

THE BUSINESS OF MAKING MUSIC

BY BEVERLY BARTSCH

Beverly Bartsch has worked in the music business for 16 years in money-related matters. Her clients in the past have included Amy Grant, Michael W. Smith and Rachael Lampa.

Does Your Money Matter?

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DOES YOUR MONEY MATTER?

“Musicians hate money. They think that any thought or concern about the financial aspect of things impedes their creative process.”

If this quote from a working musician/producer is what you believe, I want to help you change your outlook. Money is either something that works for us, or we spend our entire lives working for it. It's a choice we make. It boils down to knowing ourselves well enough to make a plan, work the plan and enjoy the results. But first, let's start with where you are living right now in your financial life.

What does your wallet look like? Is your paper money just wadded up in various folds and stuffed in various pockets and corners of your handbag, briefcase, wallet, car console or coat pockets? Or do you line your money up in sequence, all facing forward, same denominations together? Do you record checks and debit card purchases in your check register? This line of questioning may raise the hairs on the back of your neck, thinking it doesn't matter, but I'd like to argue that it does. I'd bet that your favorite instrument is one that is lovingly cared for after each practice and performance. That guitar or saxophone or keyboard also represents (and costs!) money, and the care you take with it can be translated to financial matters. Dealing with financial matters not as “necessary evils” in this world, but as *tools* to enhance your trade will assist you as you shift your philosophy.

In the June 2003 issue of *Performing Songwriter* we discussed the recordkeeping necessary in business. But the same applies to personal finances as well. Are receipts tossed immediately, or are they filed for future reference? Do credit card receipts get matched to the credit card statement? How about debit card purchases being matched to the bank statement? Knowing your personal financial status



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also requires knowing how much money you spend and why you spend it.

Do you know your net worth? And your liquid net worth? Your net worth is your assets minus your debt, and your liquid net worth is the cash you would have on hand if you had one week to sell assets for cash. This could be the combination of your bank accounts and stocks/bonds/mutual funds that you could liquidate for cash (although you might have to pay fees for selling shares).

CALCULATE YOUR NET WORTH:

1. Write down all your assets: cash, bank accounts, household furnishings, stocks,

bonds, the value of your home and the current value of your car (not what you paid for it).

2. Write down all of your debts: That's everything you owe to somebody else—not just the monthly payment but the full monty—including mortgage balance, car loan balance, credit card balances, student loans home equity loans, and amounts due friends or family members.
3. Subtract the total debts from the total assets; this is your net worth. Hopefully it's a positive number.
4. Add up all of your liquid cash, or items convertible to cash in one week. You now know your liquid net worth.

Financial planners tell us to have three to six months of living expenses on hand, in cash. That's all well and good, but it could be more than you think is required. For a quick total, add up

all your checks, debit card and credit card purchases in a month. That's a pretty good indication of your current spending patterns.

HOW MUCH DEBT DO YOU HAVE?

Americans are swimming in debt. The below statistics on debt came from the following website:

www.newstepsolutions.com/debt-statistics.htm

1. The average American household has 13 payment cards, including credit cards, debit cards and store cards. There are 1.3 billion payment cards in circulation in the United States.
2. Americans made \$1.1 trillion worth of credit card purchases in 1999.
3. Americans carry, on average, \$5,800 in credit card debt from month to month.
4. On average, the typical credit card purchase is 112 percent higher than if using cash.
5. Over 40 percent of U.S. families spend more than they earn (Federal Reserve).

WHY DO YOU HAVE CONSUMER DEBT?

There are as many responses to this question as there are people reading it. The more in debt you are, the more you are jeopardizing your future. Every dollar you spend on interest is a dollar that you are not saving for retirement. I'm not talking about taking a vow of poverty or never spending any money. Life is meant to be lived, and balancing the present with the future is a very fine line. But think about it, define what life means to you, determine where you want to be when you retire. Retirement should be about living your best life, not scraping by with the leftovers.

By the way, I'm not talking about investment debt for your business or loans for college education; there is some debt that pays off in greater returns than seen on purely economic levels. I'm talking about got-to-have-it, want-it-now consumer debt.

Do you realize that if you can reduce the interest you are paying on a credit card, you are automatically realizing a gain? A 28-percent credit card reduced to 6 percent saves you 22 percent on your debt. Be proactive: Take the time to find a cheaper credit card. Call your credit card company and find out if they will lower the rate for you. Some will, some will not,

but don't be at their mercy just because you're not taking the initiative.

