How To Finally Take Control Of Your Spending

[0:00:12.0] ST: Welcome Nation to the Financial Rock Star Show. I'm your host, Scott Alan Turner ready to help you get out of debt, save more money and retire early. In the studio with me is producer Katie who's probably one of the youngest people ever to have major hip surgery, that's why you shouldn't exercise. You'll get hurt.

On the show today we'll be answering your questions about money, business and life, if you have a question you'd like answered on the show visit Goaskscott.com. If you missed these last show I shared with you how the rich get richer and the broke stay broke. Do you want to know how they do it? Do you want to know how I did it? The answer is not what you think. Please listen to that show and find out.

My wife and I years ago decided to cut up the credit cards we didn't use and stop using our credit cards for a month. We were already out of debt, no loans, no mortgage, nothing but we had heard about this system people have been using to stock away money so we figured hey, let's give it a try. Let me tell you what, the cash piled up. How would you like to have cash pile up?

Even if you're loaded, there is no reason to overspend if you don't have to. I'm going to spend a few minutes showing you how to simply improve your savings using what is called the envelope system. Have you ever asked yourself at the end of the month, where did all my money go? My bank account is showing me all zero's, my wallet is woeful, my purse is pitiful.

I know I started the month with some money but it's like it up and just vanished into thin air. Let's learn how to put some cash back in your hands and keep you from overspending. This is a simple concept, it's worked for tens of thousands of people. It's not about depriving yourself either. Just be about becoming a more conscious spender. Step one, at the beginning of the beginning of the month, you go to the bank, you take out only enough cash to cover what you plan on spending in certain areas of your life.

We do it for eating out and groceries, you can do it for clothing, baby stuff, whatever you like, whatever works for you. Then you divide the cash into envelopes based on your spending categories. Again, groceries, entertainment et cetera. And then for the month you only spend what's in that envelope. Now, all you're doing is preventing yourself from overspending in areas of your life that you might typically overspend. Now why does this work?

There have been studies out there that show, when you spend cash, you will spend 12 to 18% less than when you use a credit card. Because spending cash hurts. It's real money, you'll naturally spend less when you pay for things with cash. For example let's say you decide to spend $250 a month on eating out, put $250 a month in cash in an envelope, that's the money you use for eating out. Sounds simple right?

You might be thinking, "Well I got to go to the bank once a month." Well yeah, it's not a big deal. "How am I going to remember to bring cash?" Well you do what I do, you stick a sticky note on the door leading to the garage and it says on it, bring cash. You may ask, "Isn't this going to ruin all my fun? I'm not going to get to do anything fun anymore." Well, it's more fun being out of debt than having more savings than using a credit card.

I promise, if you do this for a couple of months, you'll be an expert at managing your cash this way. You'll be making better, more informed choices at the stores and where you go out to eat out, you'll have plenty of cash that you can go out with your friends to happy hour at the end of the month to your favorite restaurant but at the same time, you won't be overspending.

We've used this system for years and years for eating out and buying groceries, areas in our own lives where it's easy to overspend. The envelope system is critical for saving money and being debt free. If I go to Costco, I grab some cash from the grocery envelope. If Katie goes to Target for a new shirt, if she goes to Kohl's for a new shirt, she goes to Macey's for a new shirt, if she goes to the GAP for the new shirt, she grabs some cash out of her personal spending envelope.

I'm kidding, she doesn't shop that much, maybe a couple of times a year but it helps us to not overspend and will help you too. Getting ahead with money is simple, you spend less than you earn. If you are finally ready to take control of your

spending, try it out for 90 days and just see what happens. You'll be amazed at the results and how your savings will grow. Now, on to your questions.

Rafael, my number one question asker has a question, he says:

[0:04:47.3] R: "What are your thoughts on flexible spending accounts? Is it a good idea to contribute?"

[0:04:52.8] ST: Many employers have this benefit, which not all employees know about, called the flexible spending account or FSA for short. It is for healthcare. According to HAS.gov, one of the government websites, you can use a flexible spending account for copays, deductibles, some drugs, other healthcare costs, you're limited to $2,550 per years. Now, what is it? It is a special account you put money into each pay period and you can use it to pay for certain out of pocket healthcare cost.

