

7 Money Rules *for* Life®

How to Take Control
of Your Financial Future

Mary Hunt



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For Harold, again and always

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Introduction

The Great Recession hit Americans like a bucket of cold water in the face. We awakened from a 35-year drunken credit orgy with a terrible hangover. Almost overnight the American dream became a national nightmare as millions found themselves unemployed and underwater, owing more than they earn.¹

Here we are, several years later, and things aren't much better. Unemployment is still high, gas prices continue to soar, it appears that the real estate market is still losing ground, and the US dollar is heading into a downward spiral.

Kinda makes you want to pull the covers up over your head and go back to sleep, doesn't it? Actually, that might not be such a bad idea because there's absolutely nothing you can do about any of that, anyway. So, I've got a better idea: forget the national economy. Stop dwelling on what you can't change and focus on the economy you do control—your personal economy.

We pay a high price for our financial illiteracy in the US. I have statistics you may find shocking. Honestly, they don't surprise me. I get it. I understand how we can be academically educated and socially prosperous in this great country, but also financially ignorant. I was. I couldn't be bothered with the daily grind of personal finances, budgeting, and planning ahead. Why bother? I had so many better things to do. Besides, I had credit.

I banked on the fact that the US economy all but guaranteed an upward spiral of increasing prosperity, better-paying jobs, and appreciating home values. There would always be plenty of jobs, lots of credit, unending supplies of loans to pay for kids' educations. If we worked hard, bigger and better cars and homes would always be within reach.

And I got away with that kind of attitude for years. But our lifestyle was built on a house of cards that could teeter only so long before it came crashing down.

I came to the end of the line and had to face just how ignorant and illiterate I was about money, or lose everything. Learning and applying simple, sound principles of money management saved my life.

Things are a lot different in America now than they were even five years ago. I believe that even greater challenges lay ahead. But despite all of that, I have very good news for you. Starting where you are right now, you can take control of your finances. You have the power to control your financial destiny.

The 7 Money Rules in this book have the power to change your life. I know, because they changed mine. The 7 Rules are the foundation on which my organization, Debt-Proof Living, is built and where over the past 20 years, thousands

of people have learned how to get out of debt and live below their means.

7 Money Rules for Life will empower you to take control of your personal economy by helping you fix your finances one step at a time, moving you out of debt and ultimately to financial freedom, regardless of the country's progress.

If you're ready, so am I. Let's get going . . .

1 The Cost of Financial Ignorance

All the perplexities, confusion and distresses in America arise not from defects in the constitution or confederation, nor from want of honor or virtue, as much from downright ignorance of the nature of coin, credit, and circulation.

—John Adams, second president of the United States

If you had to pass a test to prove you could handle money before you could get your next paycheck—the way you have to pass a test to prove you can drive a car—would you get paid? The sad truth is that millions of us wouldn't. When it comes to managing money, Americans young and old are flunking out.¹

The results from surveys, polls, and tests that measure financial literacy are in, and the results are grim. Most people don't have a clue.²

Jumpstart Coalition, the nonprofit organization that promotes personal finance education, concluded from results

of its latest survey that three-quarters of Americans are ill-equipped to make critical personal financial decisions.³

A survey of Americans⁴ conducted by the Harvard Business School found strikingly low levels of financial knowledge. Two-thirds of respondents didn't know how credit cards work. Many people didn't know the terms of their mortgage or the interest rate they're paying. And, at a time when we're borrowing more than ever, most Americans couldn't explain compound interest.

Only a minority of respondents had any idea that borrowing at an interest rate of 20 percent, compounded annually, will lead to a doubling of debt in fewer than five years.

