SUMMARY

BY ALYSSA BURNETTE

The Index Card

BY HELAINE OLEN
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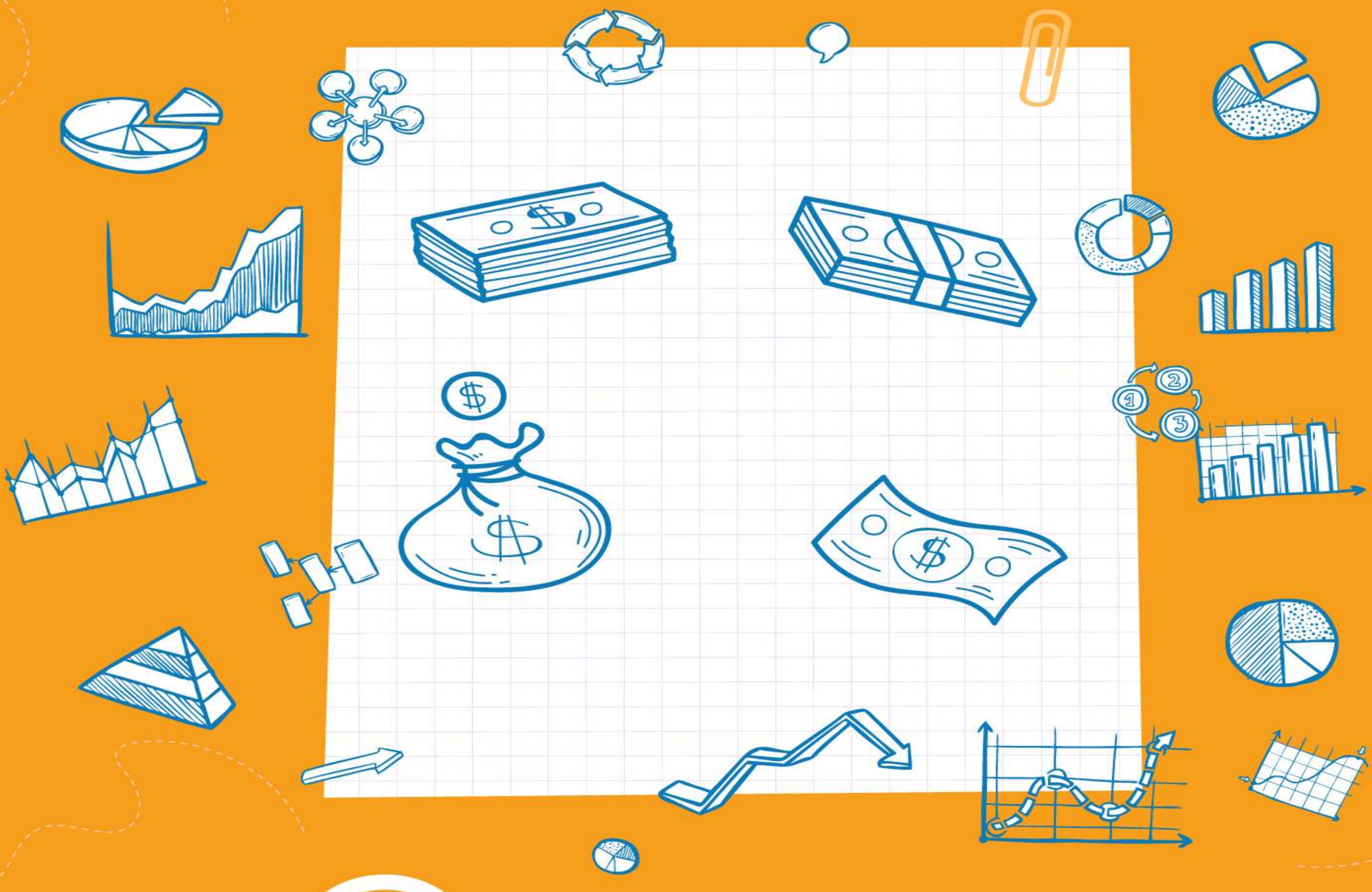

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Summary of The Index Card by Helaine Olen and Harold Pollack

Written by Alyssa Burnette

Simplify your relationship with your personal finances.