You don't have to pay taxes on this money, that's the good thing on it. It means you'll save an amount equal to the taxes you would have paid on the money you set aside. You can use them for certain medical expenses, certain dental expenses, co-pays. On the website they got this massive list of stuff that is permitted that you can use for the doctor visits and the dental visits.

They're only available to people who have a health plan at work and your employer may or may not make contributions to them. You also can't spend FSA funds on insurance premiums which is important, so no tax deduction there. Now, a lot of people who are eligible for this, they don't use them. A significant portion, there's only about one and five people who use these plans through their employers. Not many people out there are doing this. You should because it's a great way to save taxes.

Now, what happened in the past, this system's called the use it or lose it plan, if you don't use up your benefits during the year, you lose them at the end of the year. For example, let's say you put in $2,000 for the year, over the course of the year, for each pay period and but you didn't get sick or nothing happened or you're out with $2,000. A lot of people shied away from them. Now, rules have improved, employers that let you carry $500 forward year over year if you don't use up all that money. So there's really no reason to not use these systems, it's a great way to save taxes.

Again, $2,550 each year, if you're in a 20% tax bracket, max that out, you'd say $450 in taxes. That's a good deal. People have a tough time estimating how much they should use because it's the use it or lose it plan. What you can do is look at how much you spent on medical and dental last year to kind of get an estimate. Look at your credit card statements, bank statements, you're on your budgeting tool if you got one, you've got to pack if you're a pack rat, you keep all your bills and go out and add them all up.

Then you could figure out, "Okay, last year we spent $3,000 on medical bills out of pocket, this might be a good idea to max it out." If you're single, you only spend a thousand dollars last year, gives you a better way to figure out what you should be putting in. You figure out your estimate then you can figure out what you can set aside in your paycheck.

Generally it's got to be a medical need, medicines will require prescriptions. Cosmetic surgery, that doesn't count, must be some type of reconstructive surgery or to treat a disease. Due to the high deductibles, a lot of families are paying, most people can get by with maxing out the $2,250, with all of the out of pocket expenses you're going to be paying. Again, a single person, not so high, you wouldn't want to contribute the max. Thanks for the question Rafael, keep them coming.

Rodney has an investing question:

[0:08:33.0] R: "What would return me the most money in the shortest amount of time?"

[0:08:37.3] ST: Putting your money in an online bank or under your mattress or sticking it in a jar and burying it in the backyard, those are all good choices. What you're really asking is, "How can I get rich quick?" Maybe not rich but what are some of those high risk investments I can make that promise big returns in a short amount of time. High risk equals high reward, right? Yes, and a fool and his money are soon parted, that statement is also true.

You can find programs, seminars, books, online training programs that teach you the secret to trading penny stocks. The secret to whatever, offshore investing, the secret to investing in Iraqi Dinar or magic bean juice. The secret to peer to peer lending. I will give you the secret to making the most amount of money in the shortest amount of time; avoid everything that will cause you to lose money.

If you do that, you'll have the most money because you never lost any. $10,000 won't become $8,000 or $5,000 or worse yet, zero thousand. If you're thinking short term for a short term goal like a car or down payment on something, that money needs to be put in an online savings account where it can earn slightly above zero in interest. It's no risk and you can store your money there until you need it, you won't lose it, it's safe, when you need $25,000 to put a down payment on your house, you will have $25,000.

You put that money in an IPO offering in the IPO tanks — IPO, if you're not familiar with that term, Initial Public Offering. That is when a private company goes public, can raise funds, if you get on those, yeah, some people make a lot of money. You get on an IPO, your $25,000 might go up to $40,000 on day one. Then again I might become worth $18,000, one never knows.

That happened to me so that's how I know. I got in on the Vonage IPO when it rolled out, lost 20% of my investment in the first week and then I got out. Cause I had enough of losing money, watch it go down. Could have it gone the other way? Sure thing, that's the risk you take, is it worth it? Not if you need that money in the short term.

