

LEARNING MADE EASY



10th Edition

# Personal Finance

for  
**dummies**<sup>®</sup>  
A Wiley Brand



Build better budgets  
and control your spending

Discover how to invest  
in any type of market

Optimize your tax strategies  
and insurance coverages

**Eric Tyson, MBA**

Celebrating 30 years of *Personal Finance For Dummies*



# Eric Tyson's Keys to Personal Financial Success

- » **Take charge of your finances.** Procrastinating is detrimental to your long-term financial health. Don't wait for a crisis or major life event to get your act together. Read this book and start implementing a plan now!
- » **Don't buy consumer items (cars, clothing, vacations, and so on) that lose value over time on credit.** Use debt only to make investments in things that gain value, such as real estate, a business, or an education.
- » **Use credit cards only for convenience, not for carrying debt.** If you tend to run up credit-card debt, then get rid of your cards and use only cash, checks, and debit cards.
- » **Live within your means and don't try to keep up with your co-workers, neighbors, and peers.** Many who engage in conspicuous consumption are borrowing against their future; some end up bankrupt.
- » **Save and invest at least 5 to 10 percent of your income.** Preferably, invest through a retirement savings account to reduce your taxes and ensure your future financial independence.
- » **Understand and use your employee benefits.** If you're self-employed, find the best investment and insurance options available to you and use them.
- » **Research before you buy.** Never purchase a financial product or service on the basis of an advertisement or salesperson's solicitation.
- » **Avoid financial products that carry high commissions and expenses.** Companies that sell their products through aggressive sales techniques generally have the worst financial products and the highest fees and commissions.
- » **Don't purchase any financial product that you don't understand.** Ask questions and compare what you're being offered to what you can get from the best sources, which I recommend in this book.
- » **Invest the majority of your long-term money in ownership vehicles that have appreciation potential, such as stocks, real estate, and your own business.** When you invest in bonds or bank accounts, you're simply lending your money to others, and the return you earn probably won't keep you ahead of inflation and taxes.
- » **Avoid making emotionally based financial decisions.** For example, investors who panic and sell their stock holdings after a major market correction miss a buying opportunity. Be especially careful in making important financial decisions after a major life change, such as a divorce, job loss, or death in your family.

- » **Make investing decisions based upon your needs and the long-term fundamentals of what you're buying.** Ignore the predictive advice offered by financial prognosticators — nobody has a working crystal ball. Don't make knee-jerk decisions based on news headlines.
- » **Own your home.** In the long run, owning is more cost-effective than renting, unless you have a terrific rent-control deal. But don't buy until you can stay put for a number of years.
- » **Purchase broad insurance coverage to protect against financial catastrophes.** Eliminate insurance for small potential losses.
- » **If you're married, make time to discuss joint goals, issues, and concerns.** Be accepting of your partner's money personality; learn to compromise and manage as a team.
- » **Prepare for life changes.** The better you are at living within your means and anticipating life changes, the better off you will be financially and emotionally.
- » **Read publications that have high quality standards and that aren't afraid to take a stand and recommend what's in your best interests.** Avoid those that base their content on the hottest financial headlines or the whims of advertisers.
- » **Prioritize your financial goals and start working toward them.** Be patient. Focus on your accomplishments and learn from your mistakes.
- » **Hire yourself first.** You are the best financial person that you can hire. If you need help making a major decision, hire conflict-free advisors who charge a fee for their time. Work in partnership with advisors — don't abdicate control.
- » **Invest in yourself and others.** Invest in your education, your health, and your relationships with family and friends. Having a lot of money isn't worth much if you don't have your health and people with whom to share your life. Give your time and money to causes that better our society and world.

## Praise for Eric Tyson

“Eric Tyson is doing something important — namely, helping people at all income levels to take control of their financial futures. This book is a natural outgrowth of Tyson's vision that he has nurtured for years. Like Henry Ford, he wants to make something that was previously accessible only to the wealthy accessible to middle-income Americans.”

— James C. Collins, co-author of the national bestsellers *Built to Last* and *Good to Great*

“*Personal Finance For Dummies* is the perfect book for people who feel guilty about inadequately managing their money but are intimidated by all of the publications out there. It’s a painless way to learn how to take control.”

— Karen Tofte, producer, National Public Radio’s *Sound Money*

“Eric Tyson . . . seems the perfect writer for a . . . *For Dummies* book. He doesn’t tell you what to do or consider doing without explaining the why’s and how’s — and the booby traps to avoid — in plain English. . . . It will lead you through the thickets of your own finances as painlessly as I can imagine.”

— *Chicago Tribune*

“This book provides easy-to-understand personal financial information and advice for those without great wealth or knowledge in this area. Practitioners like Eric Tyson, who care about the well-being of middle-income people, are rare in today’s society.”

— Joel Hyatt, founder of Hyatt Legal Services, one of the nation’s largest general-practice personal legal service firms

“Worth getting. Scores of all-purpose money-management books reach bookstores every year, but only once every couple of years does a standout personal finance primer come along. *Personal Finance For Dummies*, by financial counselor and columnist Eric Tyson, provides detailed, action-oriented advice on everyday financial questions. . . . Tyson’s style is readable and unintimidating.”