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Introduction

Does money ever make you nervous? Do you ever find yourself feeling as though you're not equipped to deal with your own personal finances? Perhaps you have a mountain of credit card debt. Or maybe you're so afraid of getting into debt that you've never opened a credit card at all, even though you really need to build credit! No matter what your particular problem is, discomfort with your personal finances can create a host of crippling limitations. The authors observe that our mindset is the first and most significant of these limitations. That's because we often set ourselves up for failure by telling ourselves things like, "I'm not smart enough to manage money," or "That's just too confusing, I can't figure it out." In fact, this very book was written to combat both of those lies!

The principle of *The Index Card* comes from an interview that took place in 2013 when a professor named Harold Pollack interviewed a renowned financial expert named Helaine Olen. Olen's personal website describes her credentials by summarizing that "Helaine Olen is an award-winning opinion writer for the Washington Post Opinion section. An expert on money and society with a deep understanding of public policy, she writes, speaks and consults on issues including Social Security, retirement, healthcare, student loans and women's financial issues." This background obviously illustrates why Olen is uniquely qualified to speak on the topic of financial issues and why her advice should be taken seriously. But through the course of their interview, Olen observed that her advice on personal finance could be boiled down the simple confines of an index card. And when Pollack proved this by following her suggestion, they realized that they had stumbled on a truly brilliant idea. *The Index Card* aims to expound on the financial tips that were written on that original index card and to provide you with some foolproof advice for managing your personal finances.

A Penny Saved is a Penny Earned

We've all probably heard this platitude at one point or another, but how often do we really put it into practice? How often do we justify small purchases by telling ourselves, "Oh, it's only $5.00!" only to realize that we've blown our entire paycheck on seemingly inconsequential purchases. The truth is that we all waste our money far more often than we'd like to admit. And the authors assert that this is the most important financial habit to break. However, this advice comes with the caveat that living in poverty is incredibly difficult. And as a result, it's almost impossible to save money when you're just trying to survive. That's why this advice is for people who are not trying to claw their way out of the cycle of poverty. This is for people who have a steady income and who would like to make better use of their money.

So, if you want to improve your financial habits, the first step is to start by setting some money aside. Even if you're not below the poverty line, this can still be difficult because of the disparity between the cost of living and the average person's wage. That's why the authors don't attempt to claim that saving is easy or that it doesn't sometimes require sacrifices. But they do assert that it is a necessity for achieving financial security. So, if you have to, start small! Start by setting aside 10% of your salary every month. You can do this automatically through online banking or you can connect with your employer and ask them to divide each month's paycheck between your savings and checking accounts. This might be a great option if you think you would be too tempted to spend the money you should be setting aside.

How to Manage a Credit Card

When I was a little girl, I was so confused whenever my parents told me that we couldn't afford to get as many new toys as I wanted. I could see the credit cards right there in their wallets and I thought those credit cards meant free money. So, why not spend it? Eventually, I grew up and understood that credit cards are not free money at all and that it's best to be careful with them. But unfortunately, many people seem to embrace the same childish mindset I had when I was six years old. Unsurprisingly, this can lead to a variety of problems, and credit card debt is one of the worst financial issues you can encounter. So, let's talk about the "do"s and "don't"s for managing a credit card. Accountant Greg Depersio breaks down a few of the basics by dissecting the core differences between a debit card and a credit card.

For starters, Depersio explains that "when a consumer uses a debit card, the money comes directly from his or her checking account. When he or she uses a credit card, the purchase is charged to a line of credit for which he or she is billed at a later date. A debit card may come with an overdraft line of credit connected to a customer's checking account to cover overspending. A credit card has a specified amount of credit connected to it, and if a consumer tries to spend beyond the credit limit, the card will be denied."

Depersio also has a specific term which denotes the function and danger of credit cards. He refers to them as "debt instruments." What exactly does that mean? He explains this definition by affirming that "a credit card is a debt instrument to be used for financial transactions in lieu of cash or check, or a debit card. Depending on its owner's credit-worthiness, a credit card may have come with a high spending limit or a lower one. When you use a credit card, the purchase amount is automatically added to your outstanding balance. With most credit card companies, a customer has 30 days to pay before interest is charged on the outstanding balance, though in some cases, interest starts accruing right away. Interest rates on credit cards can be notoriously high; they are a chief way credit card companies make money. Savvy consumers can avoid paying it by settling their balance in full each month."

