A survey in 2002 and 2003 revealed that only 20% of the “boomer” generation was satisfied with their finances, he reports, and one in three named personal finance as the one area of their lives they would most like to improve. Across all age groups, the author points out, nearly half of us believe we will never reach our financial goals.

But that’s up to us, he suggests. For those so minded, it’s never too late to put things right.

“Whether you know it or not, there is a way you can spend less and save more,” he declares, “and if you do that, you can almost certainly start late and finish rich.”

His success formula is simple:
• Reduce your spending
• Wipe out your debts
• Increase your savings
• Invest wisely
• Own your own home
• Earn more
• Give more

Underlying this approach is a reliance on prudence and self discipline. You must be well organized and determined to succeed. Most people wish for a better life, he notes, but smart people learn, plan and take action to get it.

Spend Less – Turbocharge Your Latte Factor
How much you earn has almost no bearing on whether or not you can build wealth. It’s how much you spend that counts and the trouble is that, for most of us, the more we make, the more we spend. When we get a raise, we simply direct it at buying more stuff and fail to accumulate a surplus. It’s what the author calls the “Never Get Ahead Race.”

So, the first step towards finishing rich is to examine your spending to identify and reduce or even eliminate the non-essentials, the money you’ve been burning up from your pay increases.

In his earlier writings, the author introduced the concept of the latte factor, using the example of buying fancy, expensive coffees to illustrate how we regularly spend money on luxuries, money that over time, adds up to a substantial amount that could be redirected to savings. Frequent dining out is another example. Identifying and focusing on these daily expenditures can easily result in savings of several hundred dollars a month.

However, if you’re starting late you may need to turbocharge your latte factor, aiming to cut spending by perhaps $1,000 a month. Cutting your daily excesses alone is unlikely to save enough. You must consider weekly, monthly and even annual extravagances that you could easily live without – things like premium TV channels, fancy cell phones, new clothing outfits for each season and overly lavish Christmas gifts.

To do this, you must be willing to take a clear, hard look at the way you live and make some changes, being prepared to give up things that you enjoy. A useful exercise is to compile a written list of every single cent – cash, credit card, check – you spend throughout the day and then to identify which of these could be eliminated. Add to them any fixed monthly expenses that could be either reduced or cut out entirely.

The benefits could be substantial. For example, say you are 50 and married and both you and your spouse are employed. If you each decided to invest an extra $15 a day in your respective retirement accounts, this would amount to a combined $10,800 a year. By the time you are 70, your nest egg would be worth nearly $700,000.
Transform Your Debt into Wealth

North Americans owe trillions – yes, trillions – of dollars in consumer debt, mostly on credit cards and auto loans. Credit card debt is the single biggest thing holding most people back financially, says Bach. And the reason most people can’t beat it is that they are focusing on the wrong enemy.

It isn’t the money you spend on stuff you can’t afford that’s the killer, but the interest you pay on the debt. The card industry knows that if they make the minimum payments low enough, you’ll keep on spending and they will keep on charging you interest and making a fortune.

For instance, if you borrow $10,000 and make only the minimum payment each month, it could take you 37 years to clear the debt, even if you don’t buy another thing with your card. Along the way, you could pay around $19,000 interest. What is more, the card companies also cash in on overdue payments, earning billions from late fees and other penalties.

Your strategy is to find a way to reduce the interest rate so you can start paying down your debt faster.

Because the credit card industry is highly competitive, the way to do this is to shop around for the lowest possible rate being offered by another company. Such offers regularly show up in your “junk” mail or are advertised online, on TV and in print.

Oftentimes you may find an introductory zero interest rate for transferring your balances to a new card, but make sure you read the small print so that you know and fully understand the terms and any time restrictions linked to the offer.

Then, approach your current card company and invite them to match this competing rate. This negotiation can be done by phone, and bear in mind that the company probably does not want to lose you as a customer.

Call the customer service number on your most recent card statement. The person who answers probably will not have the required authority to make changes, so ask to speak to a supervisor and, if necessary after that, the supervisor’s manager.

If the company refuses your request, switch your balances to the new card provider. Either way, you will end up paying significantly less interest, leaving you more money to clear the actual debt.

Alongside this approach, you may also seek to consolidate debts from other credit and store cards onto a single card, so that you are paying the lowest possible interest rate on the entire sum. You can even mention that you will consider doing this when you are trying to negotiate down your rates.

How much of your available funds should you devote to this? Contrary to popular opinion, not all of it, says the author.

Say you had $300 a month to save or pay down your card. If you used the whole sum to pay off the card for 10 years and, once this was done, saved the sum at a 10% return, you would wind up with $227,811 after another 20 years. But if you allocated just $150 a month to the card debt and saved the rest from the outset, at the same finishing point you would have $339,073!

