— Strategy 21 —

Kick It Up a Notch

If you have a great ambition, take as big a step as possible in the direction of fulfilling it. The step may only be a tiny one, but trust that it might be the largest one possible for now.

—Mildred Mcafee

If you've ever watched the Food Network on cable television, you've probably seen celebrity chef Emeril Lagasse and heard his famous saying "kick it up a notch!" Emeril has developed a blend of spices called "Essence" to add additional flavor to foods that he prepares. When he tells an audience he's going to "kick it up a notch," he puts a pinch or two of Essence on a dish and everyone, in unison, says, "BAM."

"Kick It Up a Notch" is also a strategy to improve your health and increase your wealth. In this case, it doesn't mean adding more spice to a recipe but, rather, ratcheting up healthy behaviors that you are currently performing (or maybe not performing) in order to make them better. For example, if you currently get 20 minutes of physical activity daily, start exercising for 30 or 40 minutes. If you are saving 3% of your pay in a 401(k) plan, increase your contribution to 4% or 5%. In the *Step Down To Change* strategy, page 84, you learned ways to gradually reduce unhealthy behaviors such as smoking, high calorie diets, and overspending. With the "Kick It Up a Notch" strategy, you do the exact opposite: take action to gradually increase healthy behaviors such as exercise, saving/investing, and debt reduction. Whether we're talking about cooking or life, extra "spice" makes a big difference in the results that are achieved.

An excellent example of the "kick it up a notch" behavior-change strategy can be found on the America's Walking website at www.pbs.org/americaswalking/health/health20percentboost.html. Billed as "the realistic way to build up to 10,000 steps a day," the program suggests a gradual approach called "the 20% Boost Program." Using a pedometer to track your steps, during the first week you don't change your normal routine at all in order to calculate your baseline average. Be sure to record all steps taken, including both formal (e.g., using a treadmill) and informal (e.g., walking to/from a parking lot) exercise.

The *America's Walking* website provides a form to record the number of steps taken on Monday through Sunday of each week. The next step is to add the total number of steps for all seven days and divide this number by 7 to get your daily step average. Then, multiply the average number of steps taken by 1.2 (20% increase) as a goal for the following week. Continue doing this over the next two or more weeks, until you reach 10,000 steps (about five miles). A study done in Colorado, a state with a relatively low obesity rate, found that the average person takes about 5,900 steps a day (about three miles). To reach 10,000 steps would require a 20% increase from 5,900 (week 1) to 7,080 (week 2) to 8,495 (week 3) to 10,000 + (week 4). These extra steps can be achieved by planned physical activity. Examples include walking during lunch hour, parking farther away from one's place of work, taking stairs instead of an elevator, pacing back and forth while talking on the phone, and/or extra time spent on exercise equipment such as a treadmill.

Good financial practices can also be kicked up a notch. A recent study by the Employee Benefit Research Institute found that Americans contributed an average of 6.8% of pay to 401(k) retirement plans, far less than the maximum annual limit for many people. Only about 10% of plan participants contribute the maximum amount allowed. Thus, a clear catch-up strategy for many people is to "kick savings up a notch" by contributing more to tax-deferred 401(k), 403(b), and Section 457 plans. The best times to do this are when you receive a raise, or other increase in income, or when household expenses, such as a car loan or childcare, end.

Some tax-deferred plans also include matching employer contributions. For every dollar that you save, your employer might kick in another 25 cents, 50 cents, or even a dollar, up to a certain percentage (e.g., 6%) of pay. The average company match in a 401(k) plan is about 3% of workers' pay. If you are not saving the amount required to earn the maximum match from your employer, you are essentially throwing away "free money." Other advantages of these savings plans, in addition to matching, are a federal tax write-off for the amount contributed and tax-deferred earnings.

Table 15, below, shows the amount that can be accumulated by age 65 by saving an additional 2% of earnings annually or by a 1% contribution by you and a 1% match from your employer. The analysis assumes that savings earn a 7% average annual return and that a worker's contribution is based on their current salary (e.g., 2% of $30,000 is $600) and remains constant over time. If earnings, and hence retirement plan contributions, increase, the amount that can be accumulated will be even higher.

The Employee Benefit Research Institute's annual Retirement Confidence Survey consistently indicates that about half of American workers, both current savers and non-savers alike, feel that it is possible to save $20 (or $20 more) weekly for retirement. While saving $20 per week does not seem like much, it will result in more than $1,000 per year, plus earnings provided by compound interest. Can you "find" $20 a week to save by trimming one or more household expenses?

Table 16, above right, shows the impact of saving an additional $20 per week and that seemingly small amounts can grow into substantial sums over time. The longer the investment period (e.g., 30 years versus 10 years) and the higher the average annual rate of return (e.g., 10% versus 5%), the greater the sum of money that will accumulate.

— TABLE 15 —

Savings at Age 65 from an Additional 2% Contribution to Tax-Deferred Savings

Worker's Annual Salary	Age That Worker Begins Saving Additional 2% of Pay: 40	45	50	55
$ 20,000	$ 25,300	$ 16,398	$ 10,052	$ 5,527
$ 30,000	$ 37,949	$ 24,597	$ 15,077	$ 8,290
$ 40,000	$ 50,599	$ 32,796	$ 20,103	$11,053
$ 50,000	$ 63,249	$ 40,996	$ 25,129	$13,816

Source: Future value of annuity table factors multiplied by 2% of four different salary levels with savings-plan deposits held constant through age 65.

