Successful Supervisor Part 47

Coaching People on Money Problems

by Bob Whipple, MBA, CPLP

I am not aware of any individual who has not had money problems at some point in life. One question I ask in all my seminars is, “Show of hands, how many people in this room are making too much money?” I have never had a hand go up. I do include the tips in this article in my leadership training course, not so much for the people in the classes, but to help those people advise their workers and their children.

We Know the Rules but Many People Ignore Them

We all know the rules for fiscal wellness and security, and we know for sure the things to avoid doing. The problem is that once people get to a certain point by ignoring the rules, then life can become unbearable to the point where some people resort to socially unacceptable behavior or even suicide. The wise supervisor helps people avoid falling into the inevitable traps.

In general, one’s fiscal responsibility is built upon the values that were programmed in at an early age. However, two children from the same family can have very different fiscal values. We all have values, although many people cannot articulate them. As a starting point for a supervisor, it really helps if you encourage people to clarify and document their values with respect to money. That forms a solid foundation for dialog.

In addition, it is important to select a life partner based on the mutual understanding of values. Most people select a partner and create a life together, which includes raising children, in the majority of cases. Knowing and stating your fiscal values is a critical element in good parenting.

Below is a list of things to do or avoid to have a good chance at a strong financial position when you retire and beyond. You will recognize them all, but ask yourself seriously whether you or some of your workers are making these mistakes.

1. Credit cards

This is the granddaddy of all financial problems, yet the rule is quite simple. Always pay off the full balance on each credit card in the month it is due. When you yield to the temptation to buy things on time, it becomes like a giant sucking force that takes you to fiscal ruin in most cases. Once you are caught in the vortex, it is nearly impossible to extricate yourself.

I finally got that message across to one young person when I pointed to a large flat panel television. I said, “I can buy that TV for $150, but if you buy it and pay the minimum each month, it is going to cost you over $400. I don’t know what kind of job you have, but if you need to pay over twice as much for the things you buy, you will always be forced to do without.”

In the age of instant gratification, it is very hard to have the discipline to postpone a purchase until you can afford it. So many people get sucked in, and it is many times more of a challenge to dig out than it is to just wait till you can afford to pay for the item.

As a supervisor, you need to help all people understand the logic of this truth. I also advise that you not offer to help bail out those who are in credit card debt, because their quicksand will immediately start grabbing at your own ankles.

2. Save at least 10% of EVERY paycheck

If you simply keep the discipline to put away 10% of your earnings, eventually you will become rich. Here is the trick to this. Kiss that money goodbye and don’t ever touch it until you are a wealthy person. Some people call this philosophy “pay yourself first.” The cumulative effect of saving even small amounts of money religiously over several decades is the engine that can create generational wealth.

The challenge is getting over the mental hurdle of making $X each payday but only being able to use $.9X. It is a mental exercise. Because we all have money withheld automatically for taxes and Social Security, it is possible to put an additional 10% out of reach, but it takes fortitude to do it.

3. Participate in the 401K plan to the maximum

When you have access to a 401K Plan at work, it is like the government is paying you to save. Of course, you do not get the money up front, but the deferred taxes add up over the long haul. If you have the fortitude to invest in your own future by using this mechanism, it significantly enhances your “next egg” because you are using *pre-tax dollars* to build up your assets.

If you do not have a 401K plan at work, start an IRA and put the maximum in that each year.

4. Diversify your financial portfolio

You were probably taught by your parents to “never put all your eggs in one basket.” It is intuitively obvious that diversifying your investments lowers the risk factors associated with different kinds of investments. It is important to constantly scan your portfolio asking the question of whether you are in the best position for current conditions. Making small changes frequently to the blend of investments is better than making mega changes hoping to catch a whopper of a deal.

Most people are not skilled enough and do not have the time to figure out the best blend of investments for any point in time, which leads to the next tip.

5. Get a trusted advisor

You must be very careful who you select as a partner with your investments. Many people trusted Bernie Madoff with their investments and lost everything. Another old adage comes into play here: “If something looks too good to be true, it probably is.” Look for a firm that has a long history and an agent with whom you can talk with openly and that you trust completely. Beware of hucksters that promise unusually high returns with low risk. Look for an individual who will probe deeply into your financial profile and risk tolerance and set up a system that is made just for you. Monitor all transactions and discuss the logic with your agent often.

Some Philosophical Ideas

Keeping out of financial trouble is possible if you follow the rules above, but there are also some thinking patterns that can help keep you fiscally strong.

1. Act and think like you are poor, and you will become rich

This idea is just a different mindset. You know that you have enough money to buy a fancy boat, and yet you don’t buy one because you are pretending you cannot afford it. There are thousands of temptations in life, and if you yield to them you will drain your resources down quickly. You do not have to starve yourself of all indulgences to the point that you live like a monk, but it is important to never touch your “nest egg for the future.” Spend on the things that are important to you and let the trivial or tempting go.

2. Own your dwelling as soon as possible

Paying rent to have a roof over your head is necessary at some points in your life, but you should not make it a long term philosophy. In the final analysis, it is usually better to own than to rent your abode.

There are many different life and financial circumstances in which renting can be the better option, especially if the living situation is short term. The rule to own your home whenever possible needs to be tempered with the specific situation, and a good financial advisor can be helpful for specific advice.

Paying for a mortgage so you eventually own your home “feels” the same as paying rent, but there is a huge difference. In the former case you are building up equity, so eventually you have something to show for the monthly payments instead of a bunch of cancelled rent checks.

My father taught me to think of it this way. When you are paying rent, you take money out of your pocket and put it into the pocket of the landlord. When you pay a mortgage payment for a house, you take money out of your pocket, but actually put some of it back into another one of your own pockets.

3. Think about family size

There are no right or wrong answers to how many children to have. Each couple will decide for themselves, but do recognize that it is expensive to have kids. If you add up the cost of having a child these days, it is estimated that before that child is out on his or her own, the out-of-pocket cost to you will be over $250,000 BEFORE you add in the cost of a college education.

4. Don't pay extra for frills you don't need

Some people buy the top-of-the-line model of everything. For example, they will buy the high end washing machine for $1200 even though the standard version for $700 will be perfectly adequate to clean their clothes. Recognize there is a hefty premium price at the high end of any product line. This is because the manufacturer knows some people will pay an exorbitant price to get the best there is, so they make those people shoulder a huge markup.

Use Common Sense and Discipline

Using simple common sense and having the discipline to postpone or skip some purchases that would be nice to have are the best approaches to financial security. You probably already knew everything in this article, but some of your employees or perhaps your adult offspring have not fully understood the significance of these concepts. Do them a big favor and print out this article for them to read. It may help them live a more comfortable life, and perhaps even have some money to pass on to future generations.

This is a part in a series of articles on "Successful Supervision." The entire series can be viewed on www.leadergrow.com/articles/supervision *or on this blog.*

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