mistake--once you have "blown it"--you remain unlovable until you have atoned for your imperfection by either "working off your sentence," making full restitution, or being forgiven.

THE NEED FOR FORGIVENESS

In addition to the four human needs suggested by Erik Fromm, I believe a fifth need is essential to the attainment of happy, gratifying relationships--the need for forgiveness.

Usually when we think of forgiveness in marriage, we think of major

transgressions, such as infidelity, dishonesty, or public humiliation. However, within the intimate relationship of marriage it is often the "little things" that have the greatest impact on the relationship. I recommend that each partner in a marriage ask forgiveness for some of the everyday "little things" in a relationship which are, in reality, big things. The following are a few suggestions of some things for which a spouse could ask forgiveness (Poduska, 1990):

1. Forgive me for not always being your friend. Forgive me for the times I wasn't someone you could talk to when you just needed someone to listen. I'm sorry I wasn't there to listen without criticizing or judging you or what you had to say. Forgive me for the times I wasn't someone with whom you could relax and laugh. I can remember the times during our courtship when we would talk and laugh for hours. Sometimes it was on the phone, or while we were driving. Those were the times when we preferred to spend time with each other above all else. At times we were very good friends. Forgive me for those times I have not made the effort to be your friend.

2. Forgive me for not placing you as my number-one priority in life. I can remember some times when I allowed my parents, friends, hobbies, job, sports, or even church responsibilities to become more important to me than your happiness and welfare. My intentions were honorable, but the hurt you felt was nonetheless painful. I know your image of yourself must have suffered when you saw everything else in my life coming first. I do want you to know, however, that there have been times when I did make you my top priority--times when I considered

your feelings first when making a decision. I may not have always decided in your favor, but at least I considered your feelings. Being as sensitive as you are, you were probably quite aware of those times and of the place you held in my life. Please forgive me for the times your place was not first.

3. Forgive me for not showing my appreciation. Forgive me for the times I have taken your countless contributions for granted. I'm sorry for the times I have failed to recognize your gifts of time, effort, and concern. I sometimes wonder how many times your service and acts of devotion went unnoticed. I suppose there were even times when I might have thought some of your acts were merely your "duty," part of your marital responsibilities. It is true that there are obligations that go with marriage, but it still might have helped if I had expressed my appreciation more often. If I had, you might have wanted to do these things, rather than feeling like you had to do them. I apologize for the times you had hoped I'd notice and were disappointed.

4. Forgive me for not being there when you needed me. I'm sorry for waiting until you told me to do something rather than seeing and doing what was needed on my own. Sometimes I even waited until you did it yourself. Forgive me for the times you needed your load lightened and I did nothing in your behalf. I was probably preoccupied, but I was nevertheless, being inconsiderate. Other times I guess I just saw you as being strong and capable, not really needing my help. But since none of us can be strong all the time, I'd especially like to ask your forgiveness for the times I was not there when you needed comfort, support, and

understanding.

5. Forgive me for not accepting a less-than- perfect you. I'm not sure why I expected you to be perfect, since I was willing to accept imperfection in others. Our parents were not perfect, nor were our children perfect. I accepted their imperfection as a fact of life, yet I insisted on holding you up against an ideal or fantasy of what a spouse should be like. As a consequence, I repeatedly placed on you the responsibility for solving my problems. I gave you the job of maintaining my happiness. Apparently, I was more involved with wanting you to be perfect than I was with helping you seek improvement in your own way. Forgive me for not accepting you for who you are.

6. Forgive me for the times I have been selfish. I'm sorry for all the times I satisfied my needs in ways that interfered with your ability to satisfy your needs. I apologize for needing to be right even when I knew I was wrong. How frustrated and discouraged you must have felt when you tried to express your opinions, feelings, and needs, and I didn't hear you. Even more important, forgive me for the times I believed I was superior; I sometimes believed I was more intelligent, more courageous, or more sophisticated than you. When I put myself above you in my mind I disqualified your ideas and suggestions, and I acted as if you were not worthy of my love. I can now more fully understand that we are truly equals in the eyes of God, and that this is how we should see each other as well. Please forgive me my for my pride and my self-interest at your expense.

7. Forgive me for the promises, implied or explicit, that I have broken. I'm

sure that at the time I made those promises to you I fully believed that I could keep them. Some can still be kept, while the time for others has past. When we first got married, I made a promise to both of us that you would never regret marrying me. Forgive me if I have given you even one momentary regret for having made that decision. I would like to renew that promise; I promise you tomorrows that will be filled with both joy and sadness, but never with regret for having married me.

8. Forgive me for neglecting your hopes and dreams. I probably will never fully appreciate the sacrifices you made to marry me. I know that you have had some of your dreams since childhood; there were places you wanted to see, things you wanted to do, and goals you wanted to achieve. Granted, some of them have been fulfilled, but some dreams still cause you to pause and think a moment before you dismiss them with a sigh and a shrug. Forgive me for the times when I have not considered your hopes and dreams to be as important as my own.

9. Forgive me for not helping you to reach your full potential. I apologize for the times I didn't enhance--or even encourage--greater development of your talents. I regret the times my anger, depression, or resentment detracted from your level of enthusiasm. Forgive me for having offended you--intentionally or otherwise. If I have said or done anything that has discouraged your faith in yourself or diminished your belief in what you could achieve in life, I ask for your forgiveness.

10. Forgive me for not forgiving you. Forgive me for the times I harbored resentments and used those feelings as an excuse to distance myself from you. I'm

sorry I sometimes wanted to and tried to get even. I realize now that forgiveness means letting go of all desire for revenge. I ask for your forgiveness as I forgive you.

We have all, at one time or another, been offended by our spouse, or have offended our spouse, and as with all debt we can either collect it or forgive it. In either case, we are able to close the books and be done with it. However, if we are to truly love one another, we need to put aside our bitterness and anger and build our relationship with kindness.

Choose two items, from the list of ten things, that a spouse could ask forgiveness for. Write them down. Why you need forgiveness from your spouse? Then share your answers with your spouse.

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SUMMARY

This chapter has presented guidelines for developing and maintaining effective financial and personal relationships. To facilitate these goals, an explanation of financial freedom, as opposed to financial independence, has been provided. The important role of reduced spending, as opposed to increased income,

in achieving financial freedom has also been recommend.

In addition, an overview of income and spending patterns has been presented. This pattern indicates that the need for extra (dual wage-earner) income is real in some situations, and is only perceived in others.

This chapter has also discussed the issues associated with perpetually wanting more rather than being grateful for what you have and has offered guidelines on how to go about satisfying your needs. Special emphasis has been given to the need for relatedness and the need to establish and maintain an effective relationship with at least one other person, and to the role forgiveness plays in achieving a fulfilling relationship.

The next chapter explores the unique challenges associated with various relationships. This chapter will help you achieve effective financial and personal relationships within the parameters set by a variety of family lifestyles.

CHAPTER REVIEW

1. What are some of the differences between a life by design and a life by default?

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2. What is the difference between financial freedom and financial independence?

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3. Why is it often easier to gain financial freedom by reducing spending rather than by increasing income?

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4. What is meant by the statement, "In some situations, the need for extra income is more perceived than real?"

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5. What are some examples of freebies?

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6. What are the four human needs proposed by Eric Fromm?

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7. Why would the need for forgiveness play such an important part in establishing and maintaining effective family financial management practices?_____

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PRINCIPLES FROM CHAPTER 1

Principle #1

Financial problems are usually behavior problems rather than money problems.

Principle #2

If you continue doing what you have been doing, you will continue getting what you have been getting.

Principle #3

Nothing (no-thing) is worth the relationship.

Principle #4

If your money is going toward something you value, then you will usually feel a sense of satisfaction and accomplishment. But if your money is going toward something you do not value, then you will usually experience a sense of frustration and futility.

Principle #5

We know the price of everything and the value of nothing.

Principle #6

You can never get enough of what you don't need because what you don't need can never satisfy you.

PRINCIPLES FROM CHAPTER 10

Principle #7

Financial freedom is more often the result of decreased spending than increased income.

Principle #8

Be grateful for what you have.

Principle #9

The best things in life are free.

Principle #10

The value of an individual should never be equated with an individual's net worth.

Chapter 11

FINANCIAL ISSUES AND FAMILY TYPES

To understand the diverse needs of intact families, single-parent families, and blended families, we must examine them from a modern, rather than a traditional, perspective. Financial needs are only part of the problem; we must also determine family members' esteem needs. We also need to understand the anguish of those who wish to be self-reliant yet find themselves dependent on the supplemental income of a spouse, court-ordered child support, or religious or government-sponsored welfare.

Today's families need help not only to balance their financial ledgers, but also to balance "ledgers" that reflect the personal losses and gains that result from the stress associated with marriage, divorce, single parenting, and remarriage.

Each type of relationship presents unique financial challenges. This chapter presents the financial and interpersonal problems that affect the economic well-being of each type of family, and recommends how you can better cope with these problems.

Economic Well-Being

A family's economic well-being is influenced by both the amount of income available and the size of the family. Financial counselors commonly use two methods to determine a family's economic well-being: the Total Family Income method, and the Income-To-Need Ratios method.

Total Family Income. The total family income method of determining a family's economic well-being compares a family's income to a national norm. In 1989, the median

income for all families (single-wage earners, dual-wage earners, part- and full-time, all-year and part-year employment, single parents, etc.) was $34,213: for white families it was $35,975, for Hispanic families $23,446, and for black families $20,209. For all married families the median income in 1989 was $38,547, but for dual-income families it was almost $7,000 greater. Unfortunately, the family income for single-parent families (female head of household and no husband present) was only $16,442: $18,946 for white families, $11,745 for Hispanic families, and $11,630 for black families (see Table 10.1). In 1989, the average poverty threshold for a family of three was $12,675 (U.S. Department of Commerce, 1990b).