One more thing, if you are charged a late payment penalty, phone the credit card company as soon as you receive it and ask them to remove it. According to the author, this approach can and does work, especially if this is out of character and you normally do pay on time – and anyway, you won’t know unless you try it.

Save More – Pay Yourself First

One of the secrets of being able to save more money is what David Bach calls “paying yourself first” – investing a chunk of your earnings before the taxman gets his hands on it.

This is done by funding an approved retirement account, where individuals are permitted to invest cash, up to specified limits, from gross earnings, that is, before tax is deducted. Examples would be the 401(k) and Individual Retirement Accounts (IRAs) in the US and Canada’s Registered Retirement Savings Plan (RRSP).

For example, you invest $100,000 that generates an annual return of 10%. If it is a regular, taxable amount and you are in, say, a 35% tax bracket, your fund would grow to $661,000 in 30 years. But in a tax deferred or tax deductible retirement account, it would be worth nearly three times as much – more than $1.7 million.
“To put it simply, if you pay the government first, you’re trying to finish rich with one hand tied behind your back,” he suggests.

So, how much do you really need to save this way? For most people, the author suggests saving an hour’s worth of your income every day – or 12.5% – but for late starters you really need to save twice that amount. Sound too tough? You can ease yourself into this by starting with maybe half and hour’s worth of pay per day saved, increasing it over two years to the full two hours.

And although it seems a formidable challenge, the actual net reduction in your spendable income will be considerably less than the two hours’ worth because of using a pretax or tax-deductible retirement account. For example, saving $520 a month from your salary before tax withholding, would reduce a 30% taxpayer’s take-home pay by only $336.

Add in the savings you are making from your turbocharged latte factor and the overall reduction in available income will come down further or even be wiped out!

The author recommends you should try to “max out” your investment, saving the maximum permitted tax-free by the government. With RRSPs, the 2007 cap was $19,000, rising to $20,000 in 2008. With 401(k) plans in the US, the annual tax-free limit was $15,500 per person in 2007, rising annually in increments of $500.

Where possible, the author strongly recommends that your contributions should be automatically deducted and transferred to the savings account by your employer or your bank. Where this is not possible – when you are self employed for instance – you must develop a firm discipline for making your contributions.

How To Invest – Be Boring

Throughout the book, Bach uses a benchmark annual investment return of 10% and this can be achieved, he says, by putting one third of your savings in each of three areas:

1. Real estate, including the equity you have in your home. Beyond your home equity, he recommends investing in Real Estate Investment Trusts (REITs), publicly traded entities that own income-producing properties like office buildings, stores, apartment buildings and healthcare facilities. Though slightly different in structure and taxability, REITs are available in both Canada and the US – and several other countries – and returns have outperformed stocks, bonds and gold handsomely over the past 25 years. Rather than trying to select an individual REIT, the author recommends a fund that follows the sector more broadly.

2. Stocks. The average annual return generated by the Stock Market since 1926 is 10%. Experience shows that trying to beat this (and, therefore, the market) by buying low and selling high is extremely difficult. Most of us simply misjudge the timing. So again, the author recommends mutual funds for the broad spread, low volatility and low management costs they offer.

3. Bonds. The bond market has yielded an annual 10.1% during the past 25 years and the author recommends a bond portfolio divided equally among several mutual funds.

Get Rich – Buy Your Home

Despite the ups and downs in the property marketplace, real estate is one of the best investments you can make. In fact, you can’t finish rich if you don’t own your own home, the author warns. And if you started late, you need to own someone else’s home too – that is, owning to rent.

The reason most people don’t buy a home is because they think they can’t afford it, but more often than not they are wrong.

Renting is “one of the most financially self destructive things you can do.” You can easily spend half a million dollars during 30 years of renting and end up where you started – owning nothing, whereas every $1,000 you pay in monthly rent could support roughly $165,000 of mortgage.

In addition, there are numerous organizations and agencies that want to help you buy and could help you get loans of up to 100% of the purchase price.

And when you are ready to get a mortgage, the author has some advice on how to pay it down faster: Split your monthly payment and pay half every two weeks. This means you actually make the equivalent of 13 monthly payments each year, which can save you tens of thousands of dollars in interest payments and substantially reduce the term of your mortgage.
If you ask them, most lenders will set up this bi-weekly repayment system for you.

**Earn more – how to get a raise**

If you can turbocharge your earning power while increasing your savings ability, your chances of being able to start late and finish rich go up exponentially. If the only thing you did was get yourself a 10% raise in the next 30 days, your entire financial future would improve massively.

But how do you do that? The answer is: become a great employee.

