Financial Health 1-uh-oh…I mean 101

By Beth Gigante Klingenstein , NCTM

Congratulations! You have a wonderful career at a professionally run independent studio, a prestigious university or a successful community school of the arts. You are on the road to financial success. Well… maybe not.

Here's an example of the wrong path. When I was 29 (and single), I had established a successful independent studio, bought my first house and worked hard to have no debt other than my mortgage. I thought I was doing well financially, but I had very little in savings and nothing invested toward the future. Had I continued down that road, I would be broke today and unable to retire. The truth is, that to enjoy a financially secure and stress-free life, you need to get rid of debt and start not just saving, but actually *investing,* now.

If you have yet to start, it is never too early or too late.

Please do not think this doesn't apply to you. Preparing well for your financial future is more attainable than you may think, but it requires a plan, discipline and determination. There is a way, no matter how far in debt you are, what your age is or even if you are living paycheck to paycheck.

First, start by reading *The Total Money Makeover: A Proven Plan for Financial Success* by Dave Ramsey. Ramsey gives concrete advice on how to get out of debt and execute a plan for financial success. Along with numerous helpful guidelines, he offers seven "baby steps" that lead to financial security. Here are the first four:

Baby Step #1: Saving $1000

We each need to have an emergency fund of easily accessible cash. Right now, 60% of Americans couldn't cover a $1,000 emergency without going further into debt. This includes things like unexpected medical bills, car repairs or a broken water heater.

Baby Step #2: Getting Rid of Payments (Debt)

Ramsey suggests you add up all the monthly payments you are making now toward debt (other than your mortgage, which he addresses later). Include credit cards, bank loans, car payments, unpaid medical bills, student loans or any other monthly payments. That is the money you could be investing once you eliminate those debts. Ramsey gives *specific* tools for how to get out of debt and warns that debt is the biggest way to sabotage your financial success and your future economic stability.

Baby Step #3: Finishing Your Emergency Fund

Once you have gotten rid of debt, take money that would have gone to debt payment and use it to build up your emergency fund. The fund should cover three to six months of living expenses (six if self-employed). This will cover you if something major happens, such as a health problem, the loss of a job or an unexpected divorce.

Baby Step #4: Saving for Retirement

There is too much to cover here, but please know that the earlier you start, the *easier* it will be. Once you have achieved Ramsey's first three baby steps, it is time to start saving 15% of your before-tax gross income for retirement. Your financial security in retirement is 100% in your hands—not Uncle Sam's and not your children's. When I told our daughter, a geriatric physician, that I was writing this article, she got a sad look on her face and said, "If you think it is tough to get old, try getting old poor."

Starting Early Pays Off

Initial Investment	Monthly Contribution	Estimated Interest Rate	Length of Investment in Years (compounded monthly)	Calculated Amount Available
$0	$200	10%	40 (age 25–65)	$ 1,264,816
$0	$200	10%	30 (age 35–65)	$ 452,098
$0	$200	10%	20 (age 45–65)	$ 151,874
$0	$200	10%	10 (age 55–65)	$ 40,969
$25,000	$200	10%	40 (age 25–65)	$ 2,607,333
$25,000	$200	10%	30 (age 35–65)	$ 948,033
$25,000	$200	10%	20 (age 45–65)	$ 335,076
$25,000	$200	10%	10 (age 55–65)	$ 108,645

Investor.gov

Consider this: The current average monthly car payment in the U.S. is $563. What if you always bought modest cars, paid them off quickly (or better yet, paid cash), drove them for as long as possible and put that $500 per month into retirement instead of car payments? Doing that for 30 years (at 10% interest rate) would lead to a retirement fund of $1,130,244!

My next article in this two-part series will delve deeper into retirement planning and what you can do now to retire well later. In the meantime, I urge you to go to https://www.investor.gov/financial-tools-calculators/calculators/compound-interest-calculator and play around a bit. The site can calculate, based on your current situation, where you will be financially when it comes time for you to retire.

Surprised? Time to take control!

References

Ramsey, Dave. 2013. *The Total Money Makeover: A Proven Plan for Financial Fitness*, Nashville, TN: Nelson Books, an imprint of Thomas Nelson.

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