TABLE 10.1 - Median Family Income - 1989

	Families	White	Hispanic	Black
All	$34,213	$35,975	$23,446	$20,209
Married	$38,547	$39,208	$27,382	$30,650
Dual-income	$45,266	$45,803	$34,821	$37,787
Single-female Parent	$16,442	$18,946	$11,745	$11,650

Adapted from U.S. Department of Commerce, 1990

Income-To-Need Ratio. The income-to-need ratio for a family is determined by dividing a family's income by the poverty threshold for a family of a particular size (See Table 10.2). For example, the income-to-need ratio for a family of four with an income of $16,442 is 1.3. This is calculated by dividing $16,442 by the poverty threshold for a family of four, which is $12,675. Similarly, the income-to-need ratio for a family of five with an income of $16,442 is 1.1; for a family of six with the same income it drops to .97-- below the poverty threshold. The higher the ratio, the better the family is doing financially. A dual-income family of six with a median income would have a income-to-need ratio of 2.7.

In 1989, 12.8 percent of the families in the United States lived below the poverty level. Of white families, 7.8 percent were below the poverty level; of single parent, female headed families, 25.4 percent lived below. Ethnic groups fared even worse: 30.2 percent of Hispanic families, and 47.5 percent of the single parent ones were below the poverty level; similarly, 25.4 percent of black families and 46.5 percent of those headed by a single parent lived below the poverty threshold (U.S. Department of Commerce, 1990b).

TABLE 10.2 - POVERTY THRESHOLDS - 1989

Number of Persons in Family	Threshold in Dollars
1	6,311
2	8,076

3	9,885
4	12,675
5	14,990
6	16,921
7	19,162
8	21,328
9 or more	25,480

Adapted from U.S. Department of Commerce, 1990).

SINGLE WAGE-EARNER FAMILIES

A single wage-earner family is a two-parent family in which only one is earning an income. As a point of interest, and perhaps as a sign of the times, only about ten percent of families in the United States currently meet the standards of the "traditional family," wherein the husband is the sole breadwinner, the wife is at home with two or more children (U.S. Bureau of the Census, 1980)).

Issues Associated With Single Wage-Earner Families

1. Who will allocate and control of finances?
2. How will you meet the needs and wants of the individual family members?
3. How will you communicate about finances?
4. Will you compete or cooperate to manage family consumer behavior?
5. How will the family deal with value conflicts?

Family-Of-Origin Rules

Family-of-origin rules, which each spouse brings to the marriage, frequently cause financial conflicts. As Chapter 2 pointed out, because each spouse is raised in a different family of origin; each spouse brings a different set of rules to the marriage about how finances should be handled. Such differences, if not resolved, can become a constant source of contention.

To effectively cope with family-of-origin rule differences, both partners should share how finances were handled in their family. To do this more effectively, you might review your lists of explicit, implicit, and family heritage rules concerning finances (see FAMILY RULES INVENTORY, Chapter 2). After you examine and compare your lists, decide which rules are most important, which rules you want to include or exclude in your current family, and what compromises and accommodations you need to be make.

Case illustration. Filled with frustration, Steve tries again to point out what he thought was obvious to every rational human being but his wife: "Nancy, we cannot spend money we don't have. That credit card is to be used only in an emergency, not to buy things just because they happen to be on sale." Nancy, also upset, responds defensively: "Well I can't run the house on what little you give me each month. Billy made the basketball team and needed a pair of shoes." Steve slaps his hand on his knee and mutters loudly enough to be heard, "My dad warned me that you wouldn't be able to live on what I made. He told me that if I didn't hold a firm grip on the finances, you'd put us in the poor house. Well, I'm not going to let that happen. Mom never used a credit card in her life. She managed on what dad gave her, and did a darned good job of it, and if she did it, you can do it."

Nancy stands for a moment in an absolute state of shock. When she finally does recover,

she speaks slowly and deliberately. "Listen to me, you chauvinistic skinflint; I have no intentions of being treated the way your father treated your mother. My mom and dad shared everything on an equal basis, including money. They had a joint checking account, and each one carried a checkbook. My mother never had to beg for money, and I'm not about to start begging for what's rightfully mine." Steve, somewhat unnerved by Nancy's counterattack, in a much calmer voice says, "Well, then what are we going to do?"

Grasping the opportunity, Nancy presents her recommendation. "For one thing, if I had my own checkbook I wouldn't even consider using a credit card. My parents didn't like credit cards any more than yours did." Steve complains, "If we both had checkbooks, we'd end up bouncing checks all over the place." Nancy shakes her head and replies, "Not if we communicate with each other."

Steve is still a little reluctant--after all, his father had always been the one who wrote the checks. But what Nancy has said makes sense, and it could resolve the credit-card issue. "I'm not sure how both of us having checkbooks is going to work out, but I guess its worth a try. Besides, my Mom told me that I was marrying a gal with a head on her shoulders, and that I if I didn't listen to you, she was going to come over and knock some sense into me."

How has you and your spouse's family-of-origin rules affected your finances?

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Preferential Treatment

If some members of the family perceive that others receive preferential treatment, they can become perpetually jealous and argumentative.

To reduce these feelings, you might analyze the current distribution of financial managerial tasks (see Chapter 1). Determine who is responsible for which tasks and whether or not each person is satisfied with the current arrangement, that is shopping for groceries, buying clothing, purchasing new or used cars, preparing the monthly budget, paying the bills, cashing checks and making deposits, earning income, etc.) Be sure to discuss how each family member perceives the fairness of the task distribution.

In addition, find out if family members feel that different standards or rules apply to different family members according to age or ability to earn money. Do the older children get a larger allowance than the younger ones? Do the younger children get more help because they are not old enough to work?

Similarly, conflicts often appear when parents pay for dance lessons but not for karate lessons, or where they support those who want to go to college but not those who want to learn a trade.

Favoritism is mostly perceived; therefore, you have to determine what you can do to not only insure fair treatment but to make your family perceive they are being treated equally. (see Reframing, Chapter 5). In most cases, you must also negotiate a settlement (see Negotiating Skills, Chapter 5).

Describe how someone you know has received preferential treatment. How has it affected that person?

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Income Management Systems

Single wage-earner families usually use either the Whole-Wage System or the Allowance System to manage their income (McCrae, 1987; Pahl, 1983).

Steps in the Whole-Wage System:

1. The primary wage-earner turns all earnings over to the spouse.

2. The spouse who is responsible for managing the finances pays all bills and household expenses.

3. The responsible spouse returns personal spending money to the primary wage-earner.

The Whole Wage System is frequently used among lower-income families with the wife designated as the spouse who is responsible for managing the finances (Pahl, 1990; Heath, 1986). In a slight variation of this income-management system, the primary wage earner withholds personal spending money before turning the earnings over to the managing spouse. In some instances, though, the wage-earner attempts to deceive the managing spouse by working overtime without turning over the extra money.

Steps In The Allowance System:

1. The primary wage-earner deposits earnings in one account.

2. The primary wage-earner pays the larger bills.

3. The nonwage-earner receives an allowance to meet regular housekeeping obligations.

The Allowance System is more common among middle- and higher-income families (Pahl, 1984). Under this system, the primary wage-earner pays the mortgage, major loans, and investments. After these obligations have been met, the primary wage-earner usually determines the size of the allowance; as a result, the recipient frequently feels the allowance is insufficient to run a household. Additional frustration occurs when income increases without a corresponding increase in allowance, or when the allowance increases only after a substantial delay.

When the recipient under this system is employed part time, the couple usually considers this secondary income supplemental--available to buy "extras" for the family. As a consequence, in actual practice, couples use the secondary income to supplement the allowance.

Under another variation of this system, the couple has only one mutually managed income, with individual allowances for each partner. (This is a variation of the shared management system described in the dual-income family section.) Under this system, the couple

considers income, obligations, and management tasks our responsibilities rather than yours or mine. As a point of interest, a survey conducted by General Mills (Yankelovich, 1975) reported that couples enjoyed a greater degree of marital satisfaction when both spouses were involved in making financial decisions.

What income management system to you and your spouse have? Is the system working or not working? What changes need to be made?

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DUAL-INCOME FAMILY

In a dual income family, both spouses are present, and both are employed either part or

full time. The number of families experiencing the stress of two working parents has been increasing for some time. One of the more measurable outcomes of such stress is divorce rates. Bijou Yeh and David Lester (1987, 1988) found through a survey of census reports for the 48 states in the continental U.S. that the higher the proportion of married women working full-time and the lower the proportion working part-time, the higher the divorce rate of the state. In states where a greater percentage of wives worked part-time, the divorce rates were lower.

This relationship between the amount of hours married women work and divorce rates seems to be supported by the research findings of Glenna Spitze and Scott South (1985). They found that the number of hours wives worked outside of the home had a greater impact on the probability of a divorce than the size of her earnings, and that this relationship was strongest among middle-income families and in families where the husband disapproved of her employment.

Disapproval of women entering the labor force, however, has undergone some very radical changes during the twentieth century. In 1930 only 18 percent of the population approved of women working outside the home. Today that proportion has grown to over 80 percent. In 1890 only 4.5 percent of married women worked, and women made up only 17 percent of the work force (Smith, 1979). By 1987, 56 percent of the U.S. labor force was female, up from 51.5 percent in 1980. In 1987, 61.2 percent of all mothers were employed in income-producing jobs, and in 57.2 percent of families, both parents were employed. Among families with children at home, the percentages were even higher.(U.S. Department of Commerce, 1989).

Net Income Effects Of Additional Employment

As a rule of thumb, because of the additional deductions and costs associated with earning the second income, only about one-third of the gross amount will actually be realized (Hefferan, 1978). For example, if your family's second income was $15,000, you would expect only about a $5,000 increase in the amount of money available for family use. The amount actually realized will vary in accordance to family income levels (see Chapter 6, Danger Signs of Credit Abuse - use of secondary incomes), but it is almost always less than you expected.

Expenses associated with additional employment:

Federal Income Taxes_____

(Include increases due to moving into higher tax bracket).

Social Security _____

(If self-employed, this amount is double what it would be if employed by someone else.)

State Income Taxes _____

Redundant Insurance _____

(Many employers have a mandatory participation group insurance plan that may duplicate the coverage you already have under the other wage earner's plan.)

