



## Family Finances: 'What not to do' first step in learning about money

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We've heard too many people write off their family's financial future by saying they're ignorant about money.

Perhaps the best way to start learning about money is to borrow a concept we've often seen used by fashion pundits. Instead of telling you "What Not to Wear," however, we give you our very own list of "Financially, what not to do."

Don't:

- Use a credit card when you're in debt and can pay cash. By paying cash, you cut down both on impulse spending and accompanying interest and fees. This move alone can increase your investment stash by about one-third.
- Put off setting financial goals. Establishing why you need money -- such as for a house, car, a college education or retirement -- gives you important reasons to save.
- Put off writing down your income and expenses. By seeing it on paper, the family objectively can determine what expenses may be cut and what sources of income may be increased.
- Take out an adjustable rate mortgage when you expect to be in your home a long time and are uncertain whether your income can accommodate rising interest rates. Always have your lender compute your monthly payment in the worst-case-scenario. Then, add on expected insurance, taxes and maintenance fees.
- Chase after hot stocks or mutual funds. Once an investment already has grown at a 20 percent annual rate, it's generally too late to invest. Best to invest regularly over the long term.
- Short-change your family on life insurance. As a rule of thumb, you should have insurance to cover about five to eight times your annual income. If you make \$60,000 a year, that's between \$300,000 and \$480,000 in life insurance coverage. Term life insurance today is about your cheapest way to go.
- Neglect long-term care insurance for you or family members. Nursing homes now can run more than \$80,000 a year.
- Buy high-cost insurance you don't need. Credit life insurance to cover your mortgage or other debts is one example. You typically can get broader coverage at a cheaper price by

buying term life insurance.

■ Buy salesman pitches of lower loan payments. These ploys often involve practices that cost more in the long run. Example: Lengthening the term lowers payments, but causes you to pay interest over a longer period.

■ Neglect having critical legal documents and/or periodically reviewing them. Either mistake can result in the wrong people getting or controlling your money! You need a will; durable power of attorney appointing someone to handle your affairs if you are seriously ill; and designation of health-care surrogate, appointing someone to make medical decisions if you can't.

■ Neglect deciphering investment fees and commissions. We've actually heard professionals term both back-end load mutual funds and level-load mutual funds as "No-load." Yet, both types of funds charge commissions that can seriously hamper returns.

■ Hire friends or relatives to handle money or insurance. Always conduct an objective search for an adviser or insurance agent, based on fees, experience, education and track record. Understand clearly what they will do for you. Evaluate your adviser's performance. Calculators at Web sites, such as [www.dinkytown.net](http://www.dinkytown.net) and [www.cch.com](http://www.cch.com), can help you out with math.

■ Put tax-free investments, such as municipal bonds, in an already tax-deferred or tax-free investment, such as an IRA.

■ Put off paying yourself first. The earlier you start having money automatically invested in a savings account and then a high quality mutual fund, the further ahead your family will be.

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