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MAKING THE MOST OF YOUR PAYCHECK

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The McCafferys are not alone. Many Americans are trying to save more and make better financial decisions, but it can be challenging.

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The recent recession and economic recovery have spurred Americans to save more. In November of last year, America's savings rate was 4.2 percent, although that is still less than half the savings rate of three decades ago.

The need to plan for the future has led families such as the McCafferys to look for ways to save more and invest for the future. For ideas on achieving these goals, we spoke with financial advisers who could offer practical advice on strategies—such as drawing up a responsible budget and having a system in place for putting money toward important financial goals.

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PRACTICAL TIPS FROM THE EXPERTS

BY MICHELLE MARTIN

Detailed Budgeting

Fortunately for the McCafferys, who work in the wildlife biology field, they share a similar philosophy when it comes to money, so devising a plan and sticking to it—even if that means some sacrifices—has been relatively easy for this couple. They make ends meet by adhering to a detailed budget of monthly expenses, which also allows them to save a little each month for emergencies, their kids' college fund and their retirement.

"[Our budget's] pretty tight—for example, in order to put our daughter into swim lessons, my husband stopped his gym membership," Rebecca McCaffery says. "But it has savings and putting money aside built into it."

The McCafferys bought their home when house prices were low, and they deliberately chose a residence within walking distance of various places they need to go. Later, they were able to also take advantage of dropping interest rates to refinance, allowing them to put the savings toward their retirement and their kids' college funds.

The family also saves in a number of other ways. They currently forgo cable and personal smartphones, and they budget for dining out. They raise chickens for eggs and grow a big vegetable garden. They also winterize their home every year to save on energy costs.

Know Thyself

Debbra Dillon, a certified financial planner based just outside Boise in Eagle, Idaho, says most people can improve their budgeting.

"Really, it's pretty simple," she says. "You're either going to have to increase your income or decrease your expenses. Those are the only two ways to save."

But take heart, she says, because there is always a way to accomplish this, even if you have very little to start with. She tells of a couple she advised who had a large amount of debt and no savings when they first came to her.

"Three years later they are out of debt, have a good emergency fund, and are starting to save for their retirement," Dillon says. "They are so much happier, and they look 10 years younger. Sometimes people just need to sit down and ask themselves, 'What does my future look like?' And sometimes that is enough to motivate them to plan and save."

Dillon typically helps clients to draw up a budget, or a spending plan, as she likes to call it. She recommends clients look over the expenses from the previous year, comparing the total to their net income. Then they can find places to cut costs, and create a plan for how to spend money in the future. If you don't have a record of your spending over the last year, there are several tools that can be used to begin to track expenses for the future. Mint.com is a popular free online tool for this. Other software tools include Moneydance, Quicken and QuickBooks.

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"Your values need to play into any financial planning," Dillon advises. "Once you have your spending plan based on your past year, you may look at it and say, 'That doesn't fit at all with my values.'"

Self-reflection offers an opportunity for couples to think about their goals and values, which they can use to shape their spending plan.

Paul Doak, a certified financial planner in Seattle, has seen success stories similar to that of the McCafferys during his 17 years in the field. However, he also has a cautionary tale of an acquaintance who came into an inheritance of more than $300,000. The friend had no plan for how to use the money. He and Doak crossed paths a year and a half later, and Doak asked the friend how it was going. To Doak's surprise, the man said he wished he had never been given the inheritance.

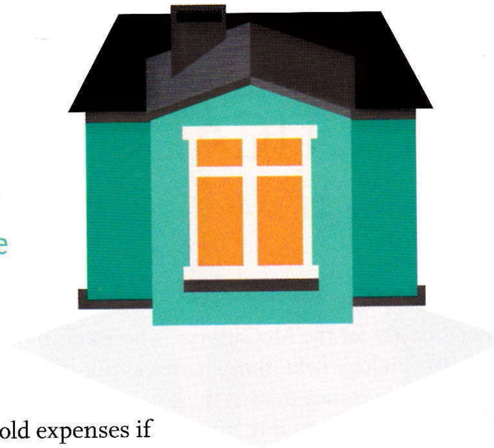
"They let the money go to their heads," Doak says. "They bought things they didn't need. They voluntarily cut back hours at work, and then just 18

ILLUSTRATIONS: VENIMO / SHUTTERSTOCK.COM months later, they were more in debt, with lower-paying jobs."

To avoid such financial stumbles, Doak says, you need to know yourself before you make a budget.

"Some people, they'll get money in their pocket and see a shiny widget and say, 'I gotta have that.' Knowing that they tend to be spenders before that paycheck arrives, they can, instead, allocate—set aside a certain amount in savings and be disciplined about it. If there's something left over, they can go and have fun with that."

A general rule is that you should spend no more than 28 percent of your gross monthly income on a mortgage and related housing expenses.