— Kristin Davis, *Kiplinger’s Personal Finance* magazine

“This is a great book. It’s understandable. Other financial books are too technical and this one really is different.”

— Business Radio Network

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This best-selling guide is now updated to include current fund and portfolio recommendations. Using the practical tips and techniques, you'll design a mutual-fund investment plan suited to your income, lifestyle, and risk preferences.

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America's #1 real-estate book includes coverage of online resources in addition to sound financial advice from Eric Tyson and frontline real-estate insights from industry veteran Ray Brown. Also available from America's best-selling real-estate team of Tyson and Brown — *House Selling For Dummies* and *Mortgages For Dummies* (with Robert Griswold).

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This practical, no-nonsense guide, co-authored by Eric Tyson and Jim Schell, gives expert advice on everything from generating ideas and locating start-up money to hiring the right people, balancing the books, and planning for growth. You'll get plenty of help ramping up your management skills, developing a marketing strategy, keeping your customers loyal, and much more. And, find out how to use the latest technology to improve your business's performance at every level. Also available from author Eric Tyson is *Small Business Taxes For Dummies*.



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**by Eric Tyson, MBA**

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# Introduction

Welcome to *Personal Finance For Dummies*, 10th Edition! More than two million copies of prior editions of this book were bought, and readers and reviewers alike have been pleased. This book also previously earned the prestigious Benjamin Franklin Award for best book of the year in business. However, I never rest on my laurels. So the book you hold in your hands reflects more hard work and brings you the freshest material for addressing your personal financial quandaries.

You're probably not a personal finance expert, for good reason. Historically, *Personal Finance 101* hasn't been offered in our schools — not in high school, college, or even graduate programs. Thankfully, a growing number of schools are offering basic personal-finance-type courses; some even use *Personal Finance For Dummies* as a textbook.

However, even if you got some financial education and acquired some financial knowledge over the years (most likely from a wise family member or friend), you're likely a busy person who doesn't have enough hours in the day to get everything done. Thus, you want to know how to diagnose your financial situation efficiently (and painlessly) to determine what you should do next. Unfortunately, after figuring out which financial strategies make sense for you, choosing specific financial products in the marketplace is often overwhelming. You have literally thousands of investment, insurance, and loan options to choose from. Talk about information overload!

To further complicate matters, you probably hear about most products through advertising that can be misleading, if not downright false. Of course, some ethical and outstanding firms advertise, but so do those that are more interested in converting your hard-earned income and savings into their short-term profits. And they may not be here tomorrow when you need them.

Despite the development of new media and new financial products and services, folks keep making the same common financial mistakes — procrastinating and lack of planning, wasteful spending, falling prey to financial salespeople and pitches, failing to do sufficient research before making important financial decisions, and so on. This book can keep you from falling into the same traps and get you going on the best paths.

As unfair as it may seem, numerous pitfalls await you when you seek help for your financial problems. The world is filled with biased and bad financial advice.

As a practicing financial counselor and now as a writer, I constantly see and hear about the consequences of poor advice. All too often, financial advice ignores the big picture and focuses narrowly on investing.

Because money is not an end in itself but a part of your whole life, this book helps connect your financial goals and challenges to the rest of your life. *Personal Finance For Dummies* provides a broad understanding of personal finance that includes all areas of your financial present and future: spending, taxes, saving and investing, insurance, and planning for major goals like buying a home, someday running your own business, investing for your future, and so on.

Even if you understand the financial basics, thinking about your finances in a holistic way can be difficult. Sometimes you're too close to the situation to be objective. Your finances may reflect the history of your life more than they reflect a comprehensive plan for your future.

You want to know the best places to go for your circumstances, so this book contains specific, tried-and-proven recommendations. I also suggest where to turn next if you need more information and help.

## About This Book

Here are some of the updates I've made to the book:

- » Information on how to navigate changing economic conditions and make the most of your money, real-estate decisions, and investments
- » Complete coverage of recent tax law changes and how to best take advantage of coming tax changes in 2024 and beyond affecting individuals, families, investors, and small businesses
- » Updated investment strategies and recommendations for exchange-traded funds, mutual funds, international investments, real estate, and more
- » Expanded coverage of self-employed retirement options
- » Updated coverage of higher-education options, costs and benefits, and career value
- » The latest information on government assistance programs, Social Security, and Medicare and what it means in terms of how you should prepare for retirement
- » Revised recommendations for where to get the best insurance deals and updated coverage of the health insurance marketplace and subsidy changes



- » Coverage of the best personal finance apps and fintech (financial technology) options and solutions
- » Expanded and updated coverage of how to use and make sense of the news and financial resources (especially online resources)

Aside from being packed with updated information, another great feature of this book is that you can read it from cover to cover if you want, or you can read a particular chapter or part without having to read what comes before it. Handy cross-references direct you to other places in the book for more details on a particular subject. If you like, you can skip the sidebars (shaded boxes) and text marked with the Technical Stuff icon; that info is interesting but nonessential.

