**<u>Audio Lesson #9 How to Save</u>**

*It's not a hill, it's a mountain*
*As you start out the climb…*

**Hello. My name is Jeff Tyburski. Welcome to my 9th in a series of audio lessons. I teach financial literacy with a focus on helping you save money. My initial lessons were to ensure you are in a *position* to save – because you can't save if you have too much debt and you can't save if you can't get and hold a good job**. Last session focused on WHY we must save. Here we will cover HOW to save.

**This session, on HOW to save, has 3 parts:**

**1.** Your *mindset*

**2.** A specific *method* to save

**3.** Advice to "live life today".

**A discussion on *how* to save money starts with focusing on your *mindset*.** What is so powerful is that **YOU control your mindset**. **With the mindset to adopt a lifestyle of making daily choices to save money, you can set out to achieve your financial goals**.

Having a mindset to succeed *is* powerful but doesn't always get the results you want. For example:

- **You can't just choose to be a professional baseball player.** You might want it badly. I sure did. And I could throw very hard…for a 12-year-old. But I was born blind in one eye, so I have no depth perception and am skinny (though i prefer to say wiry as it sounds more athletic). Unlike me, you might be that rare talent that has a chance. *But even if you work hard you can't just choose to get called up to the majors.*
- *Or* **you can't just choose to get a 1600 on the SAT Math and English sections**. It would be an incredible accomplishment and surely help your college applications. Many people study hard to improve their scores. But again, you can't just choose to get a 1600.
- **Yet, you *can* choose a mindset, attitude, and lifestyle to save money.**

You are *more in control* of your life and possible outcomes than you might think. You can choose to put yourself in a position to begin to build wealth. I'm not promising the world here. I'm not saying everyone can *will* themselves to become millionaires. Trust me though, you ***can*** **control *daily* decisions about discretionary spending**. *You choose* how many $4 coffees or $10 lunches? *You choose* what kind of car you drive. *You choose* the college to attend. *You choose* the house you live in. *You choose* the amount and kind of stuff that fills that house.

Having the right mindset is not only critical, it is THE starting point. Realizing you are more in control than you thought, with respect to your ability to choose a lifestyle built to save money, can be **the initial spark motivating you**:

- **To want to learn more** about personal finance.
- **To change your *relationship* with money; meaning having money work *for you* instead of simply *you* working for money**.
- **To *see* money differently,** for example, as a tool or means to an end and not an end in itself. There are plenty of bankrupt celebrities and ex-professional athletes. Just having a large pile of money wasn't enough for them because of the daily decisions and lifestyle choices they made. They brought home millions a year but somehow spent more.

In addition to an *initial* spark, **the proper mindset is also what you need to drive the daily decisions necessary to ensure *sustained, lifelong success*.**

Mindset goes hand in hand with discipline, and creating personal wealth is rooted in personal discipline. The reality is, much of this personal finance material is easy to understand, and you may already know some of it. But can you stick with it? Can you routinely forego spending today for the future?

Testing whether or not people could defer today for tomorrow was the subject of a famous experiment in the 1960s. Stanford researchers offered children one marshmallow, but if they waited, they got two. Follow-up studies *decades* later found that the children who had delayed gratification generally had better life outcomes: better careers, higher incomes and even more stable family situations.

**Let's transition from** *mindset,* to *methods* so I can teach **the nuts and bolts of *how* to save.** Have you ever thought about how even experienced pilots use checklists? Or how top chefs still use recipes. And how engineers use step-by-step procedures. What do *savers* use? **Is there a sustainable, repeatable *process* for saving money?**…that is not painful or tedious like trying to live by a detailed budget. M**y approach is not built around a detailed budget**. **Instead, my approach is built around a *lifestyle choice* to save, and as you will see, the rest begins to take care of itself.**

The disarmingly simple approach to saving money that I advocate is to <u>*save first*</u>. **Literally save first, then live off what remains**. When I read about this in my 20s, I had an epiphany – an aha moment, truly a life changing event. I hope it is for you too. Here, savings are planned and set-aside *upfront*. Pay yourself first.