The subprime mortgage fiasco that sent the US economy into a tailspin is the poster child for the national cost of financial ignorance. Even though unscrupulous lenders and overleveraged investment bankers played a huge part in escalating the madness, consumers had a choice when it came to entering into those mortgages. Financial illiteracy fueled the madness. Four years after the bubble burst, estimates are that one in four homeowners are underwater, making it nearly impossible to refinance their homes or relocate to take another job. How far under? Another report shows 5.5 million US households are tied to mortgages that are at least 20 percent higher than the current home value.⁵

It is heartbreaking to think that so many Americans were lured into toxic mortgages and home equity loans, unaware that they were willingly agreeing to big balloon payments on interest-only contracts. Or found adjustable rates to be the pathway to smaller payments that allowed them to buy more expensive homes. The sad truth that I am hearing now from so many people is that they didn't have even the foggiest idea

what the lender was talking about, and assumed everything would be okay.

Not surprisingly, a study by the Federal Reserve Bank of Atlanta found that borrowers with the lowest math skills were four times more likely to have bought homes that wound up in foreclosure.⁶

The fallout from this rampant financial ignorance is shocking:

- 77 percent of Americans are living paycheck to paycheck with no savings or emergency preparedness, up from 49 percent in 2008.⁷
- Outstanding revolving credit card debt has reached \$828 billion.⁸
- The average credit card debt per household with credit cards: \$14,788 at 16.82 interest.⁹
- Credit card fees paid by low-knowledge individuals are 50 percent higher than those paid by an average cardholder.¹⁰
- Student loan debt in the US recently shot up to \$850 billion and now exceeds the total credit card debt.¹¹
- A shocking 43 percent of Americans have less than \$10,000 saved for retirement, while 49 percent could cover less than one month's expenses if they lost their incomes.¹²

What grade would you give yourself? Knowing what you do know about money and managing your finances, how would you rate your financial proficiency, knowledge, and confidence to manage your massive lifetime income?

Massive? Yes, you read that right. In your lifetime, you will handle *millions* of dollars in earned income, and that's not a typo. Let me prove it to you.

Let's use the latest US Census median household income figure of \$52,029.¹³ Now multiply by 45, which is the commonly accepted number of income-producing years. Are you ready? The answer is \$2,341,305. And that's an average. Your number could be significantly more.

I know what you're thinking, so let me address that. I realize that you may not have made \$52,029 (insert your figure here) every year. But your income will not remain the same for the rest of your income-producing life, either. Over time, your income will increase. So consider it a kind of average, and a very conservative estimate at that.

My point is that when you look at the big picture, the total amount of money that will flow through your hands and which you will control during your lifetime is significant. You are a millionaire, receiving that fortune one paycheck at a time.

Managing your income skillfully is at least as important as your ability to drive a car. You worked hard to learn how to drive. You took a written test to prove you knew the laws and rules of your state. You took a road test to prove that you are a safe, knowledgeable driver.

Yet, chances are high that you entered adult life without any kind of financial training that would prepare you for handling something of such value and importance as a lifetime of income. And you didn't even get an operating manual.

If you did arrive at adulthood with a good grasp of personal finance and money management as a life skill, you are fortunate. That puts you miles ahead of many of your

peers as you look forward to your income-producing future. Sadly, most people enter adulthood lacking personal financial intelligence. They have no rules to follow, not even a list of suggestions or any kind of mental framework for how to manage an income or even what that would look like.

Every day my email inbox bears witness to the high cost of financial ignorance. I hear from men and women who are overwhelmed by debt, have no savings, don't invest for retirement, go back to school on student loans because they're broke and can't get a job, find divorce to be a solution, and just flat-out make terrible financial decisions. And my mail is also peppered with cries for help.

"I'm just not good with money."

"I'll never have enough."

"I don't know where to start."

"I'm such a loser, I've made so many mistakes."

"My financial situation makes me so depressed."

"I'm so overwhelmed I am paralyzed."

"Just tell me what to do. I don't need to know why, just what and how!"

Can you identify? It is scary to be in a situation where the lifestyle you've chosen requires every last nickel of the income you produce just to get by. And that's in a good month. When something comes up that you didn't expect, it can throw your life into the kind of turmoil that has debt written all over it.

I know personally what a lack of financial training will do to you, and the ways financial ignorance can change the course of your life. Let me tell you my story . . .

