

Montgomery County Forum - March 6, 2009

Speech by Stan Hinden, retired Washington Post financial writer and author of "How to Retire Happy," published by McGraw-Hill (2nd edition 2006).

"LIVING ON LESS"

I have been asked to speak today on the subject of "Living on Less." But after the dramatic drop in the stock market this week, I think it might be appropriate to change the title of this talk to: "Living on Much Less."

Either way, this is a very timely subject. But, frankly, it is also a very painful subject.

After all, WHO wants to live on less? Certainly, not me. And probably not you.

So, why are we talking about living on less? Well, it seems that many of us don't have a choice. We spent years carefully building up our nest eggs so that they would carry us through retirement. And we believed what we were told by the folks in the financial industry: "Your money is safe with us."

Then one day, without much warning, a major segment of the financial industry collapsed and our nest eggs were all but blown away.

Consider what happened to me and my wife, Sara, who worked at General Electric in Rockville for many years. By saving carefully, Sara accumulated a sizeable amount of GE stock. One year ago, those shares were worth almost \$40 each. As of yesterday, those shares were worth only about \$7 each—a loss of thousands of dollars.

Yes, it's only a paper loss but if we needed the money now, it would be a very real loss. And nobody knows when the price of GE stock will go back up.

Now, I am sure that many of you here today have your own unhappy stories of watching your nest eggs decline in value during what I call the Great Meltdown.

Fortunately, Sara and I both have our pensions and our Social Security. But if you want to know what that loss on the GE stock has meant to us, I will tell you. That money was our cushion; a cushion for the time when we might need care in a nursing home or assisted living facility.

But now that the cushion is gone, you can be sure we'll be Living on Less. We will try to keep our expenses within the income we get from our pensions and Social Security. We'll try to conserve our dollars and try not to make our financial situation any worse.

For us, the Great Meltdown has been very scary. But it has been even worse for people who have lost their jobs, their homes and their investments.

Suddenly, America has gone from an economy based on what we wanted to an economy based on what we absolutely need. Not too long ago, many of us could say: "I saw it, I liked it. So, I bought it. And I put it on my credit card."

Today, the mood is very different. The question is not "Do I want it?" but "Do I really need it?"

Indeed, Americans have decided to hunker down, to pay off debt, to slow down on their spending and start saving. Imagine that! After years of a negative savings rate, Americans are now actually saving.

Ironically, that is a good-news, bad-news situation. Since consumer spending represents 75 percent of the Gross National Product, the retreat of the consumer isn't helping the economy.

So the question is: How can we live on less?

The basic strategy for getting control of one's financial life begins with taking a close look at two things: Your monthly income and your monthly expenses. If you haven't already done so, you should find out whether your income is sufficient to cover your expenses.

If you find that your income is not sufficient, then you have three basic choices—increase your

income, lower your expenses or take money out of your savings.

On this last point, financial planners normally advise retirees not to take out more than 5 percent of their savings each year.

Now, some retirees are able to generate extra income by finding part-time work. If you need the income and your health is good, it may be worth a try to find a paying job—although that may be hard to do--given the number of layoffs these days.

Fortunately, there are several organizations and agencies in Montgomery County that can help seniors find work, including:

- * The Commission for Women at 240-777-8300.
- * Senior Community Service Employment Program at 240-395-0918.
- * Able Seniors Program at 240-395-0918.
- * Montgomery Works at 301-946-1806 and 301-519-8253.
- * Over 60 Counseling and Employment Service at 301-652-8072.

However, if you can't increase your income, you will have to try to cut your expenses.

I am very much aware how hard it is to do that--especially if you are retired and living on a fixed income.

One place to start is with those basic human needs: Food, Shelter and Clothing. A good portion of our monthly spending goes to those necessities.

The problem, of course, is that our expenses don't stop there. Each month we are confronted with telephone bills, and bills for electricity, gas, water, auto insurance, home insurance, life insurance, health insurance and medications.

So how do you cut back? Fortunately, we're not the only people asking that question. As a result, there are several organizations that can help. One of those groups is the AARP, which publishes a Checklist for Cutting Monthly Expenses. It can be found at:

http://www.aarp.org/money/consumer/articles/tips_for_saving_money.html

There is also another valuable booklet called "66 Ways to Save Money," which is distributed by the Federal Citizen Information Center. It can be downloaded on your computer at:

http://www.pueblo.gsa.gov/cic_text/money/66ways/index.html or can be ordered by mail from the same web site for \$1.50 each.

One of the key consumer recommendations is to shop around and see if you can get a better deal on such things as telephone service or auto insurance. Another suggestion is that you try to use less energy—less electricity or gas or water. And when it comes to food, it seems you can save money by better meal planning and more careful shopping.

If this all sounds pretty grim, well it may be. But it's not fatal.

After all, the idea of living a frugal life is not a new concept. To be sure, many people live a frugal life because they have no other choice.

But many other people have just decided that life is better, more comfortable and more meaningful when they spend as little as possible—and save as much as possible.

Indeed, we can learn a lot from Jeff Yeager, a local author who has written a book called, "The Ultimate Cheapskate's Road Map to True Riches." The subtitle is "A Practical and Fun guide to Enjoying Life More by Spending Less."

Jeff starts off by saying: "This book is about how to make money less a part of your life by spending less, so you can enjoy life more."

Jeff is not the only writer interested in frugality. Just the other day, I went to the web site of Amazon.com. I typed in the words: "frugal living." In a matter of moments, Amazon gave me a list of 1,857 books on the subject of frugal living. Obviously, this is an idea whose time has come.

If you are looking for ideas on how to live on less, it would be a good idea to read one of two of those books. You don't even have to buy them. You can get many of those books at your local public library. In fact, that's a good way to start on your journey to the frugal life.

I think we all know that a lot of what we do in life is determined by our habits, good and bad. For many of us, one of those habits is the tendency to spend money freely. Fortunately, bad habits can be changed. For instance, we've all known people who smoked for years. But somehow, they managed to kick the habit.

In much the same way, those of us who have been in the habit of spending money freely are now being forced to kick that habit. It's not easy and it's not fun. But it is possible to live on less.

Indeed, many experts are convinced that learning to be frugal can lead to a life style that has less financial pressure and more personal satisfaction.

When I think about this kind of frugal life style, I think about my old friends, John and Mary Smith. They led a frugal but healthy life style. They were both 90 years old when they died, and by chance, they died on the same day. Well, they soon found themselves standing at the Pearly Gates, where God greeted them and offered to take them on a tour of Heaven.

First, God took John and Mary to see a small mansion and said: This is where you are going to live. Then God took them to see the championship golf course and the Olympic-sized swimming pool. Finally, they stopped at the elegant clubhouse where a lovely buffet lunch was being served.

At this point, John, who had always been careful with money, turned to God and said, "God, this is all wonderful. But what does it cost to live here? God smiled and said: "John, it doesn't

cost anything. It's free. After all, this is Heaven."

When he heard that, John turned to his wife Mary and said, "Mary, this is all your fault." "What's my fault?" asked Mary. "Well," said John, "If you hadn't forced me to take all those vitamins, I could have been here years ago."

So, I guess the moral of the story is: The frugal life may, indeed, have its rewards—not only on earth but in Heaven, too."

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