The "save first" approach is in contrast to a more traditional approach which focusses on spending. The traditional approach seems intuitively correct, if you spend less than your income, you save, but it is flawed in that savings are a result only if all goes well.

"Save first then live off what remains" is obviously easier said than done. It **takes daily effort and is built on discipline with clear saving goals.**

One of the oldest books on personal finance, *The Richest Man in Babylon*, covered the topic of saving first. In the 1926 classic by George Clason, the reader learns how to save from tradesmen, herders, and merchants as they talk to the richest man in Babylon, who had once been very poor himself. His guidance offers common sense financial advice through parables, revealing how to *create, grow, and preserve wealth.* He specifically teaches how to avoid debt, and how to put your money to work for you in ways that manage your risk to safeguard your savings. At the heart of his approach is that when you get paid 10 *coins* you immediately put one aside, put it to work, and then live off what remains. The book highlights stories of how people implemented this strategy, at first doubting it or even scoffing at it but then realizing it is possible to follow.

**Let's review the *save first* approach by thinking in terms of formulas…don't worry, I'll keep it so simple you can literally picture them in your head.**

- **The traditional, what I consider flawed, approach to saving money is captured in the formula** Income - Expenses = Savings. You try to control expenses and *hope* at the end of the period you have some savings.

- **But if you r**earrange the formula to Income - Savings = Expenses you can see that you can always save if you save first. This requires you to prioritize saving and have clear saving goals over multiple time horizons. I can't emphasize enough how I encourage pre-tax savings offered by many employers. Additional savings can target other savings goals over all time horizons.

- **Income – Savings = Expenses means that you have to live off what is left after you saved. The best way to accomplish this is to split expenses** between *needs* and *wants*.

- **Rearranging one last time, you solve for *Wants*.** That is, Income – savings – needs = wants. Again, that's Income – Savings – Needs = Wants; Save first, meet your true *needs* then spend what is left on some *wants*.

**The amount you can spend after meeting your savings goals and *needs*, is an important number to know. You can literally keep track and countdown from that number** between paychecks. While you can **think of my savings approach as** *save first,* you can **remember my spending approach as *what's left*** - w*hat's left* after meeting your savings goals and needs.

Again, ***Income – Savings – Needs = Wants***

Is this formula a *guarantee* for success? Unfortunately, no. Algebraically, the disarmingly simple formula is most likely to lead to success if you have high income, clear savings goals, and low spending habits. Obviously, the stars won't align like that for everyone.

- **Even a high income is no guarantee of success if there is** no personal process or discipline to save first or control spending.
- **Tight control on spending alone is also no guarantee of success because income** may be low, the cost-of-living in the location you reside could be prohibitively high, or savings goals are not clear or a priority.
- The scenario that comes closest to a guarantee is if you have a very *low* income, **then the formula *won't* work**! The reality is that a very low income, e.g.

household income at $30,000 or less, may not even cover your Needs, let alone enable saving first or discretionary Wants.

