

Crazy uncle needs financial help fast



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I'm a big fan of Dave Ramsey. If you haven't heard him before, he's a financial adviser to millions via his daily radio show. I listen to his free podcasts rather than live radio, so we can hear it anywhere — including long road trips, which thrills my kids to no end.

My affection for Ramsey's no-nonsense teaching caught the attention of my uncle, who asked me advice on his own situation.

My uncle makes about \$65,000 per year. Not bad for the Midwest — in fact, it's about 50 percent higher than the average U.S. household income. So he should be getting along fine, right?

Well, unfortunately, it's not just about the income. As Ramsey talks about many times, it's usually more about how much you SPEND than how much you MAKE. And in my uncle's case, his spending was out of control.

Totaling up his annual receipts nearly put me into shock. His family spent \$116,000 last year! Unbelievable — in just one year, they spent \$51,000 more than they made!

And they put that debt

on their credit card. How they got that big a line of credit is a mystery to me.

The worst part is that 2011 was not an anomaly. Digging through more boxes of records, I discovered that they've been overspending like this for YEARS!

In fact, their total debt right now is an eye-popping \$484,000. HOLY COW! Even if they became Dave Ramsey devotees and lived on beans and rice, it is hard to imagine how they could make up a debt of almost half a million dollars on a \$65,000 salary.

Fortunately, my uncle's kids are old enough to participate in meaningful family discussions. So they sat down at the kitchen table to try to figure out how to solve this problem.

They figured out that by canceling one of their iPhone contracts, they could save \$1,100 per year.

Not only did they "drastically" cut their spending, but they also figured out a way to earn a "huge" increase in income, too. Their son makes \$200 a month delivering pizzas. They figure that all they have to do is double the price of the pizzas, and that \$2,400 per year income will magically transform into \$4,800 per year.

(I'm sure none of the customers would mind their pizza price doubling, right? No, their behavior would not change at all.)

Problem solved! Now, instead of spending \$51,000 more than they earn each year, they will be spending only about \$48,000 more than they earn.

Yessiree, no more budget mess, right? By adapting this plan, next year their total debt would increase to a very comfortable \$532,000 instead of the much worse \$535,000.

Frankly, I think the whole FAMILY is nuts.

Maybe some of you see my point. By now you may have guessed my uncle's name — Uncle Sam.

Yes, I am talking about our nation's finances. If you multiply all of the above numbers by 33 million, you get our federal budget. But those numbers are so huge that they can become meaningless to most people.

The \$1,100 cut in the family budget represents the "huge" budget cut of \$38 billion enacted by Congress in 2011. That number looks big, but is only a tiny fraction of the \$1 TRILLION (thousand-billion) deficit that is added EACH YEAR lately.

The \$2,400 increase in pay represents what would happen if the so-called "Bush tax cuts for the rich" expired — i.e., if the top marginal tax rate went from 35 percent to 38.4 percent for those earning more than \$250,000 per year.

Even the most liberal estimates put that addi-

tional revenue at \$80 billion, but again, that would not make a big dent in the annual deficit.

Furthermore, behavior changes when marginal tax rates go up. Just like customers will buy fewer pizzas when the price rises, investors will make less taxable income (by choosing other investments or shielding income) when tax rates increase.

But the main point is that we can no longer afford to play around the margins. The top three priorities for the next Congress should be:

1. Cut spending
2. Cut spending
3. Cut spending.

Will they be able to do this? I guess I'm a bit skeptical, now that Americans have re-elected a president who could not get ONE VOTE — even from his own party — on the budget he gave to Congress.

And voters inexplicably kept the Democrat majority in the Senate, despite the fact that the Senate has not even PROPOSED a budget in three years, let alone PASSED one.

In any case, it's time for my crazy uncle to finally get his finances in order, Dave Ramsey-style. And it will take more than just cutting out an iPhone.

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