Spending Plan Categories

One place to start when developing a budget is with the largest expense area—housing. A general rule is that you should spend no more than 28 percent of your gross monthly income on the combination of a mortgage, interest payments, taxes and insurance, financial planner Dillon says. If you cross over the 28 percent barrier, don't panic. It just means you will need to work a little harder to control costs in order to save for the future.

Other common budgeting categories to include are all of the monthly bills, from utilities to phone charges; estimates for the cost of food; and expenses associated with your children, transportation (including parking) and entertainment.

Another category that should be included is a financial reserve. Doak coaches all of his clients on the importance of having an emergency reserve—money that can cover all household expenses if someone lost a job or couldn't work for a nine-month period and had to pay insurance deductibles and out-of-pocket expenses.

He also recommends having three or fewer credit cards, for ease of management. And he recommends an automatic, pretax college savings fund if it's available in your state.

According to Barbara Potter, the executive vice president and managing director of fiduciary responsibilities at Laird Norton Wealth Management in Seattle, it is important to watch for the common budgeting mistake of omission. Expenses that are infrequent, such as gifts, pet healthcare and clothing, may tend to be forgotten and can cause problems sticking to a budget.

"You can fill up the big buckets really easily—you

Puzzle on page 70.

know your rent or mortgage, your utilities, and you can estimate your food costs," Potter says. "What gets people off track are miscellaneous things."

She recommends having specific clothing and restaurant categories in your budget, and not buying items on impulse.

"Instant gratification is a problem," Laird Norton's Potter says. "If you saw something in the store and said you really wanted it, I'd say, wait. Go back in three or five days, especially if it's priced at the higher end of your budget."

Even more important to the saving process is her recommendation that clients pay off credit cards each month to avoid high interest rates and to keep debt under control. Doak agrees with Potter that it is often the little things that can end up costing a lot of money over time and derailing a budget.

> Making financial decisions for yourself can be difficult enough. Making them as a family can often become the source of friction for loved ones who have differing financial styles, goals or outlooks.

"If someone spends $5 per workday on coffee, that is $100 a month, which is $1,200 a year," Doak says. "The amount you spend on coffee can add up in a very big way."

For those who are not holding to their budget, Dillon advises looking at ways to reduce costs, ranging from finding cheaper smartphone plans to reducing their cable TV bills to packing a lunch on occasion. You can boost your savings by using automatic transfers into a retirement fund and savings account.

Sometimes bigger, long-term savings can be achieved by spending a little more money up front. Home improvements are one such investment that can lead to significant savings over time. And often public utility companies or local governments will offer incentives for people to make such improvements.

Jeanette Guntle, her husband and two children live in a 1909 house in Portland, Oregon. Last March, they decided to have an energy audit done through Energy Trust of Oregon, an independent nonprofit organization that helps utility customers find ways to save energy through free energy audits, cash incentives and connections to local contractors.

Energy Trust reports that since 2002, it has helped participating utility customers in the Portland area save $1.3 billion in energy costs.

The Guntles' energy audit, which included sealing up the house then blowing air from a huge fan in the front door to find leaks, showed that the Guntles could save approximately 20 percent in energy costs if they put in 15 improvements. Some, such as insulation and ceiling fans in the upstairs rooms, were for energy savings, and some were for safety, such as a bathroom fan and attic ventilation.

"I was very skeptical that they would be able to help us very much," Jeanette Guntle says. "We chose our old house. We knew it was leaky and creaky."

She estimates her family has saved even more than expected—25 to 30 percent a month—on their power bill. Their natural gas bill has also fallen. Perhaps more importantly, the Guntles say their home is more comfortable.

With the money they have saved, the Guntles have been able to take more mini-vacations, turning those savings into lasting memories.

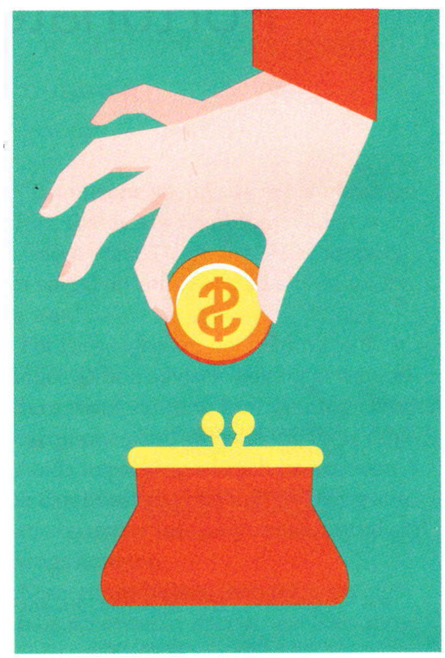
Renters can also make improvements to save on power use. Some ideas include hanging thermal curtains, covering single-pane windows with a layer of plastic, installing low-flow showerheads, and using efficient lightbulbs and appliances.

Consumers who are trying to save money and energy should check to see if the appliances they are considering purchasing are Energy Star qualified. This federal program identifies energy efficient products that often use 40 percent less energy than many standard appliances.