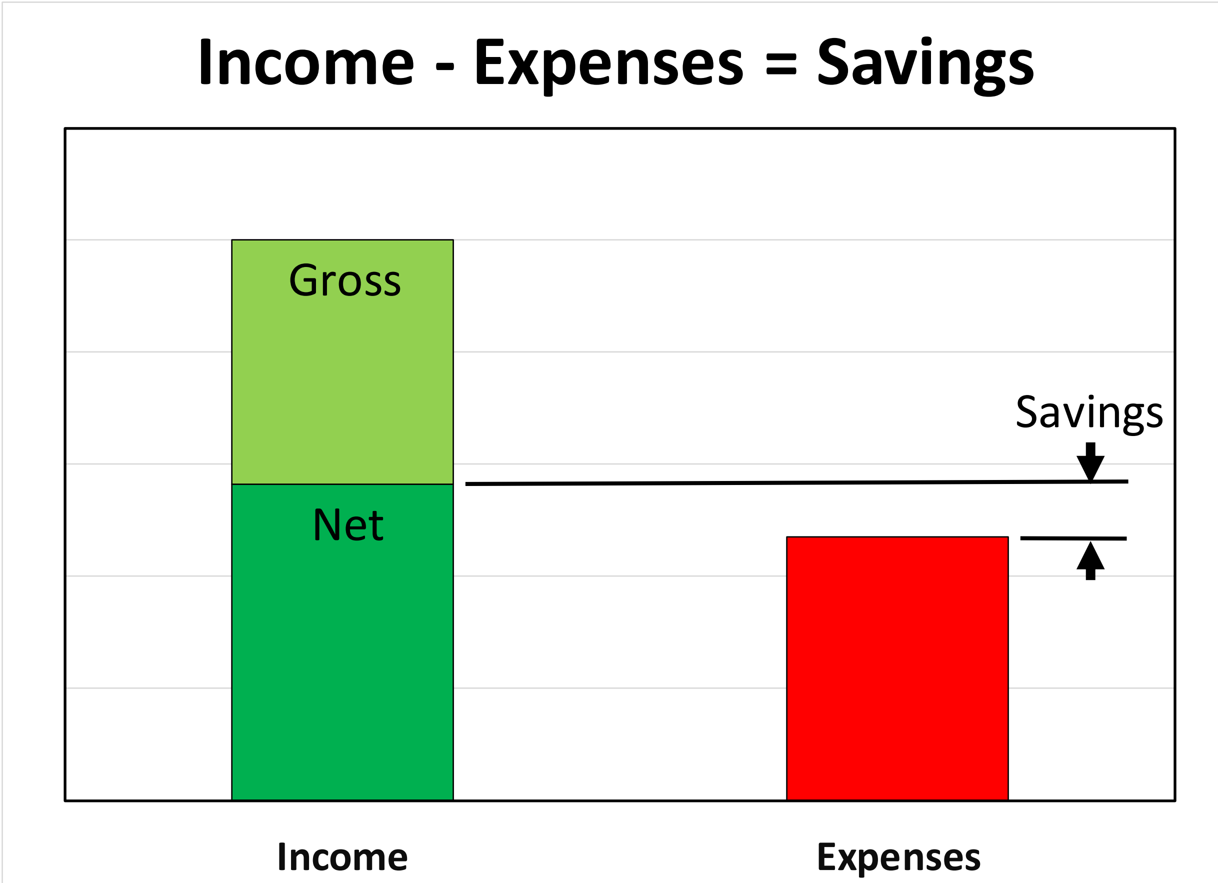
Let's wrap up with some **much-needed perspective.**

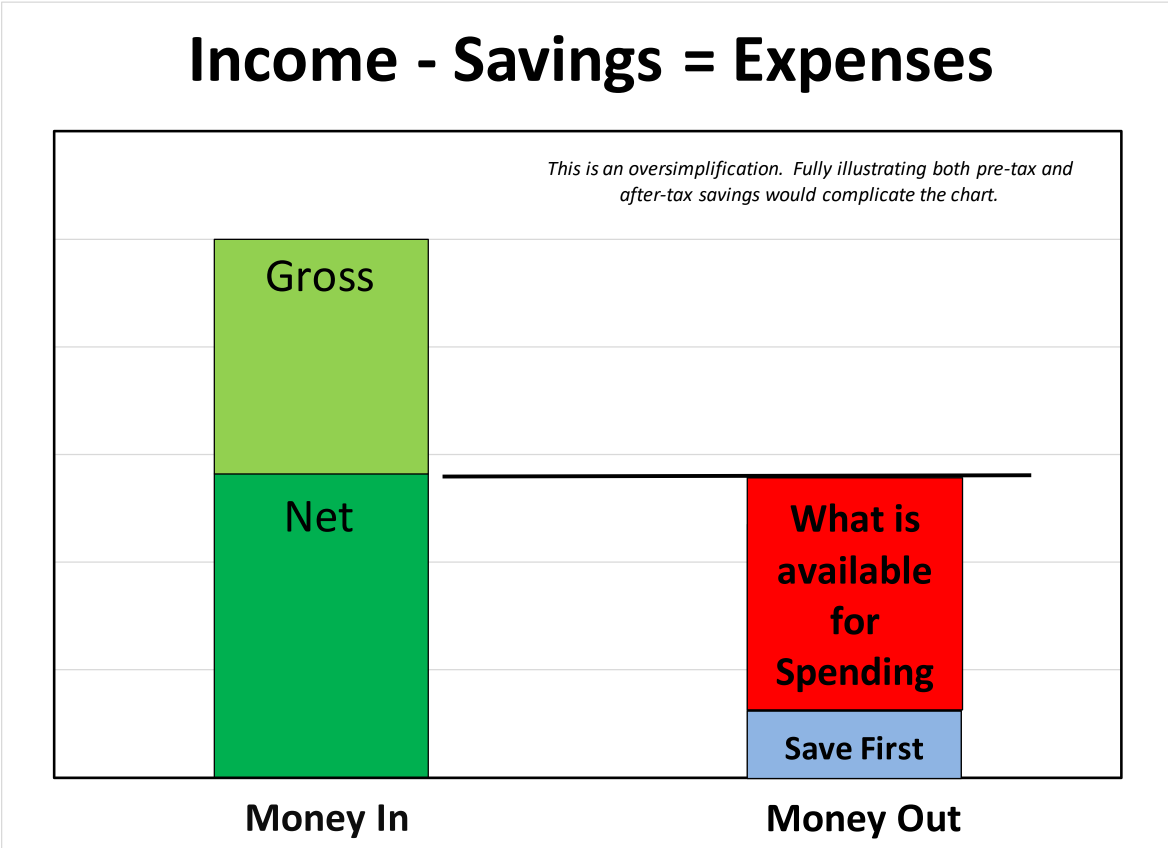
We have covered why we must save and how to save. How to save includes the right mindset and method. Yet, **I don't want you to forget to *live your life today*.**