Additional Transportation Costs_____

Additional Costs of Meals_____

(Meals at work, lunches out, fast foods, frozen meals, etc.)

Child Care Expenses _____

Household Cleaning Costs _____

Additional Wardrobe and Grooming Costs _____

TOTAL ADDITIONAL EXPENSES_____

GROSS MONTHLY INCOME_____

SUBTRACT ADDITIONAL EXPENSES_____

Issues

1. Who has claim on which income?

2. How will the incomes be divided among your expenditures?

3. How will your personal needs and the needs of your partner be satisfied?

4. How might differences in earnings between you and your spouse affect self-esteem, personal interaction, and sharing of homemaking responsibilities?

Allocation And Control

Conflict over allocation and control of incomes is often the primary problem in dual-income families. It has been found, however, that working wives are no more likely to divorce than nonworking wives, (Thomas, et al, 1984; Nye and Hoffman, 1974) except when (1) the wife earns more than her husband, or (2) the husband is periodically unemployed. In these cases, the probability of divorce is higher (Morre and Hofferth, 1979).

Marital success depends on the degree of satisfaction derived from the money earned more than on the actual amount of money. Also, marital stability increases with the amount of assets accumulated rather than with increases in income (Galligan and Bahr, 1978). Based on these observations, the conflicts seem to center more on the way resources are allocated and who controls the allocation, rather than on how much there is to allocate. For example, one spouse might argue, "I ought to be able to afford a lousy exercise bike with the kind of money I make, let alone what the two of us are making! The bike only costs a lousy $184. I want someone to tell me where all my money's going. I'm sure not the one spending it. I swear, if I have to, I'm going to open my own checking account. I'm tired of working and having nothing to show for

it." Though items and amounts differ, this scenario is a fairly typical financial argument in a dual-income family (see Dominance and Submission, Chapter 4).

If you are a dual-income family, what problems have you had with allocation and control? What can be done to remedy the problems?

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Coping With Scarcity

Like nearly all families, dual-income families, are affected by scarcity: any allocation of resources to one end implies that fewer resources will be available for other purposes. Therefore, as a dual-income family, you need to negotiate and cooperate with one another so that your resource allocation generates (1) the greatest benefits, (2) for the most people, (3) at the

least cost.

To achieve this end, you should adhere to the fundamental principles of negotiating. First, remember that negotiations are not intended to result in a one- sided victory, but are designed to produce a mutually beneficial outcome. Second, cooperate; don't compete. Third, communicate with each other in a way that safeguards one another's self-esteem.

Yours, Mine, And Ours

Arguments often occur because no one really knows how much they actually "take home" each month. Nor do they know the actual costs of utilities or food, how much they have bought on credit, or even how much of a credit load they can actually handle. The arguments are based primarily on what each perceives is happening with their finances (see the Perceived Spending Pattern section in Chapter 9). Because most couples have so little accurate information, they frequently criticize, blame, and find fault with each other until, more often than not, each decides to take care of his or her own money and his or her own expenses.

As a consequence, these couples develop a "yours, mine, and ours" attitude toward the distribution of income (Jensen and Jensen, 1981). Unfortunately, when this attitude becomes extreme, it can create feelings of emotional distance between partners (Glickauf-Hughes, et al., 1986).

To counter this tendency toward emotional distancing, re-evaluate your commitment to each other. Commitment is especially important with regard to sharing the responsibility of earning an income and sharing in homemaking responsibilities. Both the perceived quality of the marriage and individual happiness depend upon how fairly these responsibilities are distributed (Yogev and Brett, 1985). Unfortunately, research indicates that wives who are employed

outside the home contribute more to homemaking chores than do their husbands (Abdel-Ghany & Nickols, 1983; Berardo, et al.,1987), and that individual incomes strongly influence the division of labor in the home (Hiller and Philliber, 1986). Kamo (1988), found that "the more a husband earns and the less money a wife makes, the less the husband's share in domestic work" (p. 198).

How can the homemaking responsibilities be distributed evenly between you and your spouse?

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Equitable distribution of financial and household responsibilities in marriage depends on (1) effective communication and (2) the husband and wife's ability to fully understand the

difference between consenting to be useful, consenting to be charitable, and being exploited (see Chapter 4, Relationships and Financial utilize Priorities). Remember, when you consent to be useful, you agree to participate in a joint financial arrangement, but only as long as it is convenient. Consenting to be useful--implying that you will allow only limited access to your resources, and that the needs of your partner seldom take precedence over your own needs--tends to create a one-sided relationship.

In contrast, when each of you consents to be charitable, you create a privileged relationship in which you declare your friendship to each other. In essence, you say to your partner, "When you are hungry, eat my food. When you are lonely, use me as a companion. When you have emotional or financial needs, come to me--you are my friend."

It is important to note, however, that neither is being exploited, for to exploit others is to use them without their complete emotional and intellectual consent or to use them without sufficient consideration for their welfare.

Dual Career Families

A special case of the dual-income family is the dual-career Family. One of the distinctions between a dual-income family and a dual-career family is that in the dual-income family, the wife views work as a source of economic security without an organized sequence of intellectual or promotional sequence in mind. In contrast, the woman who is career oriented views work as a developmental job sequence with goals and time frames for reaching certain mile stones clearly formulated (Rapoport and Rapoport, 1971).

Dual-career families tend to experience greater financial stress than either single- wage-earner or dual-income families (Rapoport & Rapoport, 1969, 1976). Additional sources of stress

include discrepancies between personal and social norm expectations, concerns about personal identity and self-esteem, and trying to maintain a balance between the demands of multiple-role expectations (Price-Bonham & Murphy, 1980).

In spite of early predictions that dual-career couples would become the social innovators of the post-industrial era (Rapoport and Rapoport, 1971), married women in selected professional careers (law, medicine, and college professors) made up less than three-quarters of one percent of the labor force in 1982 (Benenson, 1983). Some of the primary problems facing dual-career families are these:

1. Gender-based segregation that results in differential pay, job opportunities, and career advancement.
2. Persistent inequality between husband and wife with regard to sharing homemaking responsibilities.
3. Additional expenses for full- or part-time housekeeping, gardening, and child care.
4. Required relocation that is not compatible with the spouse's career.
5. Potential for professional competition and jealousy.

Income Management Systems

The two income management systems most commonly used by dual-income/dual-career families are the shared management system and the independent management system (Heath, 1986; McCrae, 1987; Pahl, 1983).

Shared Management System:

1. Deposit both incomes in a joint account.

2. Allow both partners equal access to this account.

3. Have both partners assume responsibility for managing the account.

4. Household expenditure are randomly ascribed to either spouse.

Under this system, both partners share in the managerial tasks. Both partners discuss allocation issues and try to arrive at a consensus for distribution of funds. It has been demonstrated that marriages in which partners had equal control over financial decisions, either by making joint decisions or by agreeing to assume responsibility for specific tasks, had the least amount of conflict (Blumstein & Schwartz, 1983; Schaninger & Buss, 1986).

One of the benefits of this system is that it confronts the problems associated with trust. Trust issues arise when one spouse tries to keep the other from knowing exactly how much is being earned, or when one spouse suspects the other of juggling the books or keeping some of the income for personal use. The shared management system is, in fact, based on trust. Since either spouse can write checks on the single account--and wipe it out if they want too--this system requires both partners' mutual trust and mature, responsible behavior.

What can you do to have more trust in your relationship?

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A common modification of this system is as follows: (a) one spouse assumes responsibility for managing the joint account and family expenditures, and (b) specific incomes are assigned to specific expenditures. The manager can be either husband or wife, and incomes are usually assigned to expenses on the basis of convenience. For instance, if one spouse is paid weekly, those checks would be assigned to buying food, gas for the cars, entertainment, and other cash expenses. If the other spouse is paid on a monthly basis, that income would be assigned to utilities, and mortgage and loan payments.

Independent Management System:

1. Deposit the income of each spouse in separate accounts.

2. Concede that neither spouse will have access to all of the income.

3. Assign specific financial obligations to each spouse.

4. Treat each spouse's income as personal money.

Under this system, specific financial responsibilities are allocated to each spouse. For example, one spouse might be responsible for paying the mortgage, while the other might be responsible for the utilities. Each spouse might be responsible for his or her own car payments, insurance payments, and car maintenance costs. However, should one of the spouses be unable to meet his or her obligation, the other should transfer funds, on a temporary or permanent basis, from one account to another.

SINGLE-PARENT FAMILIES

In a single-parent family, one parent is absent because of divorce (42%), having never married (27%), separation (25%), or death (7%) (U.S. Department of Labor, 1989). Two-thirds of all children born after 1980 will live some portion of their childhood with a single parent. In 1960, only 9 percent of the households in the United States were headed by single parents. By 1986, this figure had increased to 24 percent. Of these, 89 percent were headed by females (Lino, 1988; U.S. Deptartment of Labor, 1989).

Issues:

1. Divorce means almost certain poverty for over 50 percent of women who head

single-parent households, and as a consequence, becoming a single parent usually means adjusting to a lower standard of living.

2. Only about 50 percent of ex-husbands actually make some child-support payments as stipulated by the courts; 31% of black women and 23% of white women entitled to receive child support receive no payments (Taeber & Valdisera, 1986).

3. There are a great many extra costs associated with being a single-parent provider.

4. Being a single parent usually means dealing with feelings of anger, frustration, and resentment toward the current situation.

5. Being a single parent provides opportunities for the development of a greater sense of self-reliance and independence.

Enmeshment

One of the most common problems associated with being a single-parent provider is a reduction in the emotional differentiation between parent and child. After a divorce or death, the parent and child often look to each other to satisfy their emotional needs. As a result, they tend to become enmeshed.

People are enmeshed when they become so dependent on each other that it is unclear where one person's identity ends and the other's begins. As a result, it is no longer clear whether a need or emotion is yours or the other person's. For example, a single parent may believe that a child wants a new toy, when actually the parent just wants to buy the child the new toy. Similarly, single parents may suffer for what they perceive as the child's loneliness and experience what they believe to be the child's deprivation, when in fact these are their own feelings.