## Foolish Assumptions

In writing this book, I made some assumptions about you, dear reader:

- » You want expert advice about important financial topics (such as paying off and reducing the cost of debt, planning for major goals, making wise investments), and you want quality information and answers efficiently.
- » You want a crash course in personal finance and are looking for a book you can read cover-to-cover to help solidify major financial concepts and get you thinking about your finances in a more comprehensive way.

This book is basic enough to help novices get their arms around thorny financial issues. But it challenges advanced readers as well to think about their finances in a new way and identify areas for improvement.

## Icons Used in This Book

The icons in this book help you find particular kinds of information that may be useful to you.



TIP

This target flags strategy recommendations for making the most of your money.



ERIC'S PICKS

This icon highlights the best financial products in the areas of investments, insurance, and so on. These products can help you implement my strategy recommendations.



REMEMBER

This icon points out information that you'll definitely want to remember.



WARNING

This icon marks things to avoid and points out common mistakes people make when managing their finances.



INVESTIGATE

This icon tells you when you should consider doing some additional research. I explain what to look for and what to look out for.



TECHNICAL  
STUFF

This nerdy-looking guy appears beside discussions that aren't critical if you just want to understand basic concepts and get answers to your financial questions. You can safely ignore these paragraphs, but reading them can help deepen and enhance your personal financial knowledge.

## Beyond the Book

In addition to the material in the print or e-book you're reading right now, this product also comes with some access-anywhere goodies on the web. Go to [www.dummies.com](http://www.dummies.com) and type in "Personal Finance For Dummies Cheat Sheet" in the search box to discover a list of pointers that can help you think about the role of money in your life and start achieving your financial goals.

## Where to Go from Here

This book is organized so you can go wherever you want to find complete information. Want advice on investing strategies, for example? Go to Part 3 for that. Feel the urge to get your insurance needs in order or to check on what type of insurance you really need? Head to Part 4. You can check out the table of contents to find broad categories of information and a chapter-by-chapter rundown of what this book offers, or you can look up a specific topic in the index. And, if you think you need additional help beyond this book, see Part 5 for using financial planners and finding out what kind of tech is out there to assist you.

If you're not sure where you want to go, you may want to start at the beginning with Part 1. It gives you all the basic info you need to assess your financial situation and points to places where you can find more detailed information for improving it.

# 1 Getting Started with Personal Finance

**IN THIS PART . . .**

Understand your financial literacy.

Grasp the building blocks that form your financial foundation.

Assess your current personal financial health.

Set and accomplish personal and financial goals.

## IN THIS CHAPTER

- » Defining what financial literacy includes and means
- » Looking at what your parents and others taught you about money
- » Questioning reliability and objectivity
- » Overcoming real and imagined barriers to financial success

# Chapter **1**

# Embracing Financial Literacy

**A** continuing stream of studies has indicated that many Americans, especially younger adults, are by and large financially illiterate. The vast majority of survey respondents have “failing” scores — meaning that they answered less than 60 percent of the questions correctly.

I know from my many years of work as a personal financial counselor and teacher and now as a writer that many folks do indeed have significant gaps in their personal financial knowledge. Though more folks have greater access today to more information than in prior generations, the financial world has grown more complicated, and there are more choices, and pitfalls, than ever before.

Unfortunately, most Americans don’t know how to manage their personal finances because they were never taught how to do so. Their parents may have avoided discussing money in front of them, and most high schools and colleges lack courses that teach this vital, lifelong-needed skill.



REMEMBER

Some people are fortunate enough to learn the financial keys to success at home, from knowledgeable friends, and from the best expert-written books like this one. Others either never discover important personal finance concepts, or they learn them the hard way — by making lots of costly mistakes. People who lack

knowledge make more mistakes, and the more financial errors you commit, the more money passes through your hands and out of your life. In addition to the enormous financial costs, you experience the emotional toll of not feeling in control of your finances. Increased stress and anxiety go hand in hand with not mastering your money.

This chapter examines what topics fall under the heading of “financial literacy” and where people learn about finances, and helps you decide whether your current level of knowledge is holding you back. You can find out how to improve your financial literacy and take responsibility for your finances, putting you in charge and reducing your anxiety about money. After all, you have more important things to worry about, like what’s for dinner.

## Understanding Everything Financial Literacy Includes

I start with the basics. What exactly am I talking about when it comes to being literate in personal finance? Following are three subjects to become acquainted with:

- » **Managing your everyday transactions:** I cover accounting for money in the short term that passes through your hands and your transaction accounts.
- » **Investing for the long term:** I discuss the best ways to invest money for better returns and longer-term purposes.
- » **Protecting your money:** I provide an overview on the generally less popular but highly important topic of protecting your income and assets with insurance.

In addition to these major topic areas, the field of personal finance includes plenty of jargon and terminology, the mastery of which will boost your confidence and your decision-making skills. I provide definitions along the way and include a handy glossary at the end of this book.

### Starting with the basics: Budgeting and transaction accounts

If you’re like most people, as you earn money, much of it too quickly passes through your hands or, more specifically, into and out of your transaction accounts. As you surely know, a hefty chunk of money you earn is siphoned off to federal, state, and local taxes. What’s left is used to pay your monthly living