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smart spending

Ten Commandments of personal finance

By Vicki Gerson • Bankrate.com

When Moses brought the stone tablets bearing the Ten Commandments down from Mount Sinai, he was trying to straighten out the world.

Here at Bankrate, we have a less ambitious -- but still very important -- goal in mind. We're trying to straighten out your finances with our version of the Ten Commandments of personal finance.

"Think of these Ten Financial Commandments as your guidelines," says Sean Sebold, Certified Financial Planner and president of Sebold Capital Management in Naperville, Ill. "If you follow these guidelines, you should be able to create a plan that works for you."

Adds Kristi Sweeney, Certified Financial Planner and principal of Sweeney Associates, Greenwood Village, Colo., "Too many people are in debt today. Most people are struggling to pay their mortgage or their health insurance. These Ten Financial Commandments should provide some insight as to the steps you can take to create a better financial life for you and your family."

Ten Commandments of personal finance

1. Thou shalt create a savings plan
2. Thou shalt not spend more than you make
3. Thou shalt not try to keep up with the joneses
4. Thou shalt limit the amount of debt on credit cards
5. Thou shalt pay monthly bills on time
6. Thou shalt avoid get-rich-quick schemes
7. Thou shalt protect thyself against risk
8. Thou shalt teach your children to handle money wisely
9. Thou shalt plan for retirement
10. Thou shalt legally protect thyself and thy family

I. Thou shalt create a savings plan

Without a savings plan you won't reach the goals you'd like to achieve.

"Two dollars a month is not going to help you get there," says Sebold.

He recommends you create a savings plan with 20 percent of your income. In fact, he helps his clients create a 24 percent solution. That means, they save 20 percent of their income and only spend 4 percent of their invested assets.

Sweeney has a slightly different outlook. First, she believes besides a savings plan people need an emergency fund.

"What if you need a new refrigerator because yours can't be fixed? Have an emergency fund so you don't need to put the purchase on your credit card."

She suggests that a three- to six-month emergency fund should be established. In addition, Sweeney recommends that you create a savings plan in either an IRA, 401(k), Roth IRA or even a CD.

II. Thou shalt not spend more than you make

Sweeney notes that when you're in debt, it is very difficult to get out of debt. People who spend too much are in danger of going into bankruptcy.

To help people avoid this problem, one of the steps that the Financial Planning Association in Colorado takes is to work with www.Americasaves.org. This national organization, comprised of more than 1,000 nonprofit, government and corporate groups, encourages individuals and families to become savers rather than spenders to build personal wealth.

III. Thou shalt not try to keep up with the Joneses

Look around you, Sweeney suggests. There are so many enticing items to buy. Your neighbors have them. So do some of the people where you work. You don't want to look cheap. You deserve the American dream.

"Buy things for you and not because these items impress your neighbor or friends," Sebold says. "Don't give into your children who say, 'I have to have it because everyone is wearing it.' If you can't afford it, don't buy it."

IV. Thou shalt limit the amount of debt on credit cards

"When I got out of college, I had a contest with my roommate to see who could get the most credit cards," Sebold says. "The result of this race has resulted in my low credit report -- and that was a long time ago. Even though I've canceled or closed them down, it still can hurt."

Sebold recommends that you never use more than 50 percent of your available credit line on each credit card you have. For example, if you have a credit card with a $6,000 credit limit, don't use more than $3,000.

Sweeney recommends that people limit the number of credit cards they use, and in her opinion, no one should have more than two main credit cards. Department store credit cards are different because it's easier to keep a handle on those because you're most likely not going to shop there every day.

"However, if you use your credit card every time you make a purchase, you will have a hard time paying your regular monthly bills. And you don't want to be paying only the minimum on your credit cards -- you really need to be paying them off every month. Even people with good credit have discovered that the credit card companies have been raising their interest rates. Credit card companies are in business to make money, and they hope you charge a lot," she says.

V. Thou shalt pay monthly bills on time

By paying your bills every month, you will keep your good credit rating. In addition, you won't have to pay late fees. In today's world, with online banking available to most people, there is not much excuse for being late on your bills.

VI. Thou shalt avoid get-rich-quick schemes

There are many sad stories of people who have taken their retirement money and put it into oil, shady business ventures, pyramid schemes and other unsavory get-rich-quick plans.

Most of the wealthy people in the world didn't get that way with get-rich-quick schemes. If it's too good to be true, it usually is, says Sebold.

"There is never an opportunity that has to be taken in one to 10 days," he says. "Never. If there is pressure to do it immediately, it's a bad investment."

VII. Thou shalt protect thyself against risk

There are numerous risks in this world, many of them financial. Sweeney believes it's important for people to have the right insurance, such as health, life and disability, to protect themselves and their families. In addition, they need car, home and even renters insurance. A new survey by Apartments.com indicates that 58 percent of their respondents do not have renters insurance.

"When something happens to you that you don't have control over, insurance can be a blessing," she says.

Sebold says that identity theft protection is critical.

"We recommend that you lock your credit report," he says.

You may also want to get a photo ID on all your credit cards if your credit card companies offer the feature.

VIII. Thou shalt teach your children to handle money wisely

Sweeney and Sebold strongly recommend this commandment.

"However," Sweeney says "if you're not handling money wisely, it's hard to teach your children to do so. You have to set a good example."

Sebold recommends having children as young as 8 keep a log of where their money is being spent. For example, if you give your child a $10-a-week allowance, at the end of the week he or she should be able to tell you how the money was spent or if any of it was saved.

"When you read about the history of very wealthy families like the Rockefellers of the world, they were all given accounting sheets when they were kids," he says.

Sebold also points out that each child should have a bank account so you can teach them about bank statements. As an added incentive to get your children to save, "Tell them they have to pay for college. It will change their focus on what money is all about."

IX. Thou shalt plan for retirement

Retirement may be so far on the horizon, it's barely a speck. Or it could be so close that you figure there's no point in even starting now.

It doesn't matter if you fit one of those categories or somewhere in between. Unless living in a cardboard box is your idea of a little bit of heaven, you absolutely have to plan for retirement.

And not just for yourself. Although children are not legally responsible for paying for elderly parents when the parents can't pay for themselves, many adult children feel emotionally responsible.

It is important to not only save for your retirement -- hopefully starting at a young age -- but to help guide older parents who may not be as financially knowledgeable in planning for their retirement.

X. Thou shalt legally protect thyself and thy family

Whether you're single or married, you should have a will or trust. Actually, these documents are not for your benefit but for the benefit of your heirs. If you don't have a will or trust, it becomes a legal nightmare for them.

Sebold and Sweeney emphasize that it's also important to have a living will and health care power of attorney. You should have written instructions regarding what happens at the end of your life.