



TACTICS OF THE MILLIONAIRE NEXT DOOR

In this sequel to "How to quickly slash a family budget by \$3000-\$5000 a year", We aim at the big dollars anchored to debt, taxes, housing, transportation, healthcare, and more. This is the fabric that makes the "Millionaire next door". The fruit of these efforts unfolds over time and will in some instances require professional guidance.

DEBT ARBITRAGE

Use cheap debt to extinguish expensive debt. A way to do this is by establishing a HELOC (Home Equity Line of Credit) which uses your home equity as collateral and in turn offers low rates. While the interest rate is variable, it may save you big dollars when used to pay off more expensive debt, such as credit cards or bad auto loans.

PAY OFF YOUR MORTGAGE FASTER.

With large debts, it really matters how long that debt is allowed to "demand interest". Even modest extra payments to your monthly mortgage may significantly reduce the total interest paid. An online "mortgage calculator" can be used to show various results of adding extra principal to your monthly payments. Now, paying off a 3% mortgage faster makes no sense if those dollars can earn 5% in an FDIC-insured savings account. But paying off a 6-7% mortgage is a different story. Remember:

Paid-off debt yields a GUARANTEED return in proportion to the interest saved.

USE THE TAX CODE AT LARGE

If you own a business, no matter how small, or rental property, you are 99% leaving money on the table if you are not having your taxes done by a great CPA. Even outside those categories, it has surprised me over and over how much a CPA can save on your taxes and more than offset their fee.

USE THE TAX CODE TO FUND RETIREMENT ACCOUNTS

Dollars otherwise destined for your tax bill can be re-directed into tax-deferred retirement accounts. When you do this, the IRS de facto sponsors part of your retirement. Typically, this is done through IRA's and 401K's – and as we will get to, HSA's. This is where you absolutely need to sit down with a CPA or CFP.

ESTABLISH A HEALTH SAVINGS ACCOUNT (HSA)

The HSA is one of the most unrecognized vehicles for wealth building. I love it. First off, to contribute you need to be on a health care plan, designated as a HDHP (High Deductible Health Plan). This type of plan is normally available through your existing employment-sponsored plan, The Affordable Care Act, or on the private market.

The HSA can be established and held in a normal brokerage account and invested as you see fit. Your contributions (2023: Single \$3,850, Family \$7,750) reduces your tax bill and are not subject to other limitations like income or what else you have contributed (unlike many of the other retirement accounts). When you take money out to cover medical expenses, the withdrawals are tax-free.

Not only can the HSA quickly grow to a size where it will cover your health insurance's "max out of pocket". But if you continue to contribute, taking as few withdrawals as possible, it can grow quite large while offering tax-free compounding growth and tax deferrals like any other IRA/401K. Then at age 65, you may begin to withdraw for non-medical purposes!

RIGHT-SIZE YOUR TRANSPORTATION

A serious amount of dollars can be saved by matching your transportation needs to the most efficient and inexpensive vehicle that will do the job. The difference between financing a 40-50K oversized/underutilized vehicle vs (biting the bullet) and saving up cash to buy a 4-6-year-old smaller fuel efficient and reliable car - is truly staggering. Not only are the savings in depreciation huge, but ancillary costs like finance, insurance, taxes/registration, fuel, and maintenance all compound too.

You can always rent an SUV for the occasional family vacation and invest the "would-have-been" \$650 monthly car payment into tax-deferred accounts. The difference in financial trajectory 10 years in, will be night and day.

RIGHT-SIZE YOUR HOUSING

At least a residential property is not a depreciating asset, but historically follows inflation +/- cyclical swings in the economy. However, it is the ancillary costs of the larger-than-necessary property, that over time can cost 10's of K's extra in Property taxes, Insurance, utilities, and maintenance/repair.

DON'T GET SICK

Inspired by a bumper sticker I saw: "National Healthcare plan - Don't get sick". But truly, for those of us entering the 50'ties and up, the difference in healthcare costs going forward can be significant depending on how we manage our health. Aging is not linear but exponential, so be ahead of the curve here and take pre-emptive action to benefit from one of the best effort-to-reward ratios.

KEEP INVESTING

We live in a world of accelerating currency debasement. It is beyond the scope of this post to fully unpack, but investing is one of the only ways to keep ahead. When currencies debase, assets respond by going higher, like a numerator increasing to maintain the same relation to its denominator. This erosion happens insidiously - like a thief at night. It is important to see the big picture, self-educate, and consult with financial professionals who can guide you.

My book "Household Finance 101 – Your Flight Plan to Financial Independence", adds more strategies and greatly expands on those presented here and in earlier posts and articles.

Happy savings, Tom