



Champagne Tastes, Six-Pack Pocketbook

The Motley Fool

By Dayana Yochim

Dear Dayana, I am at a crossroads. I spent my twenties living a life of excess and reckless spending. Now, having recently turned 30, I am beginning to panic when there is only \$4 in my checking account the last week of the month, and I've already begun raiding my minuscule savings account to buy such necessities as toilet paper and Fancy Feast for my cats.

Here's where I am at: I owe about \$70,000 in consolidated student loan debts, which is a considerable payment each month even on the graduated repayment schedule. I recently reconsolidated at a new lower rate. Also, I recently acquired about \$5,000 in credit card debt to furnish my new apartment, having moved back to the States a few months ago from overseas, where I grew accustomed to a life of 5-star luxury. My interest rate is — hold on, let me check ... It seems to have gone up a percentage point since I last looked and is now 7.9%!

I would like to take advantage of my new employer's 401(k) program and start saving money. I'm only 30, but the way I go through money, I figure I'll need a lot of it to retire in style. How would you suggest that I balance paying off student loan debt and credit card debt with starting a 401(k) and other savings? They offer 50 cents for every dollar contributed up to 6% of my annual pay. How much money are we talking about? Enough to make it worth forgoing a biweekly manicure or mini-shopping spree at Urban Outfitters every time they put something new on the display mannequins? Sincerely, Champagne Tastes/Six-Pack Pocketbook

Crack open a cold one (that's a beer, not a bottle of vintage Cristal). It's time to have a heart-to-heart.

Financial reality for most of us does not resemble *Lifestyles of the Rich and Famous*. In fact, if you want to go with a TV show equivalent for the average 30-year-old American, try *Survivor*. In fact, the daily money struggles of people with champagne tastes living on a beer budget (you know who you are — my colleague [Seth Jayson wrote](#) just the other day that for the first time since the Great Depression, Americans once again have a negative savings rate) would make anyone beg to be voted off the island.

Unfortunately, digging in the couch cushions for laundry quarters and comparison shopping at Costco doesn't win Nielsen ratings. We don't want to see Grace Adler's roots begin to show because on a \$41,000 real-world interior designer salary, she couldn't afford the posh pad, Prada duds, and the regular highlights and blow-outs she sports on *Will and Grace*. And as much as we would like to believe that a children's book illustrator can afford a roomy abode on Wisteria Lane, the actual median salary that *Desperate Housewives'* Susan Mayer would make outside of La La Land — \$38,000, according to [Careerbuilder.com](#) — would hardly cover a modest two-bedroom apartment for this single mom and her teenage daughter.



Obviously, my first piece of advice is to unplug the TV and [have your cable service disconnected](#).

Seriously, though, it's never too late to add some fiscal discipline to your life, and milestones — like, say, a 30th birthday — are a good time to review where you are and figure out where you're going.

First, let's tackle the unglamorous high points:

Not so excellent about the newly minted credit card debt. The fastest way to begin building wealth is with a clean slate. At best, carrying a balance on your card keeps you treading water until the next Anthropologie (owned by **Urban Outfitters** (Nasdaq: URBN)) shopping spree pulls you under. At worst, as you've discovered, the balance can quickly balloon because of an unexpected interest-rate hike. We offer [lots of advice on paying down debt](#), but the fastest way to bury that \$5,000 ankle weight is to take on temporary part-time work until you pay it off. (No, not at a clothing store. Not even if you get a sweet employee discount. *Especiallly* not then...)

And finally, it's good that you're contemplating your financial future. Better to do so now before worry lines start to form. I've written before about [the dance of saving while paying off debt](#). For you, I think that starting the habit of savings is important, particularly while time is on your side (and at age 30, which is the new 20!, it still is).

Wait! Don't click over to Bluefly yet.

What you really wanted was a number — something to justify skipping the mani-pedis and **Nordstrom**'s (NYSE: JWN) annual shoe clearance.

How does \$59,000 sound? That's the kind of dough that can make you learn to love that at-home pedicure kit.

If you socked away the maximum allowable amount (\$4,000) in an IRA this year and earned an 8% compounded annual return (the popular example rate-of-return according to the brokerage leaflets filling my mailbox), in 35 years you'd have nearly \$60,000 and be eligible for Senior Discount Days at the mall.

Want another number? How does \$1 million grab ya? If you managed to curb the urge to splurge from now until age 65 so you could add to your IRA kitty, you'd end up with more than \$1 million, which could provide a glamour-girl-worthy retirement.

Advice for working girls

Before we get ahead of ourselves, let's back up and make a real savings plan with what's already hanging in your closet. As you whittle away at the student loan and work doubly hard to pay off the



credit card, socking away \$4,000 in a self-directed IRA this year may not seem doable. Luckily, someone close to you is willing to pick up part of the tab.

At The Motley Fool, we recommend that folks first check out their [work-retirement plan](#). In your case, your boss makes it even more compelling by offering to help out. Given the 401(k) plan parameters you describe, someone earning \$50,000 who opts to contribute 6% of her salary to the plan (which comes to \$3,000) will get around \$1,500 in “matching” funds from the boss. Holy cashmere!

At the very least, try to invest up to the point where you get the maximum amount in employer-matched funding. And remember, because your 401(k) is a tax-advantaged account, every dollar you contribute actually reduces your taxable income. So if you’re in the 25% tax bracket, a dollar deposited in your retirement plan cuts your current tax bill by 25 cents. (Some employers allow you to invest post-tax dollars in your work retirement account, too, but unless you absolutely love your plan, it’s probably best to invest that extra money in an outside account.)

Shop with purpose

Trust me, I know how hard it is to resist the urge to splurge. I face the temptations every day as I stroll past all the pretty stores on my way to work. That’s why I often take the side streets.

But an even more effective way to change the course of your financial future is to tweak your world view of money. Ask yourself what role money should play in your life now, in the mid-term, and in your future. Perhaps what you want is security, happiness, work-life balance, and cute shoes. (I may be projecting, but those are some goals I can get behind.)

Missing one of those ingredients can throw the whole thing off kilter. For example, you can’t really enjoy cute new slouchy boots if you don’t have any short-term cash cushion. And you’re not going to be happy if you only have long-term financial security but have to work so hard to get it that you never get a chance to go out and show off your duds.

Make do with a six pack for a while, and reserve the champagne for celebrating your milestones (paying off that credit card debt, kicking in a bit to your work retirement plan). But, remember, just a sip.

Tomorrow, I’ll share some money-saving tips for cash-strapped glamour girls.

*Got a money question? [Dayana Yochim](#) cannot answer all questions emailed to her, but the even smarter Fools on the [discussion boards](#) almost always do. Costco is a **Motley Fool Stock Advisor** recommendation.*

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