In an economically solvent family, a child says, "I don't want hamburger for dinner," the parents will probably infer that the child does not like hamburger; and when they ask what he or she would like to eat, they are told "hotdogs or Spaghetti-O's." But to a single parent who is under emotional and financial stress, and who is still trying to adjust to a lower standard of living, the statement might imply that the child is saying, "I don't like the way we eat anymore. I want to eat stuff like we used to eat." The parent may then reply, "I know its been hard on you kids since the divorce, but I'm doing the best I can."

To counter such feelings, each member of the family needs to assume personal responsibility for his or her own feelings, appropriately expressing them, and trust that the other family members will cope with them. In addition, they should acknowledge that their family is not perfect and recognize that mistakes will be made and feelings will be hurt even if the family members do their best to be both responsible and considerate (see Chapter 4). Recognize that each member can belong to the family and still develop some degree of independence.

Also, keep in mind that as a parent you cannot continually subordinate your own needs to those of your children. By habitually ignoring your needs in deference to the needs of the children, you will begin to feel resentment and jealousy. Therefore, you should set aside for yourself some percentage of the money you normally spend on the children. For example, if you normally spend $100 for children's clothing, you should allocate $10, $25, or $50 of this amount toward buying your own clothing, or if you can afford it, wait until you can add this amount to what is to be spent on the children.

Parents are often willing to go without for the sake of the children, but this seems to be especially true for single parents, since they have less money to go around. A typical single

parent buys the children new clothes for school each year, but when it comes to clothes for the parents they wear the same old thing year after year. Think for a moment what kind of model these parents are to their children. Imagine a child saying, "Golly, Mom. I can hardly wait until I grow up. Then I can be a mom just like you and wear rags, do without, and eat the scraps off other people's plates."

The point is that within reason, a parent's needs are as important as the children's, and if such a perspective is maintained, the parent will likely have a higher level of self-esteem. Being fair does not entail giving the children everything they want while you do without. That is martyrdom, not love.

As noted in Chapter 6, feelings often influence purchases. For example, single-parents might buy things for their children in an attempt to compensate for the loss of the other parent, the amount of time the single parent is at work, and their lower economic status. But in most cases, the family can substantially reduce the need to acquire material things by developing warm, loving relationships among themselves.

If your primary purpose in buying things for the children is to let them know that you care about them, you might try just telling them directly. For example, if a child asks for a new bicycle and her parent responds, "Do you think I'm made of money? I've barely got enough to pay for the rent, let alone pay for a bicycle!" She will most likely go away feeling resentful, guilty for having upset the parent, who is obviously over-burdened already, and convinced that nobody cares about her feelings.

In contrast, think of the same scenario with a different parental response. This time the parent focuses on the child's feelings rather than on the cost of the bicycle, and responds, "I've

had a feeling that you might be wanting to get a new bicycle, and I've been trying to juggle our budget to see if there was any way we might be able to buy one. I've got a pretty good idea how much having a bicycle would mean to you, but unfortunately it doesn't seem like we'll be able to afford one right now. But I want you to know that I want you to have a new bicycle and I will do everything I can to help you get one." The parent still cannot afford to buy a new bicycle, but in the second example, the child would not question her importance or whether or not someone cared about her feelings. In addition, this approach affords some excellenct opportunities to teach family goal setting policies, effective problem solving techniques, and how to cope with feelings associated with delayed gratification.

If you are a single-parent, how can you combat financial stress?

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BLENDED FAMILIES

A blended family, or stepfamily, results from a re-marriage in which one or both partners bring children from a previous relationship. 17.4 percent of all households with children are blended families (Glick, 1989). One-half of all children born in the 1980s will live some portion of their childhood in a blended family. The divorce rate in blended families is about 55 to 60 percent, however, this is only slightly greater than the divorce rate of first marriages (Cherlin, 1981; Bureau of the Census, 1990). However, the rate of divorce among remarried couples is even higher when children from a previous relationship are present (White & Booth, 1985). In interviews with couples who had remarried, researchers asked, "What issues or concerns did you

discuss before you married?" The most frequent topic mentioned was "children from a previous marriage," followed by "finances" (Ganong & Coleman, 1989). Since the financial demands of a blended family are typically more complex that in an original marriage, the problems associated with the allocation of resources is correspondingly more stressful (Messinger, (1976).

Issues:

1. How can the divorced husband remarry and meet the needs of two families unless his new wife also earns an income?
2. How will the health care and educational needs of various children be met?
3. How will the child support that is received be spent, and on whom?
4. How will adoption and the subsequent loss of child support be handled?
5. How will perceptions of favoritism and neglect be handled?
6. How will either partner's debts acquired in the previous marriage be paid, and by whom?
7. How will assets acquired before the current marriage be redistributed, disposed of, or supervised?
8. What steps should be taken with regard to estate planning to protect the interests of all family members?

If you are a blended family, which two of the above issues are you dealing with right now? List possible solutions after each issue.

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Family Boundaries

In a blended family, members from one side almost always perceive that members from the other side play favorites or neglect them in relationships and with resources. One reason for this is that blended families find it difficult to define the family boundaries (Ihinger-Tallman & Pasley, 1981; Pasley, 1987).

Family boundaries distinguish between who is family and who is not (see Chapter 2, What We Bring With Us). Those who are considered family have certain privileges and rights

that others do not have. Determining the family boundaries in a blended family can become a very complex task. Do the family boundaries include

1. children from the previous marriage living within the current household?
2. children from the previous marriages living outside of the current household?
3. children resulting from the current marriage?
4. only blood-related members (even if none of them are living with the current family)?
5. only those with the same last name (natural or adopted)?
6. everyone currently living in the same house?

It is important to be able to resolve the family boundary issues, because the definition of boundaries can affect how financial support is allocated as strongly as court action. For a blended family, the issues of allocation become especially complex. Frequently, allocation problems center around the issue of fairness--that is, whose money goes to which child for what purpose, and is there going to be any favoritism? For example, if a noncustodial father were to buy his children new winter coats while the children from his spouse's previous marriage were forced to wear hand-me-downs, his spouse's children would naturally ask questions like, "How come they get new coats and we don't?" Similarly, the receiving of such gifts from the noncustodial parent can also cause problems among members of a blended family. In either situation, any any attempts at an explanation would undoubtedly draw cries of "That's not fair!"

Blended families also have to deal with finance- related questions, such as "Will the natural parent pay for insurance for a particular set of medical expenses, or will the stepparent?" "Who will pay for a particular child's college education?" "On which children will the child support actually be spent?" Stepparents often experience a great deal of stress when given the

opportunity to adopt a child without knowing how they will manage financially after losing the child support.

Former Debts And Liabilities

Unless debts that originated in a former marriage are paid off, they can be a source of perpetual marital discord. A problem with old debts and liabilities is that they can become constant reminders of unpleasant feelings associated with the previous marriage. Such items can interfere in the current life of a spouse by causing emotional turmoil and resentment. For example, a wife might be quite willing to help pay off her new husband's car (part of the assets he brings to the current marriage), yet be adamantly opposed to working to make payments on his ex-wife's car. "Every time I write out a check for the payment on your ex-wife's car, I get so mad I could spit nails. I have to ride the bus to work while she drives around in a fancy car. It's just not fair."

You would probably realize a significant reduction in tension levels if you were to determine which debts generate the most resentment and contention, and pay them off as soon as possible without offending anyone.

One way you can reduce the intensity of these feelings is to create a buffer by arranging an electronic transfer of payments from one bank to another so that its not necessary to go through the actual process of writing a check and thereby being reminded each time a payment is due (see Chapter 7, Distancing Yourself).

Do you have any former debts and liabilities? Has this caused stress in your marriage? If so, how can you make it a less stressful situation?

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Previously Acquired Assets

When people remarry, they bring not only debts and liabilities, but assets as well. Differences in perceived value of assets brought into the marriage can also cause contention and mistrust.

Assets are often divided by legal judgments in divorce proceedings. Sometimes the property a partner brings into the new marriage may represent the only things worth salvaging from the previous marriage. As a consequence, the partner who contributes an asset may be very

possessive of it, and may worry about who can use it under what circumstances, and with what restrictions. Frequently, the intrinsic value of one spouse's possessions is not shared by the other; as a result the new spouse can appear insensitive. For example, one spouse might suggest, "Since we need a new car anyway, why don't we just sell your old-pick up and get something decent?" The other, offended, might respond, "Don't even think such a thing! That old pick-up is the only thing that allowed me to keep my sanity in my first marriage, and it was the only thing that greedy so-and-so didn't get in the settlement. It's not just an old pick-up, its an award for valor under combat conditions." Similar, outcries can occur as a result of the husband using his wife's antique chairs for saw-horses.

If assets are relatively liquid, such as cash, stocks, or bonds, then problems usually center around the proposed uses of those assets: if and how they will be redistributed; whether or not they will be consumed, and if so, at what rate and under whose supervision?

Most people develop attitudes toward assets and financial planning based not only on the experiences they had with finances as they grew up, but also on the experiences they had in their previous marriages. On the basis of these experiences, each spouse will tend to push for marital agreements that safeguard the way finances will be handled in the future. The main purpose of these agreements is to avoid making the same financial mistakes in the new marriage as were made in the past. Such agreements usually deal with control and dependency, satisfying needs and wants, and consideration of values and setting priorities. Many spouses vigorously defend these agreements as protection against the possibility of being exploited by their current spouse. As a result, the new spouse may resent the restraints, conditions, or limits being proposed by the other and may interpret them as a lack of love, trust, or commitment.

To encourage greater trust in one another and greater commitment to the marriage, each spouse should place at least some assets under joint supervision. This action, however, should be taken in a gradual, progressive fashion in order not to exceed a person's ability to trust.

When a building's foundation is constructed out of concrete, the cement footings are poured first, and then allowed to set for a while to gain strength before pouring the floor is poured. In a similar fashion, each spouse might transfer a portion of his or her assets from the "yours" and "mine" accounts to the "ours" account. The couple might then let the situation sit for a period of time while they observe each other's behavior, and either increase or decrease feelings of trust. Of course, some assets may remain forever separate, designated only for inheritance purposes, in case of an emergency, or as a source of security.