You go find a thousand people who are wealthy and ask them how many of them made you money in get rich quick schemes? I bet you the answer will be next to zero. In fact, I know it will be because in the book The Millionaire Next Door. I don't recall anyone in the study indicating they got rich that way. Thanks for the question Rodney.

If you have a money related question you like answered, please visit Goaskscott.com to get in touch with me, the website has my email address, Twitter, you can also leave me a voice mail. Please contact me, I am here to help you.

[BREAK]

[0:11:29] ST: Now I would prefer you not to have a car loan, I'd also prefer you to sell your expensive car but I understand that cars are an extension of ourselves. A cheap car is the extension of your bank account. But what if you have a car loan and you're dying to get into a new car? If you're planning for a new car, continue making monthly payments to yourself even after you've paid off the car you own. The first car loan is over, maybe you're paying $400 bucks a month, keep paying it into a new car fund as if that loan never went away.

You direct that money into its own account automatically so you never see and you never touch it and you're giving yourself a jumpstart on the down payment for the next car that you want. You keep paying that money into something that makes you more money like an online savings account or if you don't plan on buying a new car for seven to 10 years down the road, maybe put it into the stock market.

That's a simple way to save for a new car when you're in the habit of already making a car payment then you can have your next car in cash. Now, back to your questions. This next question comes in from Periscope. Katie and I were driving up the highway one day, she was on the passenger seat and we're periscoping and we weren't talking about money on the periscope, we were discussing vehicles and somebody asked what are my thoughts on 457's?

Since we were driving and not talking about money, I just drew a complete blank. Like, "457? Is that some new model of BMW?" Because we were talking cars. I had a big brain freeze I said, "I'll get back to you on that, I have no idea what you're saying." Later I did another periscope on 457 plans, which is what the person was referring to. So a 457 plan is similar to a 401(k) but it's for government employees and certain other non-government employees in the United States.

It’s a retirement account where you invest your pre tax dollars, your taxable income is reduced now like it is with a 401(k) or 403(b), you pay the taxes when you start withdrawing the money in your retirement. Now, the difference between a 457 plan, and 401(k) are the contribution limits and there’s nice to these, that you have for withdrawals in the 457. Unlike a 401(k), with a 457, if you pull out the money before age 59 and a half, you don’t get hit with an early withdrawal penalty, if — that’s a big “if — if you don’t’ work for the employer anymore.

Anyone still working at the employer that sponsors the 457 plan, they can’t take distributions until age 70 and a half without a penalty. So let’s give you an example: you work for the Shelbyville Sanitation department, if you’re still working at Shelbyville at age 68, you can’t withdraw the money or else you pay a penalty. Here’s another example: you work for the Shelbyville sanitation department and you contribute to a 457 until age 45.

Then you decide, “We’re going to move to Springfield, that town’s way better.” Move to Springfield, we get a job at the Springfield sanitation department and we start contributing to that city’s 457 plan. We could withdraw the money from the 457 plan we had at Shelbyville at any time. We don’t have to wait until we quit our job at Springfield or until we hit age 70 and a half before we can withdraw without a penalty.

457’s, they typically don’t have any type of matching like a 401(k) because the people that have access to the 457’s, usually they have government pensions to go along with it and that’s where your matching is going to come in. 457’s, were created to those that participate and now bridge the gap between their pension and social security. So should you participate in one if you have access to it?

If my opinion, one that is shared by the vast majority of financial planners that after a 401(k) company match the best thing going is going into the Roth. That allows your money to go tax free until retirement. Don’t pay any taxes of the money when you pull out which is huge. If you have access to a 457 and it doesn’t have any type of match, my next move would be to put money to a Roth and max that out. If you’re already maxing out the Roth, yeah, then go back to the 457, divert some of your paycheck into it.

Now, what about 457’s that have a Roth option in them? Well the investment options in your 457 are going to be pretty limited, which means your investment option’s a Roth that’s part of a 457 are going to be limited. You get a 457 with a Roth option in it or you can just do the Roth on your own where you can pick and choose any type of mutual funds, I’m going to do it on my own.

