



“On The Money Report”

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Financial “Rules of Thumb”

How Much Should I Save?
How Much House Can I Afford?

These are questions I deal with on a day to day basis. As you probably know from listening to my show, I’m not one for quick answers to complex problems or “rules of thumb” shortcuts, but I came across this article from CNNMoney and here are some ideas they put forth.

How Much Should I Save?

If you’re 30 years old or younger, save at least 10% of your take-home pay.
If you’re 40, for example, and just starting to save, save at least 30% of your take-home pay.

How Much House Can I buy?

Your home shouldn’t cost more than two-and-a-half times your gross income.
If you live in an expensive area like New York or San Francisco, try to save an extra large down payment to keep your expenses under control.

Remember, you don’t want to be house poor!

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How Much Debt Is Too Much?

Total long-term debt payments including mortgage, credit card payments and loan payments-should not exceed 36% of you monthly income.

What’s The Most Effective Way to Pay-Down Credit Card Debt?

Allocate a fixed amount monthly and have it withdrawn automatically from your checking account.

Pay high interest debt first while continuing to make at least the minimum payment on the other debt.

What Should My Net Worth Be?

Your net worth should be your age times your gross income divided by 10.

Here’s an example:

Your 40 and earn \$100,000 per year gross.

40 times \$100,000 divided by 10 equals \$400,000

Note: This includes your home and other assets minus all of your liabilities.

How Much Should I Have When I Retire?

Roughly 20 times your required income. Your “required” income would be the income needed after accounting for Social Security, pension, rental income, etc.

Here’s an example: If you need \$100,000 in net income, you’ll need \$2,000,000.

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How Much Life Insurance Should I Have?

Even CNN admits it's complicated, but they give this advice: Six to ten times family income and possibly more, depending on your own family expenses. Don't forget to have ample insurance for the non income-producing partner who stays at home. That person contributes economically to the family and the surviving spouse likely will have to pay for childcare and related expenses.

Steve

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