Income Management Systems

Although there is no one right way to manage family finances, in a survey of married couples in which 20% of the husbands and 17% of the wives were remarried, between two thirds and three fourths of the couples preferred the shared management, or pooling, system, and only eight to ten percent preferred independent, or separate, accounts; "husbands and wives who do not believe that marriage should be forever are less willing to pool" (Blumstein & Schwartz, 1983, p. 103).

Nevertheless, among the higher income dual-income families, one of the more commonly used income management systems is the independent management system (Heath, 1986).

Independent Management System. One of the reasons remarried couples use the independent management system is because each partner already has an established bank account; each is used to meeting certain financial obligations (most of which were assumed

before the current marriage); and unfortunately, each is likely to have been hurt financially in the previous marriage and may not be willing to be that vulnerable again--at least for a while.

To overcome the feelings of distance and the lack of commitment associated with separating resources, partners should progressively blend incomes. Fishman (1983) suggests that pooling tends to encourage family unity while separate accounts promotes personal autonomy and interferes with the integration of the blended family.

At first, you may wish to keep all of your income separate. But as time passes and you become more familiar as husband and wife, you may want to begin committing a portion of your income to a common account. To do this, begin with about 10 percent of your earnings; then, as mutual feelings of trust increase, progressively devote a larger portion to the joint account. In this way, you can develop a sense of unity and commitment in your new family without the overwhelming fear of "losing everything" again.

SUMMARY

While some family financial problems are common to most types of families, other financial problems are unique to a particular type of family. This chapter has given special consideration to the distinctive financial challenges faced by single wage-earners, single parents, blended families, and dual-income families as they try to develop viable family budgets.

The next chapter considers the financial challenges of families from a life-cycle perspective.

CHAPTER REVIEW

1. What are two ways of defining a family's economic well being?_____

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____ 2. What are some of the financial issues associated with single-wage earner families?

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3. What are the characteristics of the Whole-wage System of managing finances?

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4. What are the characteristics of the Allowance System of managing finances?

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5. What factors reduce the amount of income actually realized from a family's second income?

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6. What are some of the financial issues associated with dual-career families?

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7. What are the characteristics of the Shared Management System of managing finances?

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8. What are the characteristics of the Independent Management System of managing finances?

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9. What are some of the financial issues associated with single-parent families?

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10. What are some of the financial issues associated with blended families?

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IMPORTANT TERMS

Economic Well-Being: A family's economic well-being is influenced by both the amount of income available and the size of the family.

Total Family Income: compares a family's income to a national norm.

Income-To-Need Ratio: determined by dividing a family's income by the poverty threshold for a family of a particular size

Income Management Systems

Whole-Wage System:

1. The primary wage-earner turns all earnings over to the spouse.

2. The spouse who is responsible for managing the finances pays all bills and household expenses.

3. The responsible spouse returns personal

Allowance System:

1. The primary wage-earner deposits earnings in one account.

2. The primary wage-earner pays the larger bills.

3. The nonwage-earner receives an allowance to meet regular housekeeping obligations.

Shared Management System:

1. Deposit both incomes in a joint account.

2. Allow both partners equal access to this account.

3. Have both partners assume responsibility for managing the account.

4. Select income-expenditure relationships randomly.

Independent Management System:

1. Deposit the income of each spouse in separate accounts.

2. Concede that neither spouse will have access to all of the income.

3. Assign specific financial obligations to each spouse.

4. Treat each spouse's income as personal money.

Under this system, specific financial

Single Wage-Earner Family: a two-parent family in which only one is earning an income.

Dual-Income Family: both spouses are present, and both are employed either part or full time.

Dual-Career Family: both husband and wife have a career oriented view of work. They have a developmental job sequence with goals and time frames for reaching certain mile stones clearly formulated.

Single-Parent Family: one parent is absent because of divorce, having never married, separation, or death

Blended Family: a step-family resulting from a re-marriage in which one or both partners bring children from a previous relationship.

Chapter 12

FINANCIAL CHALLENGES AND THE LIFE CYCLE

One of the more appealing aspects of marriage and family is that they provide almost infinite opportunity for giving and receiving love. But they also create the potential for some of life's greatest hurts and disappointments. As a consequence, it is often very difficult to evaluate a family's success without considering what stage of the life cycle the family is passing through. Many families experience some of their greatest stress as they make a transition from one stage of life to another.

Family Life Cycle Stages

Psychologists and sociologists have proposed a number of theories concerning the stages we go through in life. However, since our primary interest centers on the dynamics between relationships and finances, the life cycle will be divided according to changes in age, marital status, presence of children, and average income (see Table 12.1).

TABLE 12.1 - Life Cycle Stages

Age	Marital Status	Income

Stage 1: 15-24	Single	
	- no children	$17,612
Stage 2: 25-34	Married/Single	
	- no children	
	- children ages 1-9	$30,954
Stage 3: 35-44	Married/Single	
	- children ages 10-19	$40,711
Stage 4: 45-54	Married/Single	
	- launching children	$44,225
Stage 5: 55-64	Married/Single	
	- children launched	$36,868
Stage 6: 65-over	Married/Single	
	- Retired	$22,751

U.S. Department of Commerce. (1989) Population Profile of the United States 1989. Bureau of the Census.

Each stage in the life cycle has its own unique set of financial responsibilities. For example, during Stage 2, beginning families are primarily concerned with the costs of completing an education, creating a household, and establishing credit. In contrast, a retired couple in Stage 6 is more likely to be concerned with adjusting to a lower income, obtaining adequate insurance protection, and transferring their estate.

However, fulfilling these kinds of financial responsibilities can be difficult, and there are ample opportunities to make mistakes. To help identify some of the obligations and pitfalls

associated with each stage, a list of financial responsibilities and common financial mistakes will be provided as each stage is discussed. These lists are based on information compiled by the American Counsel on Life Insurance (1970).

List a financial mistake that you made in an earlier stage. What did you learn?

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STAGE 1: SINGLE - NO CHILDREN

You are classified in the single stage if you are not currently married and you have no children living with you. If you are single and have children living with you, or if you are responsible for their support, you qualify for one of the stages that include children.

The following is a list of financial responsibilities and common financial mistakes

associated with Stage 1.

Financial Responsibilities (The financial responsibilities and common financial mistakes listed in this chapter are based on the information compiled by the American Counsel on Life Insurance, 1970.)

1. Begin establishing credit
2. Make first major purchases (car, stereo, boat, furniture, etc.)
3. Establish financial record keeping procedure
4. Establish financial goals
5. Provide for educational/vocational training expenses
6. Establish financial independence from family of origin

Common Financial Mistakes

1. Impulse buying
2. Excessive indebtedness--overextended credit
3. Failure to file income taxes
4. Failure to provide for education and career training expenses
5. Failure to establish an effective financial management plan or to adhere to sound financial principles
6. Failure to establish long-range goals and objectives
7. Remaining financially dependent on parents
8. Becoming addicted to alcohol or drugs

When you were single, or if you are single now, what financial mistakes have you made?

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Living For Today--Preparing For Tomorrow

You might remember that "free at last" feeling you had when you graduated from high school, and how impatient you were to get on with your life; full-time employment, adult wages, and a big paycheck were your keys to freedom. You were finally going to buy the car of your dreams, rent your own apartment, and live a care-free life. All this was possible unless of course you were only able to find part-time work for minimum wages in an unskilled, dead-end job. In that case the only things you could afford were an old "junker" that didn't run half the time, a

room with four weird roommates, and a box of saltine crackers to tide you over until payday.

For most, education is the answer to the problem of underemployment. In 1988, the average high school graduate earned $24,745 (male) or $16,223 (female). The average college graduate earned $38,117 (male) or $23,506 (female), and someone with an advanced degree earned $47,903 (male) or $30,255 (female)(U.S. Bureau of the Census, 1990).

If you keep school loans to a minimum, an education can really pay off. But if your education loans become excessive, you can find yourself deeply in debt at the very time you are attempting to finance the needs of a new family and career. For example, a $15,000 student loan with a 9% rate of interest over a ten-year payback period would cost you $7,800 in interest, and your monthly payments would be $190. But don't forget that you would have to earn around $325 to clear (after deductions) enough to make those payments. This is equivalent to an almost $4,000 reduction in your yearly wages. To make up this difference you might be tempted to use your newly acquired credit cards.

Financial institutions often automatically mail credit cards to college graduates, hoping to cash in on newly acquired high incomes. Many graduates, having existed in a state of material deprivation for the past four or five years, experience a great deal of "pent-up consumption." To resolve this tension, many use their credit cards to acquire material goods without delay.

List three education goals that you have now.

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After all, credit cards allow them to enjoy immediately goods that may have taken their parents a lifetime to acquire. Besides, credit cards are more convenient than checks and safer than cash. What could be wrong with using them? Actually, when used wisely, credit cards can help you manage your finances efficiently, provided your monthly bills are paid on time and in full, and provided you use them only to purchase items that last longer than the payments or for emergencies.

Unfortunately, as a young adult, you may lack the experience or discipline needed to properly manage an open-ended line of credit. Open-ended credit, or a revolving charge account, provides the consumer with a preapproved credit limit with flexible terms of repayment.

The creditor allows the debtor to settle the loan with one payment, pay interest plus a minimum portion of the principal, or pay interest plus a larger-than-minimum portion of the principal. In contrast, installment credit involves a prearranged schedule of repayment that is determined when the loan is approved.

Another difference between open-ended and installment credit is that many credit-card applications do not undergo the same scrutiny that most bank loan applications do. As a result, young people often acquire numerous credit cards which have a combined credit limit that far exceeds the amount they could qualify for through a bank installment loan (see Stop Qualifying For Loans You Don't Qualify For, Chapter 6). As a consequence, you can accumulate a large amount of debt over a short period of time without fully realizing the magnitude of the financial problems you are generating.