Depending on what state consumers live in and the local cost of energy, such power savings can translate into considerably lower utility bills.

Planning for Retirement

Experts stress that many of America's workers need to find a way to save more money for retirement. Dillon says she urges all of her clients to put money into an individual retirement account (IRA) or, if available, a 401(k) plan, which is a retirement account set up through your place of work, with the employer sometimes offering a contribution.



"Unfortunately, we tend to not give too much thought to the future," Dillon says. "If you have access to a 401(k), and you have a match from your employer, and you're not putting money in there, you're automatically losing that gain."

Dillon advises that those who don't already contribute to a retirement fund can start with a small amount of money, such as 1 or 2 percent of their monthly income. The pretax income comes directly out of their paychecks, so those using this method are likely not to even notice that the money is being saved. Each year, they should try to raise the percentage of their income going toward retirement.

For those seeking investment advice for their retirement funds, Dillon says that it's a good idea to consult with a professional if they haven't done so in the past.

Laird Norton's Potter echoes the 401(k) advice and the importance of planning for retirement.

She recommends that nascent investors begin by buying government bonds or a mutual fund. Some mutual fund companies even offer automatic transfers of money from your checking account each month that are invested in the funds of your choice.

A Family Affair

Making financial decisions for yourself can be difficult enough. Making them as a family can often become the source of friction for loved ones who have differing financial styles, goals or outlooks.

Such differences can make it difficult for a family to adhere to a budget. In fact, experts say that couples fight over money matters more than any other single issue.

Sometimes, when one member of a couple finds it perfectly logical to spend less on coffee, the other partner may not agree. And it may not be that the other partner is just being difficult.

It actually may be because the topic of money signifies something very different for that person and is intimately tied to who he or she is on a deep level, says Michael Basta, a licensed clinical social worker and a certified Gottman Method Couples Therapist.

The Gottman therapy method was created by the Seattle therapists, authors and husband and wife team of John Gottman and Julie Schwartz Gottman. The couple founded The Gottman Institute in 1994 to provide training for mental health professionals and to help married couples that need therapy.

A classic example of a challenging situation, Basta says, is when one partner comes from a background where money was in short supply and the other partner comes from a family where money was not an issue. The potential for conflict is very high because of their different outlooks.

A logical solution might be for the person who didn't have to budget while growing up to now learn such skills as an adult.

Unfortunately, it doesn't always work that way. According to couples expert John Gottman, 69 percent of problems that couples experience are typically what he calls "perpetual problems."

When couples were followed for long periods of time, these chronic relationship issues would reappear years later with some of the same complaints—the only things that were different were the clothes and hairstyles, Basta says with a laugh. With perpetual problems, there's some deeper source of tension for the couple, and it's usually based upon personality, cultural values or family-of-origin differences, he says.

If finances are a perpetual problem for a couple, they may find that they are constantly trying to persuade or change their partner to come to their side. Each partner is unable to make such a compromise without feeling like they are giving up a piece of themselves, Basta explains.

"When they talk about 'money,' one person might really be talking about freedom, while the other person is talking about security."

Basta tells the story of one couple dealing with a deep-seated financial issue. The husband has a history of spending a significant amount of money on presents for his adult children at Christmas. He and his second wife were repeatedly arguing over how much he was spending. The holidays became emblematic of a perpetual problem regarding money.

However, through therapy, the couple were able to understand together that his gifts to his children caused her to worry that they would be tied to a lifestyle that the couple could not afford and which would lead to financial hardship.

They also learned that her criticism of his gifting caused the father to worry that he would lose the respect of his children. The father had previously worried about this to the point that he had stopped telling his wife about gifts to his children for fear of her criticism and ensuing arguments.

By understanding that they each had an underlying agenda that was based on a core need, they were able to stop arguing and begin to talk about a real compromise that met both of their needs: respect and security. He was able to consider a budget for Christmas and she was able to show empathy rather than contempt for his position when he talked about his need to give presents to his children. The key to managing perpetual problems is recognizing them, understanding the other person's perspective and finding a way to compromise that honors each person's needs, Basta says.

While it may sound clichéd, experts say the answer is communication. Partners need to listen to each other's positions and show curiosity about why their partner's position is so important.

They must also acknowledge and validate their partner's emotions and point of view as much as possible. They should forgo persuasion until both parties feel respected and understood, Basta says. Compromise will only work after each partner feels validated, and if each partner's underlying needs are honored.

In the end, creating a budget and financial plan may serve to remind you of the purpose of your money and what it actually means, whether that is a comfortable retirement, a safety net for unexpected expenses or a monthly mini-vacation. And with your goals in mind, it may be easier to save.

"It's so enjoyable to see people who have no hope at first come back later when they are on track for retirement," says Dillon. "It's a joy for them and it's a joy for me." ■

Michelle Martin is a Seattle-based freelance writer.