— TABLE 16 —

Impact of Saving an Additional $20 per Week

Number of Years of Savings	5% Average Return	10% Average Return
10 years	$ 13,700	$ 18,200
20 years	$ 36,100	$ 65,500
30 years	$ 72,600	$ 188,200
40 years	$ 131,900	$ 506,300

Source: Retirement Confidence Survey, Employee Benefit Research Institute, Washington, DC

Another way to kick things up a notch financially is to use a fold-down plan (a.k.a., power payments) to speed up the repayment of outstanding debt so that monthly payments can, instead, be invested. The principle behind this strategy is that, as one debt is repaid, the monthly payment from that previous debt (e.g., $30 paid to Sears) is applied to remaining creditors (i.e., kicking them up a notch), until all remaining debts are repaid. Depending on the number of creditors owed and the outstanding balances, the amount of money saved can range from several hundred dollars to well over $10,000.

Consider the following example, prepared by Barbara Bristow, formerly of Cornell University, which illustrates the awesome impact of accelerating debt repayment. The example shows differences in debt reduction time and the amount of interest paid by three fictional families, each with a different repayment schedule. It assumes that each family has a credit card balance of $4,800 with a 17% annual percentage rate (APR) and that they do not add to this existing debt or miss any payments.

- The *Minimum* family pays just the required monthly payment due each month (some creditors charge 2% of the outstanding balance with a minimum payment of $10; others charge 3% or more). They will make 405 monthly payments (33.75 years!) and pay a total of $10,399.78 in interest charges, in addition to the $4,800 they borrowed, for a grand total of $15,199.78.
- The *Medium* family decides to repay $120 a month. At this rate of repayment, their debt will be repaid in exactly five years (60 payments) and they will pay a total of $2,333.83 in interest charges for a grand total of $7,133.83.

- The *Maximum* family decides to repay $240 a month. They will finish paying off the principal in two years (24 payments) with a total interest cost of $884.11 for a grand total of $5,684.11. The Maximums then decide to "pay themselves first" by continuing to make a $240 "payment" to themselves and investing it. They find a quality stock mutual fund and invest $240 a month for 381 months. This length of time coincides with the date that the Minimums finish repaying their $4,800 balance. If the Maximum's mutual fund earns an 8% average return over the 31.75 years that they invest, they will accumulate $390,362 toward a secure retirement.

The Utah State University Cooperative Extension website, WWW.POWERPAY.ORG, provides a PowerPay debt reduction calculator for individual consumers to calculate the potential time and interest savings possible by applying the monthly payment from a repaid debt to other outstanding obligations.

Below are some additional ways to kick your current financial practices up a notch:

- If you're saving in a 401(k) or other tax-deferred plan but never really calculated your actual retirement savings need, download a copy of the *Ballpark Estimate* worksheet at WWW.ASEC.ORG or do a *Ballpark Estimate* calculation online.
- If you revolve a credit card balance, transfer it to a low-rate card or request an interest rate reduction.
- Increase your emergency savings to the equivalent of three-to-six month's expenses.
- If you rarely or never check your credit report, do so annually. Every American can request a report *free of charge* once a year from either of the three major credit bureaus: Experian, Equifax, and Trans Union at WWW.ANNUALCREDITREPORT.COM.
- If you invest in stocks or mutual funds haphazardly, sign up for an automatic investment plan and invest a regular amount at a regular time interval (e.g. $50 per month) by authorizing a debit of your bank checking account for the deposit.
- Make the equivalent of 13 monthly mortgage payments a year by adding 1/12 of a monthly payment (principal and interest portion) each month (e.g., 1/12 of a $1,200 payment = $100 + $1,200 =$1,300).
- Whatever you are currently saving/investing, do more of it (e.g., invest $100/month instead of $50).

You can probably think of many other ways to "kick it up a notch" to improve your health and personal finances. Get started by doing what experts recommend or doing more of the positive behaviors (e.g., physical activity, saving money) that you are *already* doing. Use Worksheet 33, *Kick It Up a Notch—Health*, and Worksheet 34, *Kick It Up a Notch—Wealth,* both on the next page, to make plans to change. Describe the behavior you desire to change, each "notch" of behavior change (e.g., saving 2%, 3%, 4%, 5%, and 6% of pay), and your expected date to "kick it up" to a higher level. Try, also, to enjoy what you do. Just like Chef Emeril enjoys cooking with a band playing and people around him, choose behavior-change strategies that are fun or relatively painless.

— Action Steps —

Health

- ❑ Use a pedometer to track your baseline number of steps and increase them gradually to 10,000 daily.
- ❑ Identify one or more current health behaviors and make them better (e.g., eating 5 fruit and vegetable servings per day instead of 3).
- ❑ Visit HTTP://WWW.NJHCQI.ORG/HOWSYOURHEALTH.PHP and WWW.EVERYDAYCHOICES.ORG for ideas about things that you can do to improve your health.

Wealth

- ❑ Calculate your net worth (assets minus debts) and aim to increase it by 5% to 10% annually.
- ❑ Identify one or more current financial behaviors and make them better (e.g., saving 10% of gross annual income instead of 5%).
- ❑ Visit HTTP://NJAES.RUTGERS.EDU/MONEY/FFQUIZ/ for ideas about ways to improve your finances.

Worksheet 33

Kick It Up a Notch—Health

Current Behavior ______________________________

Behavior-Change Level	Description of Behavior Change	Target Date to Change
One Notch Higher		
Two Notches Higher		
Three Notches Higher		
Four Notches Higher		

Worksheet 34

Kick It Up a Notch—Wealth

Current Behavior ______________________________

Behavior-Change Level	Description of Behavior Change	Target Date to Change
One Notch Higher		
Two Notches Higher		
Three Notches Higher		
Four Notches Higher		