Another problem you may experience as a young adult is the tendency to purchase assets that consume income or depreciate rapidly (cars, stereo equipment, boats, poor-quality furniture, clothing, accessories) instead of assets that produce income or at least have a chance to appreciate (stocks, real estate, IRA's, and savings bonds). In addition, as a young adult you are probably more inclined to spend a larger portion of your income on entertainment and recreation.

Although many young adults are extremely responsible during this stage of their lives, planning and preparing well for their futures, a number of those who have been "living for the moment" begin to feel frustrated when they fail to progress financially. Many reevaluate their spending habits, weighing how much they have earned over the past few years against how much they have to show for it. Usually this reevaluation takes place when the single person starts thinking about getting married.

Unfortunately, whether marrying for the first time or remarrying, many singles fail to prepare adequately for the financial challenges they will face. An ever-increasing percentage of singles approach marriage already deeply in debt.

STAGE 2: MARRIED - NO CHILDREN AND MARRIED/SINGLE - CHILDREN AGES 1-9

This stage in the life cycle is commonly referred to as the beginning family stage. Most couples during this period realign their relationships with their extended family to accommodate their new spouses. They focus time and energy on getting to know their new partners' values and behavior patterns and make adjustments to accommodate the arrival of children.

For some, the term beginning family carries an implied message that a beginning family is somehow "under construction" and therefore incomplete. However, for a growing number of couples, being married with no children constitutes a finished product.

The following is a list of financial responsibilities and common financial mistakes associated with Stage 2.

Financial Responsibilities

1. Establish the household--highly mobile, few possessions
2. Complete education--career training
3. Purchase medical insurance (taking into account child bearing costs)
3. Begin a savings program

4. Establish credit

5. Establish a mutually acceptable financial management program

6. Clarify values and resolve differences

Common Financial Mistakes

1. Continuing to be self-indulgent (income used to purchase expensive "toys" rather than to accumulate assets)

2. Failure to develop vocational/educational potential

3. Failure to plan for the future

4. Overextended credit

5. Failure to prepare for possibility of having to live on one wage-earner income

What financial mistakes did you make in this stage?

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Married/Single--No Children

One of the most difficult transitions in life is the transition from single life to marriage. During this transition we realize that we must replace much of the autonomy we experienced as a single person with a sense of togetherness. Togetherness, however, does not mean becoming inseparable, nor does it mean losing all personal identity (see Characteristics Of An Intimate Relationship, Chapter 4). It merely means that both individuals must commit themselves to thoughtful consideration of the consequences of their actions on their partner (see Responsible and Considerate, Chapter 4). For example, as a single person, you are free to sell your house and move on impulse. But imagine a spouse greeting an unsuspecting partner with, "Hi, dear! Guess what? I sold the house today."

Most spouses would consider such behavior an act of betrayal and deception. However, many newly married couples feel that way even without having the house sold out from under them. It is not uncommon to hear a spouse complain, "Before we got married, we used to go to nice restaurants, compliment each other on our appearance, and promise that things would only get better. Well, they haven't gotten better. They've gotten worse. Being single was better!"

Much of the so-called "deception" regarding a partner's behavior before and after marriage can be explained by the mere fact that a new set of rules has come into play. As we progress through stages in our life cycle different rules govern us. One set of rules governs how we should act while dating; a second set of rules governs how to act after becoming engaged; a third set describes how to treat each other as husband and wife; a fourth proclaims what constitutes being a good father or a good mother; and a fifth set describes the way we should raise our children (see What We Bring With Us, Chapter 2).

If a husband no longer takes his wife to nice restaurants as he did when they were courting, he may simply be adhering to his family rules. He might explain to his wife that while he was engaged to her he followed the rules for being a fiance, and after he married her he followed the rules for being a husband. Since he learned the "husband" rules primarily from observing his father's treatment of his mother, he learned that husbands save money by eating at home. Had he been raised by a father who had continued to court his wife after marriage, he would probably recognize the value of romantic dinners at fine restaurants.

The intent of courtship is not merely to "land a partner," but to perpetuate feelings of affection. The most important issue is not that you and your partner <u>got</u> married but whether or not the two of you still <u>want</u> <u>to</u> <u>be</u> <u>married</u>. Unfortunately, failure to recognize the need for

lifelong continued courtship often leads to divorce.

Divorce

Divorce usually represents a financial setback for both partners. In fact, for most people divorce is the most expensive event that will ever happen to them. Traumatic events like divorce tend to throw people "off track" and make them feel they are "behind schedule." As we grow up, we develop a timetable of when we believe certain events are supposed to take place and in what sequence; this "schedule" provides a general guideline for where we should be in life at a given age.

But often life, operates on its own schedule. Most married couples' timetables are disrupted when divorce unexpectedly returns the couple to single life. In 1987, the median age for a first marriage was 23 for women and 25 for men. The median age for a first divorce was 30 for women and 32 for men (U.S. Bureau of the Census, 1990). The median number of years before a divorce in first marriages is about seven years, followed by about three years of single life before the ex-partners remarry. About 75 % of divorced women will remarry, and an even greater proportion of divorced men will eventually remarry (Norton & Moorman, 1987).

Married/Single - Children Ages 1-9

Most of us have heard the familiar counsel, "Have fun while you can, because once the children come along, it's just hard work and debt." We hear statements like this repeatedly while we are growing up, and they often become part of the rules that govern how we think and act as adults. As a consequence, after we have children of our own we frequently become preoccupied with work and providing for the family. Often, we no longer have as much time for each other, feel ill-prepared for the job of being parents, and become overwhelmed by the ever-increasing

costs of raising children.

But isn't that how mothers and fathers are supposed to behave? Aren't those the rules? Aren't you supposed to "sacrifice everything for the sake of the children?" If you were taught these rules as a child, you would most likely feel guilty if you were to break them. But how would things change if you were to teach your children that parents are people too, and that they do not relinquish their right to the "pursuit of happiness" when they have children. What if you were to teach your children that loving is more than just sacrificing? M. Scott Peck, in The Road Less Traveled, admonishes that "Love is not simply giving; it is judiciously giving and judiciously withholding as well."

Financial Responsibilities

1. Provide for child care/rearing costs
2. Provide for expanded housing costs--save for house purchase
3. Buy medical/life insurance
4. Begin education fund for children
5. Make out a will and guardianship instructions
6. Adjust to the possible one wage-earner income

Common Financial Mistakes

1. Over extended credit
2. Failure to provide adequate insurance coverage
3. Failure to establish provisions for children's education
4. Failure to save for home purchase

5. No emergency funds

6. Failure to establish short- and long-term goals

Cost Of Raising Children

As all parents know, raising children is an expensive undertaking. The 1990, Family Economic Review estimates that the average annual cost of raising a six-year-old child in the United States is $5,605; $7,109 for a sixteen year old. Over an eighteen-year period it would cost about $106,000 to raise one child.

If you analyze the differences in costs between being single and being married with children, the cost of raising and educating children jumps to between $225,000 and $250,000 per child. Since the children can share resources, each additional child does not represent an exact multiple of the cost of raising one child. For instance, a family with five children can expect to devote 75 percent of its projected real income to the cost of raising children; the cost of raising two daughters is only $400,000 (Changing Times, 1983). Put another way, a couple could retire on an income of $40,000 a year for the rest of their lives on the interest that could be earned by investing the money it costs to raise and educate two children.

Fortunately, money isn't everything, and couples continue to invest in their children. Spencer W. Kimball, in his book Marriage, addresses this issue:

> Two individuals approaching the marriage altar must realize that in order for them to attain the happy marriage they hope for, they must know that marriage is not a legal cover-all. Rather, it means sacrifice, sharing, and even a reduction of some personal liberties. It means long, hard economizing. It means children who bring with them financial burdens, service burdens, care and worry burdens;

but it also means the deepest and sweetest emotions of all.

STAGE 3: MARRIED/SINGLE - CHILDREN AGES 10-19

As children continue to grow and change, family rules governing their behaviors must also change. The rules governing a twelve year old are most likely different from those governing a six year old. Similarly, parents might adjust some of the rules regarding the age at which a child can engage in certain activities as the parents become more experienced. Parents begin to extend or restrict money limits as the child becomes able to handle the financial responsibilities of growing up.

The following is a list of financial responsibilities and common financial mistakes associated with Stage 3.

Financial Responsibilities

1. Maximize insurance protection for wage earners
2. Begin teaching children how to manage finances
3. Begin retirement planning
4. Increase income to accommodate expanded household needs
5. Modify wills to adjust to changes in family
6. Maintain education funds
7. Adjust to possible two wage-earner income

Common Financial Mistakes

1. Overextended credit

2. Over indulging children
3. Failure to provide funds for replacement of major appliances
4. Failure to plan for retirement
5. Lack of adequate insurance protection
6. Failure to adequately increase income
7. Lack of adequate disability insurance
8. Failure to provide an adequate emergency fund in case of underemployment or loss of employment

What financial mistakes have you and your spouse avoided in this stage? How did you do it?

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Love and Money

Unfortunately, far too many of today's children seem to base their self-esteem on a belief that how much they are loved is represented by how much money is spent on them. Hardworking parents often find that they are unable to keep up with the latest toy fads and what seem to be insatiable wants from their children. As a result, money and affection frequently get combined in ways that make a difficult financial situation even worse. To help cope with these kinds of situations, it might be helpful to review Foa's Exchange of Resources theory which explains why a direct exchange of money for love usually doesn't work very well (see Chapter

4).

When Foa's model is applied to parent-child relationships, you can see that trying to "buy" your child's love is ineffective, but doing things with your child or treating your child as if he or she were special is more likely to help you achieve your goal of building a bond of love.

What are other ways can you show your children you love them instead of monetary gifts? How will this benefit them?

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Married/Single - Children Teenagers

The transition from having elementary-school-age children to having teenage children is

particularly difficult. One parent commented, "I wonder why they call them teenagers when it would be more accurate to call them parent-agers?" This kind of remark stems from the emotional and financial changes families undergo as they make the transition from raising preteen children to raising teenagers.

