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Cash or Credit: The "Value" of Increased Buying Power

Imagine you're at an auction, and an exquisite antique vase is about to come on the block. When you viewed the auction items earlier, you placed a value of $100 on the vase. It's late in the auction, you've planned your bidding carefully, and have exactly $100 in cash left in your wallet.

Price Equals Value

When the bidding reaches $90, you and one other bidder are still in the game. So, what's the likely outcome? If the bidding goes to $100, you'll either get the vase or drop out of the bidding. The amount of cash you have left equals the value you assigned to the vase, effectively limiting the amount you can pay. Assuming you're alone and can't borrow money from a friend, what you're *willing* and *able* to pay is controlled by how much money you have. In this situation, "price equals value."

Expanding Value

Let's now modify the scenario slightly to see how the outcome might change. Instead of it being late in the auction, the vase is one of the early items to go on the block, and the first item you'll bid on. You have $500, the total amount you've allotted for the entire auction. The bidding has reached $90. What should you do? What are you most likely to do?

Since you originally placed a value of $100 on the vase, you should be prepared to drop out if a $100 bid doesn't secure the vase. However, unlike the first scenario, in which you only had $100 left, you have a full wallet. Depending on how much you want the vase, it's possible you'll exceed your initial limit and continue bidding, particularly if you thought a bid slightly over $100 might be successful. What's the big deal about going over a little? After all, you may not even be successful on other items of interest.

In this case, it's probably not a "big deal," but you've expanded your definition of value. What was originally a $100 value has expanded to, perhaps, a $110 value. Notice how easy it is to lose your sense of value when something you *want* becomes something you feel you *need*.

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Education: An Investment in Your Future

It wasn't long ago when an individual went to college, got an education, and embarked on one career that usually lasted a lifetime. Many companies provided on-the-job training, and little emphasis was put on the idea of going back to school to continually upgrade your skills or change careers. During a job interview, it was common to be asked where you saw yourself in five or 10 years. Many new graduates could see a fairly predictable career track ahead.

By contrast, today's workplace environment and economic climate are very different. Trying to keep up with constant change and global competition is challenging enough, let alone trying to project where you will be careerwise, and what job you will be in five or 10 years from now. Rapid technological changes are redefining many types of jobs and may eventually make some jobs obsolete.

On the other hand, new careers with plenty of jobs may open up in certain industries over the next decade. New fields, such as green technology, are quickly emerging. To maintain current employment and improve opportunities to land job offers in an unpredictable market, many workers and independent contractors will need to enhance and upgrade their skills regularly.

In an information-based culture, the more technological skills you have,
the more attractive you may be to prospective employers. However, personal growth and development carry a price tag. While some companies provide certain forms of training, it may be unrealistic to think employers will bear the *entire* cost of talent development. As workers must now assume the responsibility for funding their own retirements through the shift from workplace defined *benefit* plans toward defined *contribution* plans, they may also have to fund their own long-term career development.

Changing the Mindset

The first step toward career development for the long term is to keep an open mind about continuing education. Rather than thinking of education as something that is over and done with after college graduation, you may have to look at education as an ongoing *process*. Professional success in the 21st century may require workers to become "sponges," with the unlimited ability to "soak up" new information and apply it quickly on the job.

It may help to think of "investing" in personal growth and development as akin to the business practice of investing in research and development (R&D). Just as businesses set aside a portion of their revenues to fund R&D that may lead to new products and more customers, consider setting aside a portion of your income to pursue activities (e.g., coursework, advanced degrees, professional or trade meetings, or relocation for a better work opportunity) that may enhance your job skills, career satisfaction, and earning capacity.

The best investment you might ever make is to begin setting aside funds for your continuing education. In the process, you'll be reinforcing the sense of responsibility required to control your own destiny and developing the resources necessary to carry out your vision for the future. You'll also be demonstrating to others, including your employer or other potential employers, that you are committed to improving your skills, receptive to change, and willing "to go the extra mile" to pursue professional success.

Choosing a Trustee for Your Living Trust

A **trustee** is a person or institution selected to administer a **trust**. A trustee's role is to comply with the terms of the trust and fulfill its objectives. In selecting a trustee, you must weigh personal, financial, and professional concerns, according to the nature and the purpose of the trust. Since a **living trust** is intended to be in effect during your lifetime so that

you can maintain control over your assets, you and your spouse may be ideal candidates for being named as trustees. Grown children may also be appropriate candidates.

There are numerous ways to use trusts to accomplish a variety of estate planning and financial objectives. For specific guidance, be sure to consult your financial, tax, and legal professionals.