When you’re in control of your investments that you can pick, your fees are going to be lower compared to your employer sponsored retirement plans. 401(k)’s, 457’s, 403(b)’s, most of the time. The fees in those plans are much higher than you can pay on your own unless you’re working for a really big corporation that’s doing really right by their employees. There’s an employer match, invest in the individual Roth first, max that out, go back to 457. Thank you Periscope for the question.

Okay, quick break, back in 30 seconds, I’ll be answering more of your questions, you’re listening to Scott Alan Turner.

[BREAK]

[0:17:16] ST: Hey nation, its Scott Alan Turner here. Now, for those of you that are my long time listeners, you know I’m not one of those guys in the radio who promotes every product that shows up on their desk. You’re never going to hear my try and get you buy an expensive brand name memory foam mattress because No Form at Costco is the best. Or recommending you buy New York style pizza when Chicago style is clearly the best — Lou Malnati’s!

No, I have a name to uphold to you my Rock Star listeners. But if I were, if I were to recommend something to you, I would tell you about The Dancing Pony Steakhouse. I can’t get enough of that flowering onion appetizer. What about that honey whet bread, it’s so delicious, forget the paleo. That chocolate volcano for dessert is to die for. Steaks, okay.

The next time you're hungry, looking for a place to celebrate, visit The Dancing Pony, it's not only a great place to eat, each location has a tiny inn above if you get stuffed and want to spend the night. Give them a ring, tell them Scott Alan Turner sent you.

[0:18:16.5] ST: Welcome back nation, Lydia asks:

[0:18:19.6] L: "As a young married couple, we're trying to decide when to make financial transitions. I have some relatively small school loans and we're trying to save for a house down payment so should we wait to invest? When we do get to that magical time when we have enough money to start investing, what's your advice on how to start? I noticed in your book recommendations, you said you don't subscribe to some of the other expert's investment advice. How does your advice differ?"

[0:18:45.5] ST: Personal finance experts and other reputable financial advisers, people like myself, they agree on the vehicles for investing mutual funds and index funds. But a very small minority, one person actually differs from everyone else on which car lot you should buy your vehicle from. There are celebrity endorsed companies that pay large sums of money for leads. The products you purchase from those companies are commission based. 5.75% in fact. Front loaded.

If you walk in with $10,000 to invest, they charge you $575 for the privilege of doing so. On top of that fee, again it's called a front loaded fund, are yearly maintenance fees on investments which are higher than you can get elsewhere for equivalent investments. Now all mutual funds, all index funds have yearly maintenance fees. The difference in fees though can add up to tens or hundreds of thousands of dollars over a period of 30 to 40 years.

The amount of fees you pay can make the difference between retiring one to two years earlier, which is huge. Investment advice from some people are clouded by hidden kickbacks from advisers. There's a conflict of interest in my opinion when you're receiving a large sum of money to recommend one product, service or provider. Now, this is true of many fee based financial advisers or commission based financial advisers as well. They make money by selling you stuff.

On the other hand, you've got people like fee only certified financial planners, they have a fiduciary duty, meaning they're bound by law, to help you make decisions based on what is your invest interest; people before profit. Fee only CFP's get paid no commission on any products. If they don't do a good job for you, you leave and they don't make any money from you anymore. It's in their best interest to do a good job for you to keep you as a customer.

Now I don't want you to be confused with fee based. The issue with CFP's is they only take on clients who have big chunks of money because they get paid a percentage of the assets they manage, usually. Sometimes you can pay them by the hour or by the job. For beginning investor with a small income, CFP's, sometimes they're out of the question because they're a little pricey. But there are advisers who you can find to get paid by the hour, still can be pricey. I've heard the argument before, "Well I would gladly pay someone a four or five percent commission if they can make me a bunch of money."

That's a fair statement, but why pay the money when you don't have to? 80% of professionals can't beat the market each year, 90% plus can't beat it over time. Why would I pay someone five and a half percent to not do better than what I can do on my own? I'm generous but I'm not that generous. I want that five and a half percent working for me, not going towards a broker's paycheck.

Just ask yourself one question, "Should the fox be advising the chickens?" Thoroughly educating yourself is the best course of action prior to investing anywhere. That doesn't mean listening only to one adviser and taking their advice as gospel. Me? I don't have any skin in the game, I'm not a CFP, not a retirement investment adviser. Try to lay out all the options for you so that you can make the best choice for your situation.

