

# Your FINANCIAL HEALTH

A digest of money management tactics for the family physician

Fall 2007

## Couples and Money



**The secret to a long and happy relationship:** Love and trust and mutual respect are important. But don't ignore the powerful role of money. It's a key factor in domestic harmony or discord.

Financial disagreements can turn a relationship into a battlefield. If you have trouble seeing eye-to-eye on money issues – lack common goals, can't agree on how to spend, what to save – the personal relationship can pay a heavy price. Money is an integral part of almost every decision: Should we buy beef or chicken? Watch TV or rent a DVD? Buy a new fall outfit or get by with last year's? Take that longed-for vacation in France or a long weekend with out-of-town family? Lack of agreement can wear down the relationship.

**Here are some suggestions** to help build domestic peace through financial cooperation in your household:

**Remember that it's an economic relationship** ... a personal business partnership. You must actively manage your family's financial affairs... not leave them to chance. Most of all, by "joining forces" in a cooperative partnership, you and your partner can achieve common goals.

### **Analyze and attempt to understand each other's attitude toward money.**

Does one of you like to blow a windfall ... the other sock it away? One feel comfortable with a full debt load ... the other perturbed about a \$10 credit card charge? Exchange points of view. The better you understand each other's thinking, the more effectively you can work together to build a financially solid relationship.

### **Share money decisions and responsibilities.**

Studies have shown that couples are more likely to remain happy and together when they both take an active role in managing the family's finances. This requires both of you to come to grips with the financial facts, which in turn leads to increased understanding and cooperation on money matters.

**Identify mutual goals** ... and then write them down. This imposes order on all other financial decisions and helps you map out a strategic game plan for achieving them. Where do you *both* want to be one year, two years, ten years from now? In a nicer home? With children who are debt-free college grads? Retired in comfort at age 60? If you have trouble reaching agreement, look for compromises. Example: One likes to flash the cash... the other likes to stash it. Solution: Save and invest X dollars each month; then blow the rest ... and do it TOGETHER.

**Bonus:** Working together to manage your financial affairs leads to a better, more stable relationship ... and will also tend to improve your overall financial situation and standard of living. The two work together in an ongoing, mutually beneficial way, as stabilizing finances tend to help stabilize relationships. So, take the time to address financial issues together.



## How to Pay Cash for Your Next Car

**Americans love cars.** If we don't love them big, with wide tires and running boards, we take them sleek, sexy and low-slung, or trim and safe enough to boast a "Baby on Board" window sticker. Or we love them bio-friendly and are willing to spend a fortune in order to cut our fuel costs or get a government tax credit.

**Men & Women & Cars:** Yes, we love our cars, and all too often we put our brains on cruise control when we buy them ... and that goes for both women and men. Both ignore the big question of value. That is why advertisers tend to sell the sizzle and sex appeal, instead of the cylinders and

practicality. For example, ads directed to women will tend to focus on color and amenities – from heated seats to power sliding doors and built-in DVD players. She leans toward a vehicle that is reasonable in terms of safety and creature comforts.

Men, on the other hand, can be borderline (if not over the edge) irrational when it comes to cars. Common sense aside, he sees a hot, sporty roadster that spellbinds him, and he can just imagine tearing down the highway in it, or putting it through its paces on a winding country

*continued inside*

# How to Pay Cash for Your Next Car (Continued)

road, downshifting as it slides through those tight turns. Even the most sane and rational man can go through major mind-blown angst, balancing practicality with sex appeal, as he wrestles over whether or not to buy that dream car ... with no guarantee that practicality will even come in a close second.

The bottom line of all this is that some women and many men lose all rational powers of thinking when it comes to cars. As a result, they risk wasting thousands of dollars on their vehicles. That's money that could go toward any number of better uses.

## Some Sanity on Buying Cars

First of all, cars aren't toys. They are transportation. Yes, we want them to be attractive and reliable. But they're not toys, and if we can afford to throw money away on endless car payments, we still could find a better long-term use for that \$300 or \$500 or even \$700 check we write each month.

Plus, today's cars are designed to go 200,000 miles with little trouble.

Car manufacturers have mastered the workings of the internal combustion engine and all the computerized gizmos that go into them. Where 40 years ago or so, we needed a tool box in the trunk and at least a basic working knowledge of the vehicles we drove, today's cars are built so all we have to do is turn the key, hit the gas and go, changing the oil regularly, and that's about it.