FACE THE FACTS

When you calculated your net worth, you found out your total debt. Let's break it down a little further to determine how to reduce that debt overall.

Make a list of your consumer debt, listing the creditor, the account number, the phone number, the total outstanding balance, the interest rate and the monthly payment. If you have access to a spreadsheet program like EXCEL, go ahead and create this list there.

1. Sort the list by interest rate, highest

interest rate first.

2. Total up all the debt balances.
3. Total up all the monthly payments.

Now it's time to pick up the phone, search the Internet and open the junk mail that you are getting. Credit cards are the easiest item to refinance—and they throw themselves at you relentlessly. You may not be able to negotiate a lower rate on your car note or get out of a high interest rate on leased furniture, but the credit card world is ready to negotiate. Start by calling your credit card company. If you've been with the company for a while, they may be

A SIDE NOTE ABOUT CREDIT CARDS AND CREDIT REPORTS:

Did you know that until the year 2000 you could not get your credit score? According to the book *The Complete Idiot's Guide to Managing Your Money*, by Robert K. Heady and Christy Heady, it was a number that was hidden from you by a company called Fair, Isaac and Co.

Let me back up. There are three giants that have been compiling information on you since you got your first credit card. Equifax, Experian, and TransUnion are all watching how you pay your bills, who and when you pay, and probably much more.

"In the late 1980's, the three outfits got together with a company named Fair, Isaac and Co. in San Rafael, Calif., and worked out a system to predict the probability of individual consumers paying—or not paying—their bills based on the characteristics in their credit report. Using this as a model (called FICO after Fair, Isaac and Co.) each credit bureau came up with a credit "score" on each person. With a little weighting, juggling and tweaking, they're able to compare any bureau's score against the others. It's sort of like working with three bathroom scales to get a comparable answer." (*The Complete Idiot's Guide to Managing Your Money*, p. 154.)

FICO scores range from 300 to about 900, with the majority of people falling into the 600-700 range. There are a lot of markers that contribute to each score: previous delinquencies (if you pay late once, the chances of you paying late again are high); how you use your credit (if you max out cards, you're a higher risk than the guy who uses only a small portion of his credit line); how long you have had credit (new credit is worse than long-term credit); the number of requests (a multitude of requests for credit is a huge red flag); and your credit mix—is it all unsecured credit cards (riskier), or an installment loan, like a car note, that you keep paying monthly until it's paid off (safer)?

It is this credit score that all lenders look at to determine how much and at what rate you will be able to borrow money, either through credit cards, term loans, car loans, mortgages or whatever. There are several ways to find your credit score; just searching on the Internet produces the websites for the big three. However, I also discovered www.creditreport.com, which allows you to get all three reports, plus the credit score. There is a fee of \$29.95 for all three, but it looks like it's the best deal at the moment.

Taking the time and making the investment in reviewing your credit report puts you in the driver's seat of your financial

score. First, review the report for any errors in your personal information—incorrect social security numbers, addresses or name spellings.

Second, review the report for accounts that are still open, but not being used. Have you ever signed up for a credit card because you could get a 10-percent discount on that day's purchase? You may never have used that card again, but if your account is still open, it's on your credit report. Take the time to close all those unused accounts. It may take three or more months for the information to hit your credit report, but getting those accounts closed now will save time and explanation later when you've found the house of your dreams and are applying for a mortgage.

Third, look for any credit listed that is not yours. In my profession as a business manager, I have been added as authorized user (or non-user) on many a client's credit card accounts. We do this so I can call the credit card company if there is ever an issue with the account. Credit card companies will not talk to anyone who is not listed on the account. However, because I'm listed on the account, they also have my social security number, and my credit report lists all of those credit cards that are not mine. When I purchased my house, I had to write a lengthy letter to my mortgage company explaining each and every one of those accounts. If you work for a company who has issued a credit card in your name, but the company pays the bills, it's possible that this account is listed on your credit report as well. I know this is very common in the touring business for tour accountants and road managers who are responsible for hotel bills of the touring entourage. If you discover items listed on your credit report that are not your accounts, each of the credit agencies has a protocol to follow to get the erroneous items off your report. Contact each one directly to dispute any errors. Remember to keep a paper trail of every telephone conversation and copies of all the correspondence you send: Documentation is the key.