Educate yourself first then prove me wrong, that is my challenge to you on any topic. Prove me wrong. I don't claim to be the be all or end all or all-knowing source of information but on this topic, I've done a little research. I've made the mistakes that many of us have and I would love to keep you from making the same mistakes that I did. I would love to keep more of your money where it belongs; with you. Thanks for the question Lydia.

Carla has a one year old, she and her husband both work long hours and want to make sure the child gets a good education and doesn't have to work as hard as they do.

[0:22:48] C: "At what age should we start saving for our child's college fund?"

[0:22:53.1] ST: That is a great goal, I think it's something that we all want. For our kids to not have the same struggles that we had and build up a better life to not make the same mistakes and usually one of those things we want is for our kids to have a good education. Like Carla, we've got to plan ahead because college is expensive and it's certainly way more expensive than it used to be.

Your first priority though has to be to plan for your retirement fund and your security. Before you start the college fund, you should be out of debt. Credit cards paid off in full, no car loan, student loans paid off. We're in a different time now where parents are not even finished paying off their own student loans when their children are heading off to school and getting their student loans. It's a bad place.

Also, any medical bills, have them taken care of. The only debt you want to have is a mortgage, nothing more. Otherwise you're sacrificing your retirement. You can't be paying off your own student loans while you're trying to save for your kid's college fund. Doesn't make sense. Not that you're in that situation but there are a lot of people that are, it doesn't work.

You're just going to be spinning your wheels for decades trying to get all these bills paid off and try to save and invest. Let's not try that, let's make it easy on ourselves. You should only be funding a child's college fund if you get all your debts paid off, you've got a three to six month emergency fund, you're investing 20% of your income for retirement, if you're doing all those things then we can get into start saving for the kid's college fund. Best way is through what's called a 529 plan, 529 college savings plans.

The advantage of a 529 plan is the money you put in isn't taxed as it grows. When you withdraw the money to pay for tuition, you don't pay taxes on it. Anybody can contribute to a 529 plan. Grandma and grandpa can put money into the plan, makes a nice gift. Forget the toys for Christmas grandma, write those kids a check, there's no annual limit to how much you can put in, there's a maximum limit but not an annual one.

Every state you'll find has their own 529 plansl; some are crap, some are great. You can start a 529 plan outside of the state you live in, which you need to know about because the state of Utah right now rank as the top 529 plan in the country and has been for a number of years. What makes one plan better than the other? Well, the yearly maintenance fees that your investments are going to be charged in that plan, just like your retirement investments, you want to pay low maintenance fees.

That's more money that grows for your kid's college tuition and their text books. Carla, you and your husband enjoy that baby while it's tiny, it's a fun age where they start getting mobile, babbling a little more. Thanks for the question.

[BREAK]

[0:25:49.9] ST: If you want to master your finances, you have to become obsessed about not losing money, not about the accumulation of wealth or making money your god but not losing money. Because when you lose money, it's a lot harder to make it back than when you had it the first place. If you have a $100 and lose 50% of it, how much do you have? $50 and how much do you have to get back to get to a $100? 100%. It's twice the effort and time to make it back.

When you avoid waste and can prevent lost, then you can accumulate wealth. Those are the words. Can you do me a favor please? Take 30 seconds right now and text two or three of your friends the link getfr.com, tell them to check out the show, I appreciate you guys listening, I love it if you help me spread the word, super simple, just text getfr.com and tell them how awesome my cats are and the advice is okay too.

Next time on the show, how much house can you afford? Don’t make the mistake I did, that’s it for this episode, I’m your host Scott Alan Turner, Rock Star Katie is my producer. All the links mentioned in the show are available in the show notes on Scottalanturner.com. Today’s episode is powered by Ben and Jerry’s ice cream. Thanks for listening.

[0:30:25] ANNOUNCER: Okay nation, for your free copy of the guide, “How to save $1,000 in one week, simply subscribe to the podcast right now on iTunes and text the word “saving” to the number 33444 to prove that you did it. Subscribe now to get out of debt, save more money and retire early. See you next time.

[END]