Financial Responsibilities

1. Maximize investment funding
2. Increase amount of income allocated to household expenses
3. Establish cost-sharing practices with children
4. Increase cost of entertainment/recreation
5. Discuss estate plans
6. Discuss child "launching" plans
7. Provide for costs of weddings and higher education

Common Financial Mistakes

1. Failure to adjust to changing lifestyles
2. Failure to utilize professional expertise
3. Failure to provide sufficient retirement funds
4. Indulging the children's wants--competing with others

Making The Transition

Teenagers' transportation costs are eight times greater than those of third graders, and their food consumption costs three times as much (Changing Times, 1983). In most cases, the

money previously budgeted for running the household no longer stretches to the end of the month. Food budgets that had been sufficient for years become woefully inadequate. As a consequence, the spouse who is responsible for household expenditures is frequently accused by an unsympathetic partner of mismanagement. In addition, unfair comparisons are often made to other families of equal size with younger children.

Each family is different, and each parent approaches teenage issues from a different perspective--usually one based on the rules that governed them when they were teenagers. As a consequence, these differences frequently lead to conflicts over who is being "too soft" or "too hard" on the child. One way of resolving such differences is to implement the "fifty/fifty" proposition.

The "Fifty/Fifty" Proposition

A "fifty/fifty" agreement can help to encourage mutual consideration for each other's feelings, increase the level of cooperation, and broaden a sense of value for assets. A fifty/fifty agreement states that the parents will pay half of the cost of an item if the child will pay for the other half; basically, it's a dollar-for-dollar matching agreement. The benefits of such an agreement are that (1) the child is more able to accumulate enough money to buy the item, (2) the child must put forth some effort and sacrifice to obtain his or her half of the money, and (3) the child has an opportunity not only to learn the benefits of cooperating with others but also to appreciate the efforts and generosity of others.

Remember, people cooperate most effectively when each sees the other as an equal, and when dominance and submission are reciprocal roles of responsibility rather than positions of superiority and inferiority (See Chapter 4).

What are five things that your child wants right now that you can implement the fifty/fifty agreement to?

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STAGE 4: MARRIED/SINGLE - LAUNCHING CHILDREN

Part of the parents' stewardship is to prepare their children to function effectively in the world independent of the family. The universal family rule is "Sooner or later, the child must go." Variations on this rule come from when and under what circumstances the launch will take place.

The following is a list of financial responsibilities and common financial mistakes associated with Stage 4.

Financial Responsibilities

1. Provide for future needs of parents of the previous generation
2. Analyze and adjust estate plans
3. Provide for future security
4. Investigate part-time employment
5. Investigate possible housing adjustments
6. Develop and implement a launching fund

Common Financial Mistakes

1. Lack of supplemental retirement funds
2. Lack of adjustment to income changes
3. Lack of will, out dated will
4. Adult children still financially subsidized Launching

How can you prepare more for your retirement?

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Adult Children

Until recently, children were expected to leave home upon reaching adulthood or sooner. During the sixteenth century of preindustrial England, many children left home for school or apprenticeships at the age of six or seven (Illick, 1974). Edward Shorter (1975) found that seven- and eight-year-old children in France left home to work as servants, and Swiss children of a similar age went to work for weavers. During the seventeenth century, the age of departure was more frequently between ten and fifteen (Illick, 1974; Wall; 1978).

Although fluctuations in the age of launching children exist between socio-economic groups as well as between time periods, more adolescent children remain at home in today's family than did in European families between the seventeenth and nineteenth centuries (Shorter,

1975).

Social norms generally determine the appropriate launching age (Elder, 1974). For example, one parent may believe a child of seventeen is too young to leave home but believe a twenty-seven-year old child is way past due. Another parent's rules might dictate that twenty-two is the appropriate time for a child to leave home if he or she is not attending college. Similarly, a child may be considered too young to get married at one age and yet be pressured to get married after reaching another age.

According to Calvin and Frances Goldscheider (1988), a child's ethnic group and religion also have a strong influence on the creation and maintenance of norms concerning appropriate ages for leaving home. For example, Hispanics are less likely to live independently than non-Hispanics are before marriage, and Asian-Americans tend to leave home later than either Hispanics or Blacks. Similarly, those who regularly attend religious services are less likely to live independently before marriage.

Data compiled by Jill Grigsby and Jill McGowan (1986) support the supposition that a large portion of today's adult children live with their parents. Their research indicates that over 60 percent of adult children living at home are between the ages of 18 and 22, and 25 percent are between 23 and 29. About 90 percent of the 18-22 group are single, while 84 percent of the males and 75 percent of the females in the 23-29 year old group are single. Only 5 percent of those 18-22 years old were previously married. The percentage in this category increases in the 23-29 group to 10.5 percent for men and 17 percent for women. Those who are single but were formerly married, and are living in their parent's home increases to 33 percent among those over thirty.

Similar findings are reported by the Bureau of the Census (1990). In 1970, 47 percent of all children between the ages of 18 and 24 lived in a parent's household. Ten years later, 1980, this figure had increased by only one percent, but in only five more years (1985), this figure increased to 54 percent. This percentage remained relatively unchanged in 1987. In each of the years chosen for comparison, a greater percentage of males were living at home than females.

Today's adult children seem to be becoming more resistant to the family rules about leaving home. This resistance might appear because the children realize that "I have it pretty good here at home. I have a nice house, car, laundry service, good food, and I don't have to work to pay for it. So why in the world would I want to leave?" One of the problems with this perspective is that many parents look forward to life after their children leave home.

If you have an adult child still at home, how can you remedy the situation in a loving way?

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The Launching Fund

Some parents allow their children to use an old car until they can afford to buy a new one, but their other living expenses should be their own responsibility. Some families' rules dictate that children should be provided for until they leave home at a certain age, but that they should be able to make it on their own after that age is reached. Some parents provide a launching fund to assist their children in reaching a state of self-reliance as soon as possible.

A launching fund helps children leaving home make the transition from financial dependence on their parents to financial independence. For example, a launching fund might help pay for a child's rent over a five-month period. During the first month, the parents would

pay for all the rent. During the second month, the parents would pay only seventy-five percent of the rent, and their child would pay twenty-five percent. During the third month, the parents would pay half the rent; during the fourth month, twenty-five percent, and by the fifth month, the child would pay all of the rent.

By using the fund progressively less supportive fashion, the child will tend to feel less abandoned or "kicked out," and the parents can feel that they are helping to support their child as he or she moves into the adult world.

Launching funds can help pay for a college education, specialized vocational training, a new business, moving costs and rent, or the down payment on a new home. These funds can also be used to re-launch adult children who have returned home due to loss of job, divorce, illness, etc. You can set whatever conditions, restrictions, and guidelines you feel comfortable with to govern the fund's use.

The launching fund can be paid into by the parents alone, by predetermined contributions from all family members, or through a payback agreement whereby each person that uses the fund agrees to reimburse the fund in a timely and responsible manner. If a child should break the rules of use, he or she would forfeit privileges to use it. After the children are all launched, if any money remains, it would be available for the parent's use.

Failure To Launch

Occasionally, a child is confronted with the family rule that he or she is not to leave home, but is to stay with or near the parents. Families seldom verbalize such a rule, but the siblings often seem to know which one of them has inherited the primary responsibility of taking care of the parents. The rest of the children are free to marry and move to whatever part of the

country they wish, unless of course the family rules tell them not to live "too far" away. Sometimes, the designated caretaker is allowed to marry but not move far away, or to marry but keep the parents at the top of their priority list. Either of these rules can conflict with a spouse's family rules if they admonish children to leave their father and mother, set up their own household, and have their spouse become their top priority.

One reason that children of today leave home at an older age could be financial. The 1970s and 1980s offered extensive financial growth to the "baby boom" parents. Their financial success allowed them to provide a home environment difficult for their children to duplicate. As a consequence, children may be somewhat reluctant to leave the comfortable, parent- financed environment for a less comfortable, self- financed one.

However, the reasons adult children do not leave home as young as they used to may not lie entirely with the children. As more and more parents fail in marital relationships, their children feel obligated to fulfill their emotional needs. In such cases, parents can develop an emotional dependency on their children while the children maintain their financial dependency on their parents. Parents and children begin to believe they could not make it on their own, so they fail to develop self-confidence and self-reliance.

This lack of launching, or delayed launching, can have rather far-reaching financial implications for the parents. In previous decades, married couples tended to have their children during their late teens or early twenties. Most of the children would leave home by the time they were 18 or 20 years old, while the parents were in their late thirties or early forties. This left the parents about twenty-five years to prepare for retirement.

In contrast, many of today's married couples do not marry until their mid-twenties and do

not have children until their late twenties or early thirties. If their children do not leave home until the children's late twenties, then the parents' time to prepare for retirement can be cut to fewer than ten years. In addition, the family of origin sustains the rather substantial costs of maintaining adult children with money that could be diverted to retirement needs.

STAGE 5: MARRIED/SINGLE - CHILDREN LAUNCHED

As the family becomes smaller, income is divided among fewer individuals, and the economic well-being of the remaining family members increases. After all of the children have been successfully launched, the income is divided between only two people; and dreams and goals that have been put off "until the children are raised" can finally be realized. For many couples, this opportunity comes just in time, because their income typically starts to decrease in this stage of the life cycle.

The following is a list of financial responsibilities and common financial mistakes associated with Stage 5.

<u>Financial Responsibilities</u>

1. Provide for future needs of parents of the previous generation
2. Analyze and adjust estate plans
3. Provide for future security
4. Investigate part-time employment
5. Investigate possible housing adjustments, and plans for relocation after retirement

Common Financial Mistakes

1. Lack of supplemental retirement funds
2. Lack of adjustment to income changes
3. Lack of will, or outdated will
4. Adult children still financially subsidized

Empty Nest--Full Life

There was a time when the "empty-nest syndrome" described parents who were depressed and void of meaning in their lives. This does not seem to be the case in today's families. An ever-increasing number of parents who have launched their children now launch themselves into meaningful and fulfilling endeavors.