When I give people advice to *live for today*, while still saving and preparing for the future, **I think of a story and the expression "W*hat's your butter?"*** Let me explain. Years ago, I heard a woman speak at church. She openly discussed surviving below the poverty line. Yet, regardless of how she had to make sacrifices, she bought expensive real butter. She said she *had* to. She *needed it* to bake the way she wanted, to *feel whole as a loving grandmother*.

I encourage you to think about "W*hat's your butter?"* **What is the *discretionary* expense category you actually need to live your life today in a rewarding way? What is <u>one</u> *want* that feels more like a *need*?** For my family, our *butter* is travel and we make choices to do that. We live in an unassuming 1970s house, drive used cars with a combined 300,000 miles on them, don't eat out much, and the kids worked very hard to earn scholarships, but we like the family experience of travel and have made great memories together.

**We have covered *why* we must save and now *how* to save. *Next* you need to *grow* savings**. O**ur last session** delves into ***what* you can do with your savings**.


Income - Expenses = Savings
Gross
Net
Savings
Income
Expenses


Income - Savings = Expenses
This is an oversimplification. Fully illustrating both pre-tax and after-tax savings would complicate the chart.
Gross
Net
What is available for Spending
Save First
Money In
Money Out

Income - Expenses = Savings

⇩

Income - Savings = Expenses

⇩

Income - Savings = *Needs* + *Wants*

⇩

Income - Savings - *Needs* = *Wants*

# Income - Savings - Needs = *Wants*

Annual salary
or Total wages
+ Bonus/commission
+ Unearned income
**= Gross income**

***minus:***

FICA deduction
Pre-tax savings
Federal taxes
State taxes

**= Net Income**

***minus Savings:***

- Pre-tax savings
- Emergency fund
- Debt prepayment
- Short-term goals
  - (e.g. vacation)
- Medium-term goals
  - (e.g. car, house)
- Long-term goals
  - (e.g. college)
  - (e.g. retirement)

**= Available for spending**

***minus NEEDS:***

- Housing
- Property/school taxes
- Transportation
- Utilities
- TV/streaming
- Cell phones/data
- Healthcare
- Life insurance
- Groceries
- Pet care
- Hair cuts
- Clothing
- Gifts
- Charity
- Misc.

**= What's left...**

**for *some* WANTS:**

- Eating out & nightlife
- Entertainment
  - (e.g. movies, events)
- Activities
  - (e.g. skiing, golf)
- Gym membership
- Additional clothing
- New home furnishings
- Misc.