Fourth, look at the section of the report about Inquiries. Guess what—the credit bureaus sell this information! That's why you get so many credit card offers in the mail each week. Last Friday, I had six in one day. Those unsolicited offers for credit show up on your credit report as "soft" inquiries. The soft inquiries are not counted against you. "Hard" inquiries are applications for credit you have made, or potential employers pulling credit history on you.

If you have numerous hard inquiries in a short period of time, the red flags go up, and you may be turned down for loans. Do not apply for credit just because it's offered, especially if you never intend to use it—it can hurt your credit score.



HERE ARE SOME TIPS TO MAINTAINING GOOD CREDIT:

1. Pay your bills on time, all the time.
2. Don't max out your credit cards.
3. Close accounts that you don't use.
4. Annually review your credit report and correct errors.
5. Keep inquiries to a minimum.

CREDIT AGENCIES:

EXPERIAN (formerly TRW)
P.O. Box 2104
Allen, TX 7513-0949
800-682-7654
www.experian.com

EQUIFAX
P.O. Box 740241
Atlanta, GA 30374-0241
800-685-1111
www.equifax.com

TRANS UNION CORPORATION
760 W. Sproul Road
Springfield, PA 19064-0390
800-888-4213
www.tuc.com

FAIR, ISAAC & CO.
200 Smith Ranch Road
San Rafael, CA 94903
415-472-2211
www.fairisaac.com

CREDITREPORT.COM
www.creditreport.com

willing to reduce the rate. You may have to open a new account and transfer your balances to that account, but if it results in a zero-interest rate, it's what you want. Just make sure to close your old accounts. This is crucial because if you leave yourself the option to use those old accounts, you probably will. Sorry, but it's human nature.

Now, let's say you got a 12-month, zero-percent interest rate and you transferred \$6,000 in total debt from four different credit cards (that averaged 18-percent interest) to that new account. You now have 12 months to get out of that debt—interest free. That payment is \$500 per month. My guess is that the minimum payments under the old cards, at the old high interest rates, are more than what you are now paying to reduce your debt. It may feel worse because you're writing a \$500 check instead of four \$125 checks, but now you're paying down your debt, not just the high interest. And, by losing the the 18-percent interest rate, you'll save \$1,080 in a year. Not shabby!

So you've taken that first big step to eliminate your consumer debt. The next step is to create a budget that prevents you from falling back into your old spending patterns.

1. For one week, write down *everything* you spend. Cash, check, charge, debit card—everything. Get a little notebook, keep it with you and jot down everything. (If a single week isn't representative of your life, you could extend this exercise to a month.)
2. At the end of the week, review that little log. It will surprise you. Subtotal your list by the following categories: groceries, clothing, auto expenses, eating out, entertainment, kids, household supplies and any other categories that may pertain to your life.
3. Now take a hard look at that list. How many of the expenditures that week were impulsive or for the sake of convenience?

Did the grocery purchase on Saturday go to waste because you ate out four nights that week? On some level, you are always aware of when you're throwing money away, but it's not a level we often want to acknowledge. Taking the time to quantify it gives you the tools you need to make decisions.

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4. Next, quantify the monthly fixed expenses: rent or mortgage, car payment, utilities, insurance, cell phone, cable and the credit card reduction figure you calculated earlier. Make a list, total it up and know it. Unless you are willing to restructure your life rather dramatically, these costs will not change much each month.
5. Whenever you get paid, put aside 10 percent of your net pay in a savings account: Pay yourself first. This is your emergency fund. (Personally, I believe in making charitable contributions of

10 percent as well. There is a principal of giving and receiving that works in our world—I don't know how or why—but being generous with our resources somehow makes the remaining funds go a lot further.)

6. Pay the fixed living expenses next.
7. Whatever is left is now your discretionary spending money. Reviewing the spending summary completed in steps one and two of this exercise will assist you in determining how much you spend in each category. And since this is *discretionary*, it's up to you to *not* spend any more than this amount each month. Any spending over this amount will get you back in debt.

I won't kid you—this will be hard. You will have to make choices about how you wish to spend your money, and they may involve saying no to yourself far more often than you would like. If your goal is to be out of debt and to save for emergencies as well as retirement, then you can do it. You now have tools, which have taught you more about yourself and your ability to be creative with your finances, to fund the creativity of your music.