What You Should Know About Whole Life Insurance

When faced with the wide range of life insurance coverage available, you may wonder what type really fits your needs *now* and what coverage you should have in place for the *future*. A good first step is to understand basic **whole life insurance** coverage.

Whole life insurance provides a benefit in the event of death, and it also has the potential for *tax-deferred* **cash value** accumulation. Premium payments first pay the cost of pure insurance coverage, including the expenses and mortality factors of the insurance company. The company then invests the remaining premium dollars to build the cash value of the policy.

A second feature of whole life insurance is the predictability of expense. As long as the insured continues to pay premiums according to the contract, premium amounts will not change and will continue until the policy matures, which is when the cash value of the policy equals the **face amount** of the policy. The point at which premium payments cease is clearly stated in the policy (typically age 65, 75, 85, or 95). The length of the payment period will, of course, affect the dollar amount of the premium payments.

The **guarantee** of insurability is a third feature of whole life insurance policies. Once the policy is issued and as long as premium payment responsibilities are met, the insured is guaranteed coverage for life in accordance with the terms of the policy. Evidence of insurability is not required after the policy is issued, as long as the original policy remains in force.

The final feature to consider is the ability to borrow against the cash value of a whole life insurance policy. Funds may be borrowed against the cash value of the policy at any time, depending on the policy. It is important to note that access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, can increase the chance that the policy will lapse, and may result in a tax liability if the policy is terminated before the death of the insured. Loan approval must come from the insurer, but it is fairly routine. No repayment schedule is set beyond the regular payment of interest on the loan, with outstanding loan balances deducted from the death benefit in the event of the insured's death.

Once you have considered the life insurance options available, be sure to evaluate them in relation to your personal needs. If you seek an instant "estate" to provide for loved ones, or wish to cover certain financial obligations in the event of your death, then a whole life policy may be a viable option for you.

What Causes Inflation?

Inflation, defined as the increase in the average price level of *all* goods and services, is often caused by changes in supply and demand on a broad scale. For example, suppose business is booming, unemployment is low, and workers' wages are increasing. As a result, consumers have more disposable income, and therefore are able to purchase more goods and services. Average prices will tend to rise due to the increase in *demand* for all goods and services.

Suppose the economy is suffering. As unemployment rises and wages remain stagnant, consumers are unable to buy additional goods and services. In response, production slows down and prices rise in order to cut losses. In this case, average prices increase due to a decrease in the *supply* of all goods and services.

In addition to creating higher costs for goods and services, inflation creates depreciation in currency values. As prices go up, the purchasing power of your income, dollar for dollar, decreases; that is, more dollars are needed to purchase the same amount of goods and services. In time, your personal savings and investments will have to work harder to keep up with or exceed inflation. It is important to consider inflation as you continue to save for retirement and make major purchasing decisions.

cash or credit: the “value” of increased buying power

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The “Value” of Increased Buying Power

So now, let’s change the example once more. This time, in addition to cash, the auction house will accept payment by credit card. What can happen to your sense of value when your buying power has increased?

It seems that many of us may be less quality conscious in our buying behavior, may not negotiate as skillfully, and may pay more when buying by credit card than when making an identical purchase with cash. If the bidding were to surpass $100, you may be willing to pay far more than your original assessment of what the vase was worth.

This demonstrates how your spending behavior, along with your smart-shopping ability, can change according to what’s in your wallet. “Hard money” (i.e., actual dollars in your wallet or checking account) tends to be perceived as *finite*. When you run out of money, you’ve exhausted your buying power until you obtain more cash or receive your next paycheck.

On the other hand, “plastic money” (i.e., credit cards) can alter your perception of value, tempting you to pay more than an object is worth, and more than you can reasonably afford. You may even believe your purchasing power is *infinite*. In the moment, you may lose your sense of what constitutes a good deal, and become a less savvy consumer. Ultimately, you may end up paying too much, while confusing *need* with *want*.

Buying on credit may be convenient, especially when you’re temporarily short of cash, but on a regular basis, this could have undesirable consequences. If you don’t pay off your balance monthly, your purchases may end up costing you more when interest and finance charges add up. Also, as the amount of your total debt increases, your monthly budget tightens. Since growing debt requires larger monthly payments, you may have less money available for other spending and saving.

A large amount of debt may also hinder you from getting the financing you need for more important purchases, like a new home or car.

One way to guard against credit card abuse is to ask yourself two questions when making a credit card purchase: First, would you purchase the item if you were paying cash? Second, would you pay the same price if paying by cash?

By staying focused on value, you can better distinguish between items you’d like to get and absolutely must-have purchases. This distinction can help you avoid the major pitfalls of buying on credit—overpaying on individual items and spending beyond your means.

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