Couples are likely to expand both individually and relationally during this period. Husbands and wives once again experience a feeling of becoming top priorities in each other's lives. The couple can give their individual lives and outside interests a higher priority than was possible while they were raising children.

What are a few things you and your spouse can do or look forward to doing when all the children have left home?

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STAGE 6: MARRIED/SINGLE--RETIRED

Retirement has been defined as the "institutionalized separation of an individual from his or her occupational position, with entitlement to a continuation of income based on prior years of service" (Atchley, 1988). To many, however, retirement is either a time to enjoy the "good life" or a time to struggle on a fixed income. In 1988, almost 13 percent of the population of the United States was over 65; by 2025, almost 1 in every 5 will be 65 or older (Euzeby, 1989), and the vast majority of these people will be retired.

The following is a list of financial responsibilities and common financial mistakes associated with Stage 6.

Financial Responsibilities

1. Adjust living standards/conditions to retirement income
2. Adjust insurance protection
3. Finalize estate-transfer plans and letter of last instructions
4. Begin transferring estate to avoid taxes and fees
5. Utilize community and governmental resources

Common Financial Mistakes

1. Failure to finance leisure activities
2. Failure to write letter of last instructions
3. Failure to recognize interdependency with others
4. Failure to develop an estate transfer plan
5. Failure to identify and utilize community resources
6. Failure to prepare for increased medical costs
7. Victimization by financial scams

Set a deadline of when you are going to have a last will and testament in place. Write down what you need to do.

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How Long Will You Live?

One of the unique difficulties associated with financially planning for retirement is estimating how long you will live. During the first half of the century your longevity was not a real issue because the average worker was not expected to reach the retirement age of 65. The life expectancy for females was 65.4 in 1940, but the life expectancy for males did not reach 65 until 1950. In 1990, the life expectancy for females had risen to 78, and for males to 72. But to estimate more accurately your life expectancy you may wish to go through the questionnaire "How Long Will You Live" found at the end of the chapter.

How Much Income Will You Need?

Although income and personal satisfaction among the elderly are positively related, a sense of well-being depends on other things as well (Hansen et al., 1965). Many people with low incomes are quite satisfied with their lives while some others with high incomes are dissatisfied. Satisfaction is largely dependent on the concept of relative deprivation (Liang, et al.,1980; Liang and Fairchild, 1979). Relative deprivation is an interpretation of your well-being compared to that of your peers. You can have a low income but be better off than those around you and feel

fairly satisfied. Conversely, even if you have a fairly high income but the incomes of those around you are higher, you could feel dissatisfied.

The standard of living you wish to maintain largely determines how much income you will need in retirement. The U.S. Department of Labor estimates that a retired couple needs (in 1984 dollars) $8,000 per year to maintain a low standard of living, $11,320 to maintain an intermediate standard, and $16,690 to maintain a high standard of living. The income will be distributed differently depending on the standard of living (see Table 12.2).

TABLE 12.2 - Estimated Distribution of Retirement Income By Percentages

	Standard of Living		
Item	Lower	Intermediate	Higher
Food	30%	28%	24%
Housing	33	33	35
Transportation	7.6	10	13
Clothing	3.3	3.9	4.2
Personal Care	2.7	2.8	2.8
Medical Care	15	10.6	7.2
Recreation, tobacco, and alcohol	3.8	4.4	5.9
Gifts, life insurance	4.3	6	7.4

U.S. Department of Labor. (1989) Monthly Labor Review. Bureau of Labor Statistics.

Wills And Estate Transfer

A will allows you to transfer your property to others after your death. A will should include the following provisions:

1. Revoke previous wills
2. Identify members of your family
3. Appoint a personal representative
4. Identify debts, taxes, estate taxes
5. Provide instructions regarding the distribution of personal belongings
6. Explain which responsibilities the spouse should assume
7. Explain how all other responsibilities should be distributed
8. Include a common disaster clause--what to do if both spouses die simultaneously
9. Give authority to others to help the spouse deal with taxes, and complicated business transactions
10. Describe the scope of the will--the property it pertains to
11. Define terms such as "children": do you mean all descendants, only natural children, adopted children?
12. Include a severability clause--if part of the will is unenforceable, the rest is still valid

13. Specify whether inheritances are to be divided among grandchildren on a per capita basis or on the basis of their parent's share

14. Appoint guardians for dependent children

15. Provide living will instructions--life support questions

If you should die intestate, that is, without a will, each state has intestate laws, and it will distribute the resources of your estate as prescribed in the state code. A will, however, does not avoid probate. Probate is a legal process in which the state transfers property; therefore a will is still probated. You can avoid probate, thus saving time and money, if you make arrangements for your property to transfer automatically upon your death. Such a transfer can take place in three ways: joint ownership, incomplete transfers, and revokable living trusts.

Joint ownership. A couple own real estate jointly if they own the property as joint tenants. Cars are owned jointly if both their names appear on the title, as are any bank accounts that have both names on them.

Incomplete transfers. In an incomplete transfer, you transfer property to a child, but you retain the right to revoke the transfer if you desire. This provides protection against unscrupulous offspring who might decide they need the equity in your house more than you do and try to sell the property before you are through using it. An incomplete transfer is revokable as long as you are alive; however, upon your death the property automatically transfers to whomever has been named on the deed.

Revokable living trust. A revokable living trust functions as an incomplete transfer does, except that it applies to non-real estate assets. A revokable living trust is set up prior to your

death, and details identifying specific assets and the trustee who will act as executor are included in your will. You still have to pay taxes when you use a revokable living trust, but upon your death the trust will automatically transfer.

SUMMARY

This chapter has presented an overview of the financial challenges associated with various stages of the life cycle. The stages were differentiated by changes in age, marital status, and average income. The financial responsibilities and common financial mistakes identified with each stage were also discussed. Primary consideration was given to the cost of raising children and the impact of divorce. Particular emphasis was placed on the cost of raising teenagers and the problems associated with launching children.

In addition, it has explored the difficulties experienced when trying to exchange resources within a family unit; which provides insight into why money cannot buy love.

This chapter concluded by addressing the issues associated with retirement; determining how long you will live, how much income you will need, and how to transfer your estate.

CHAPTER REVIEW

1. What are some of the factors that distinguish one life cycle stage from another?

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2. What are the life cycle stages?

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3. What are some of the financial issues associated with being single with no children?

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4. What are some of the financial issues associated with being married/single with no children or children ages 1 - 9?

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5. What are some of the financial issues associated with being married/single with children ages 10 - 19?

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6. What are some of the financial issues associated with being married/single while launching children?

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7. What are some of the financial issues associated with being married/single and children launched?

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8. What are some of the financial issues associated with being married/single and retired?

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9. What are the dimensions of Foa's Resource Exchange model?

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10. What are some of the reasons adult-children are not leaving home as early as they used to leave?

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11. What are some of the primary financial concerns associated with retirement?

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IMPORTANT TERMS

Family Life Cycle Stages - Age, Marital Status, And Income

	Age	Marital Status	Income
Stage 1. 15-24	Single		
		- no children	$17,612
Stage 2. 25-34	Married/Single		
		- no children	
		- children ages 1-9	$30,954
Stage 3. 35-44	Married/Single		
		- children ages 10-19	$40,711
Stage 4. 45-54	Married/Single		
		- launching children	$44,225
Stage 5. 55-64	Married/Single		
		- children launched	$36,868
Stage 6. 65-over	Married/Single		
		- Retired	$22,751

The "fifty/fifty" Proposition: the parents agree to pay half of the cost of an item if the child will pay for the other half; a dollar-for-dollar matching agreement.

The Launching Fund: monies made available to help children leaving home make the transition from financial dependence on their parents to financial independence.

Wills And Estate Transfer

Joint ownership: when a couple owns real estate as joint tenants. Cars are owned jointly if both their names appear on the title, as are any bank accounts that have both names on them.

Incomplete transfers: property is transferred to a child, but the right to revoke the transfer is retained.

Revokable living trusts: functions as an incomplete transfer does, except that it applies to non-real estate assets.

How Long Will You Live?

Start with the number 72.

Personal Facts:

If you are male, subtract 3.

If female, add 4.

If you live in an urban area with a population over 2 million, subtract 2.

If you live in a town under 10,000 or on a farm, add 2.

If any grandparent lived to 85, add 2.

If all four grandparents lived to 80, add 6.

If either parent died of a stroke or heart attack before the age of 50, subtract 4.

If any parent, brother, or sister under 50 has (or had) cancer or a heart condition, or has had diabetes since childhood, subtract 3.

If you earned $50,000 a year, subtract 2.

If you finished college, add 1. If you have a graduate or professional degree, add 2 more.

If you are 65 or over and still working, add 3.

If you live with a spouse or friend, add 5. If not, subtract 1 for every ten years alone since age 25.

LifeStyle Status:

If you work behind a desk, subtract 3.

If your work requires regular, heavy physical labor, add 3.

If you exercise strenuously five times a week for at least half an hour, add 4. If two or three times a week, add 2.

If you sleep more than ten hours each night, subtract 4.

If you are intense, aggressive, or easily angered, subtract 3.

If you are easygoing and relaxed, add 3.

If you are you happy, add 1. If unhappy, subtract 2.

If you have had a speeding ticket in the past year, subtract 1.

If you smoke more than two packs a day, subtract 8. If one to two packs, subtract 6. If one-half to one, subtract 3.

If you drink the equivalent of one and one-half ounces of liquor a day, subtract 1.

If you are overweight by 50 pounds or more, subtract 8. If by 30 to 50 pounds, subtract 4. If by 10 to 30 pounds, subtract 2.

If you are a man over 40 and have annual checkups, add 2.

If you are a woman and see a gynecologist once a year, add 2.

Running Total _____

Age Adjustment

If you are between 30 and 40, add 2.

If you are between 40 and 50, add 3.

If you are between 50 and 70, add 4.

If you are over 70, add 5.

Add up you score to get your life expectancy. Total ___(Source: Robert R. Allen, with Shirley Linde, Lifegain. Englewood Cliffs, N.J.:Appleton Books, 1981.)

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