By the way, leasing is rarely a financially smart idea. It's a good deal for everyone but you. The dealer gets to sell you a car and then get it back in three years. Saying leasing is smart is like saying that you'd be better off renting a home versus buying it. The only exception: If you're a business owner and want to deduct 100% of your vehicle's cost. Even then, work out the numbers before you sign a lease.

A better idea: Buy your next car outright, drive it for 10 years (an arbitrary number, but good enough for most purposes) ... and then pay CASH for your next vehicle?



## How to Pay Cash for Your Next Car

**1. Pick your car wisely.** You want quality, style, reliability ... and yes, something that makes your soul soar. But buy it for the long term. Plan to own it for 10 to 12 years. Get out the buyer's guides. (If you plan to do only limited research, use the *Consumer's Report* car ratings guide.) Consider insurance costs (some cars are discounted for safety; others receive add-on surcharges), as well as the possible impact on your state personal property taxes. Then go window shopping, getting to know a few salespeople at dealerships and test driving several cars. However, do not commit at this point. Just look, touch, drive and research.

**2. Shop around and negotiate the best price.** The auto industry is super competitive these days. As a rule of thumb, go to at least three dealerships before making your final decision.

**3. Look for the best financing deal.** But be skeptical about those "\$2,000 off or 1.4%" financing deals. Such either-or deals put no money back in your pocket in the long run. Ask for both! Unless the deal is terrific, consider using a home equity line of credit. The rate is usually competitive, and the interest is tax deductible. Just remember that when you use your home equity, you are also placing your home as the collateral for your car.

**4. Go for as short a financing term as you can afford.** Obtaining financing for six years can put you "upside down" on your loan (owing more on the car after a few years than it is worth), and you risk paying a fortune in interest. Rule of thumb: Four years. That is generally short

enough so that you can save on interest payments, but not so short that your monthly payments are overwhelming.

**5. Keep making car payments after the car is paid off.** After four years, your car is paid off and still in good shape. Depending on how many miles you drive annually, it may have between six and eight good years left in it. For the sake of discussion, let's say six years. Let's also say you have been paying \$500 each month. So, what do you do with that \$500 you were paying to the bank, credit union or car finance people? Every month, keep making that \$500 payment, but this time to yourself.

**The idea is to be able to pay cash for your NEXT car.** Open up an account and either write a check every month or have automatic transfers made into your "new car" account. After six years, you have a 10-year-old car for a trade-in, to keep for your kids or just to keep on driving. Plus, you will have \$36,000 saved. Plus, if you earn 4% on average on your money, you will have more than \$41,200 for your next vehicle.

**When the time comes to buy your next car, you won't pay any interest.** You've been earning it, rather than paying it. Plus, you can walk into a dealership, find the next car of your dreams and make a simple offer: "I want to buy this car, for this price, with cash, today!" You will get a great deal on the car you want. And even if they offer you a terrific financing deal you can't refuse, you now have \$40,000 plus for other uses.

This article is compiled from the upcoming book, *Men & Women & Money! Oh, My! A Couple's Guide to Financial Peace* by AAFP Insurance Services consultant John R. Ingrisano. He can be reached at [john@thefreestyleentrepreneur.com](mailto:john@thefreestyleentrepreneur.com).

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# Your FINANCIAL HEALTH

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## Financial Footnotes



### Does your auto insurer give a safety discount?

Or maybe you will be penalized for driving that super-fast blue-streak sports car. Before you buy your next car, find out how it is ranked for safety by The Insurance Institute for Highway Safety. Visit [www.iihs.org](http://www.iihs.org) for more information.

### You may be in line for a break on your auto insurance when you turn 50 or 55.

Insurers know that this is the safest group, with the best safety record. Talk to your insurer. Caution: Rates go up again when you hit 70. (Source: Bottom Line Retirement, May 2007)

### Engine cleaning can do more harm than good,

says automotive columnist Eric Peters, author of Automotive Atrocities! The Cars We Love to Hate.

High-pressure engine cleaning can damage electrical equipment under the hood.



## Your FINANCIAL HEALTH

Your Financial Health is sent to Academy members courtesy of AAFP Insurance Services, Inc. Material for this publication is written by John R. Ingrisano – author, educator and journalist on money management, business and financial matters. Mr. Ingrisano has served as an advisor to AAFP Insurance Services since 1985. © Copyright 2007

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