This final sentence brings us to the key takeaway for this chapter: the importance of paying off your credit card in full. However, many people don't believe this is important because something called a "minimum payment." Here's how that payment system works. For example, let's say that your line of credit is a maximum of $500. That's all the credit that you have in the world; you can't use your credit card to spend $501 or $1000, all you have is that $500 limit. So, let's imagine that your credit line of $500 comes with a minimum payment of $25. But what does that minimum payment mean? Deb Hipp is a personal finance guru who has written numerous articles on the topic of minimum payments and she explains this financial concept with the following definition:

"A minimum payment on a credit card is the least amount you must pay by the due date to avoid a late fee. The minimum payment calculation is based on your full balance, including interest from not paying your balance in full. With some credit card companies, if your balance is lower than the set minimum payment, that balance amount will be your minimum payment. While paying less than your full balance may save you money this month, it costs you more in the long run. If you pay the credit card minimum payment, you won't have to pay a late fee. But you'll still have to pay interest on the balance you didn't pay."

So, in the example we discussed above, your minimum payment for a $500 line of credit might be $25. Whether you spent $50 or maxed out your credit card that month, you would still have to pay $25 every month until your balance was back up to an even $500. That sounds pretty easy, right? Most people can afford to set aside $25 every month and certainly most people find it easier to pay $25 than $500. So, why would that be problematic? As Hipp asserted, it can be problematic because slowly paying off your credit card bill will cost you a lot more in the long run thanks to interest fees, potential late fees, and the long-term expense of paying your debt off one bit at a time. So, the moral of this story is: don't set your sights on the minimum payment!

It might look easier, but it can be expensive and problematic in the long run. So, if you can possibly afford it, you should always make a practice of paying your credit card bill in full every month. You should also avoid over-spending with your credit card! Although it's easy to think of your credit card as free money, remember that any credit card is ultimately a debt instrument. So, anything you put on your credit card is a charge you will ultimately have to pay back. Keeping this in mind can help you make smart financial choices for your future!

Work Toward Financial Freedom

We all have an idea of what financial success looks like but we rarely articulate it to ourselves in the form of outlining a concrete plan for actually achieving that success. For example, would you define financial success as having multiple vacation homes, a private yacht, and fancy cars? Or do you instead view it as having a stable job, a steady paycheck, and the ability to provide for your family? There's no right or wrong answer to that question; the important thing is simply to understand what financial success looks like for you because that will help you construct a viable definition that you can work towards. It can also help you get rid of some unrealistic misconceptions that might trap you in an unhealthy cycle of financial decisions.

For example, if you believe that you're only "financially successful" when you own three lamborghinis and a wealth of designer clothes, then anything that falls short of that is going to strike you as unsatisfying. It might also create a cycle of perpetual disappointment and discontent if you feel that you'll never be able to attain those dreams. This might result in you making a lot of unwise impulse purchases in a desperate bid to live as much of the high life as you can right now, only to regret it when this too is revealed to be beyond your budget.

So, how can you break free of this cycle? The author suggests that crafting a realistic version of financial success is the key to freedom. Maybe you can totally achieve that vision of wealth you dream about. Or maybe that's just not in the cards for you. One way or another, it's important to rip the band-aid off once and for all and be truly realistic with yourself about your future plans. Because it might be that mega wealth isn't the realistic option for you-- but financial autonomy is. Financial autonomy is defined as the ability to live without debt and to establish a substantial savings account. When you're financially autonomous, you can afford to rent your own apartment or make payments toward your own house. You can splurge on small luxuries, and even take time off for a vacation.

And once you've built a solid foundation of financial autonomy, you can move on to the next (even better) stage: financial freedom. If that sounds pretty great, that's because it is! Financial freedom is the stage where you get to be free of the worry of living from paycheck to paycheck. In this stage, you're no longer beset with worries like, "If I buy this, how will I afford groceries?" or the terror that comes with emergencies necessitating new expenses. When you have financial freedom, you might be able to embark on a "grown up gap year" and quit your job to travel for a year! You might even be able to sink some money into funding a start-up! In the next chapter, we're going to dive in and take a closer look at the steps necessary for achieving financial autonomy and (ultimately) financial freedom.

Final Summary

Personal finances can feel scary and overwhelming, especially if you don't know how to understand the information in front of you. But the authors are committed to demystifying this process and making your relationship with your personal finances clear and simple. In fact, they believe that personal finance is so simple that everything you need to know can be written on a simple index card!

And for the purposes of this summary, we can boil that down into three key points: save money, learn how to manage a credit card, and define your goals for financial freedom! If you apply these three top tips to your daily financial practices, you can uncomplicate your relationship with your personal finances and make smart choices with your money.