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5 of the most important money decisions you'll make

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Decisions, decisions.

Many of the key questions you will face over your lifetime deal with money issues. Good choices can pay off handsomely over time, lifting you up the wealth ladder. Bad judgment calls can condemn you to years of financial struggles.

It usually doesn't come down to, say, a decision of which stock to buy but rather much more basic choices affecting behaviors, habits and attitudes. Some of these more fundamental quandaries deal with when to get serious about managing money, how much risk to assume, resolving to live within your means and even when to start collecting Social Security benefits.

Here are some of the biggest dilemmas that nearly everyone will face, eventually:

1. Deciding to become a saver

To invest and build your assets, you need to accumulate a surplus of cash or savings. And for that, you need income that exceeds your expenses.

"If you want to be able to invest and accumulate wealth to help yourself and others in the future, you simply cannot spend more than you earn," wrote Jack Brennan, the former CEO of Vanguard, in his new book, "More Straight Talk on Investing."

Brennan calls living within your means "the single most important thing to do."

For most people, generating income isn't the problem; rather, it's keeping expenses under control. Ask yourself whether a proposed purchase is a real necessity or a want that you could do without, suggests Alan Norris, a certified financial planner in Phoenix. If you can't decide on your own, run it by your spouse, partner or friend, he suggests.

Automobiles sometimes are the big-ticket item that puts people in a financial bind, Norris added — not just because they're costly and typically bought using debt but also because their values will erode or depreciate over time.

But even little things can add up. For example, if you skipped one pricey coffee drink at Starbucks each day and invested the savings in, say, a balanced stock-bond fund, you could accumulate more than $100,000 in retirement savings over three decades, according to a Vanguard study that relied on fairly conservative assumptions.

2. Deciding to connect to the system

A century ago, Americans didn't have credit cards, credit scores and many of the other financial accounts and tools we take for granted. But even today, not everyone uses these things well, and that can impede their prosperity.

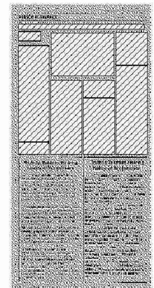
For example, building a good credit score by paying bills promptly is important for gaining access to low-interest loans and getting the best deals on utility accounts and insurance. Even having a bank account can spell the difference between living comfortably, or not.

"Being unbanked means things like cashing checks and paying bills are costly and time-consuming," noted Take Charge America, a Phoenix-based nonprofit credit-counseling service. "Those who are unbanked often must rely on check-cashing services to cash paychecks because they don't have direct deposit. They also have to pay bills using money orders, which adds time and expense to the process."

And there are many other mainstream financial connections that well-off Americans use routinely that others may lack. These include adequate insurance at affordable rates and key estate planning documents. The latter can help determine whom should receive your assets at death and whom should make financial and health decisions on your behalf, should the need arise.

3. Deciding to become an investor

If you can accumulate savings, it



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opens up another door — to investing. This is the pursuit of gains over time in the stock market, real estate or other areas. It's typically a multiyear process compared to speculating, which is more instantaneous.

Thanks to rising affluence, the emergence of tax-sheltered vehicles and democratized assets, there's really no excuse not to invest. Workplace 401(k) retirement funds and Individual Retirement Accounts offer tax incentives and, in the case of workplace plans, employer subsidies in the form of matching funds. Pooled investments such as mutual funds offer easy, low-dollar access to hundreds if not thousands of stocks or other assets, spread across global markets.

Real estate, especially owner-occupied housing, couples long-term growth potential with tax incentives ranging from mortgage-interest deductions to the ability to exclude up to $250,000 in capital gains per person from taxation ($500,000 for married couples).

Yet about one in three American adults don't own any retirement accounts, and one in three aren't homeowners either, underscoring the reality that investing is very much voluntary.

4. Deciding when to get started

As with most things in life — learning to golf, eating better or whatever — the sooner you master the basics, the better off you'll be. This is also true in developing good financial habits, but there's another factor at play here: The potential to compound your investment returns over lengthier periods.

"Compounding is what happens when you invest a sum of money and then reinvest the earnings instead of withdrawing them," Brennan said. "Your nest egg grows much faster because those prudently reinvested interest payments, dividends or capital gains in turn generate further earnings."

Young adults enjoy a compounding edge owing to their ability to invest for decades, but older people can benefit, too, and might have more time than they think. For example, newly retired individuals still could have two or three decades to invest fairly aggressively, especially people whose current income needs are covered by a pension, Social Security benefits or other predictable income.

5. Deciding when to get Social Security

Many people start taking Social Security retirement benefits as early as they can, at age 62. Few wait until age 70, when benefits peak. Granted, starting early allows those monthly checks to roll in over a longer time, and what's wrong with having a bit more cash to spend when you're younger and healthier?

Nothing, but those arguments fail to address what Laurence Kotlikoff, an economics professor at Boston University, calls a big danger that many people overlook: The risk of living too long and outliving your money.

While reaching old age usually is desirable, its can be unfortunate if you gradually get poorer, said Kotlikoff, coauthor of "Get What's Yours — the Revised Secrets to Maxing Out Your Social Security." If you can wait until 70, your monthly benefits will be 76% higher than at age 62, he said.

Kotlikoff views the decision of when to start taking Social Security as the single most important financial choice facing most Americans.

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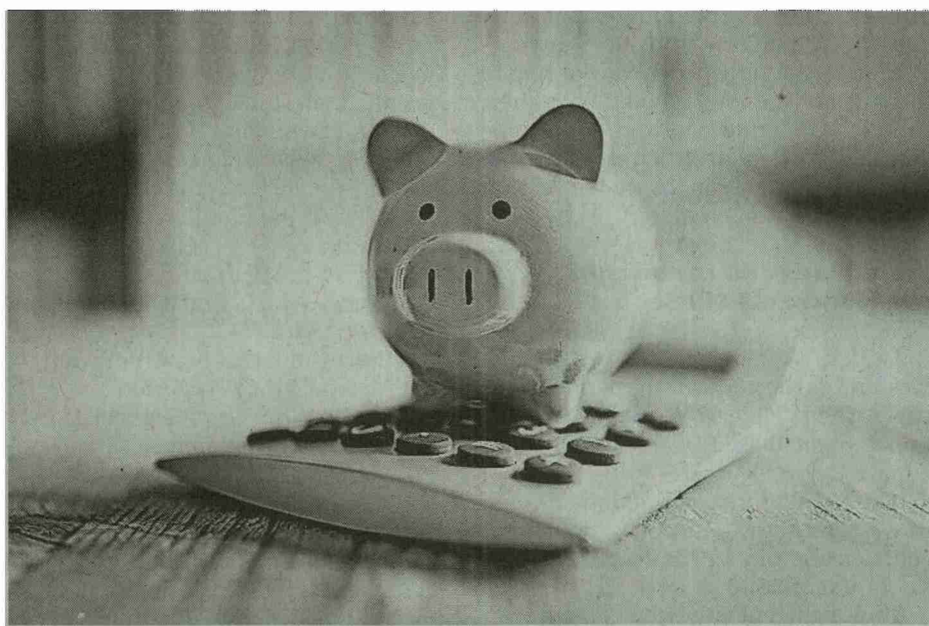

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