The structure of a typical workforce seems to break down into three groups – 20% at the bottom, who are disinterested and barely manage to get to work on time, 60% who are simply good, honest, hardworking folks, and the top 20% who are great employees; they know you only get what you go for; they come to work with specific career and income goals; and they manage their direction in life.

You already know which group you belong to, the author suggests. And you won’t get into the top 20% by simply wishing and hoping. You must make a plan and then act on it.

Start by thinking about the following questions and how you will address them:

- As an employee, do you stand out or blend in?
- If you left your company, would it be hurt or helped?
- Do you come to work on time, early or late?
- Do you have a written plan for your career?
- Do you know anything about the person who determines your pay and their family? Does he/she know anything about you?
- Do you really care about the company or is it just a job?
- Do you spend any time, money and/or effort learning new skills?
- Do you have a vision of where you want to be with your employer in three to five years?
- Does your employer know you have a vision?

By working on these – components of your “brand” image, as the author identifies it – you will have the ingredients that will strengthen your image and your case for a raise.

Then, make an appointment to see your boss. Know exactly what you will ask for and how you can demonstrate the value you are adding to the business.

Another approach is simply to ask: “What would it take for me to get a raise in the next six months?”

And don’t be put off if your company is one that does not normally give raises outside of the norm. The author says he knows of many, many people who have won extraordinary pay increases in just such circumstances.

What if you are self-employed? You get your pay raise by having a timetabled strategy for increasing your prices. Many small businesses simply don’t have such a plan in place and leave their prices unadjusted for lengthy periods.

**Earn More – Start A Business**

The other way you can increase your earnings is to start a business. If you were able to grow your income by just $500 a month and you saved all of it, with a 10% annual return, you would have close on $380,000 after 20 years.

Your options might include:

1. Starting a small home business, such as eBay trading or a Mary Kay type direct selling operation, without quitting your day job. You don’t need a lot of money, special experience or lots of time. You don’t even have to be passionate about the particular business you choose – but you do have to be passionate about being an entrepreneur. A search online will identify lots of free resources to help you get started on your own.

2. Buying a franchise. This is not normally something you can do on the side but if you are seeking a new career path or a different approach to starting late and finishing rich, franchising is something you should consider. Although there are some low-entry-cost opportunities, most franchises typically cost upwards of $50,000 and usually demand exceptionally hard work. But, if you are committed, the rewards can be great. Remember that you are buying a license to use a system created by someone else and you must be prepared to follow their rules. For a list of the 500 best franchise companies, visit www.entrepreneur.com and for a clearer picture of this $1.5 trillion industry, the pitfalls and the opportunities, check out the International Franchise Association (www.franchise.org)

3. Investing in real estate. The author’s approach is not a get-rich-quick scheme. Rather, he says, it is get-rich-
slowly, something that spans 5, 10 or even 20 years. The strategy is to buy a house, live in it for a while, then rent it out and buy a second home. Repeat this as many times as you can. In times of real estate value appreciation, you can also leverage a substantial return based on your mortgage. For example: You find a home for $250,000 that requires a $50,000 deposit. The value increases to $275,000, meaning a return of 50% on your initial outlay.

Give More – Live More

Most people who achieve great wealth have at least one thing in common: donating to charity, even before they became rich. Virtually every self-made billionaire the author has studied had adopted this principle.

As a result, he has come to believe that the giving of time or money to help others is more than a golden rule. It’s a “golden magnet.” He has seen this happen in his own life and in the lives of hundreds of people around him: those who give lead more abundant lives.

“The truth is,” he writes, “that while money can help make your life easier, it can’t always bring happiness. Real happiness comes from inside of us. It comes from living a life of meaning.

“That is why I often say that while finishing rich is an important and worthy goal, I also know that having a purpose bigger than money is critical to long-term happiness, joy and personal fulfillment.”

Bach has one final recommendation: pass on his message. Maybe you started late but your kids don’t have to, he says.

“You now know more than enough to really help a relative to start young and finish rich. You can teach someone else to save more, spend less, earn more and, most important, live and give more.”

Conclusion

The techniques behind finishing rich when you have started late are similar to those for any wealth strategy: spend less, earn more, save more, invest wisely. The key difference is that late-starters must turbocharge their efforts.

By taking advantage of tax breaks, low-risk investment strategies and the long-term growth of real estate values, you can build substantial retirement savings. But you must apply iron discipline in cutting back unnecessary spending and making your savings contributions.

However, the interesting thing about finishing rich, says Bach, is that it’s ultimately not about the money, but the feeling of freedom that comes from knowing that you are doing something about your worries and fears – “buying back your life” from living paycheck to paycheck – and knowing that you are in control of your own destiny.