Cheapism™

Money myths you should forget you ever heard

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DON'T BANK ON IT

Between personal finance blogs, money pundits on television, and input from family, friends, and even your neighbors, there's no shortage of advice being dished out about money — how to make it, how to manage it and how to grow it. All of which can sometimes make it hard to separate fact from fiction.

To help sort through it all, Cheapism has reached out to personal finance experts across the country and asked them to share what they feel are some of the top money-related myths, covering everything from credit cards and personal debt to real estate investing, car loans, and retirement funds. Here's what they had to say.

DEBT IS A TOOL

How many times have you been told you can use debt as a tool? Dave Ramsey, author of "The Total Money Makeover," says debt has been sold to us so aggressively, it's often hard for most people to imagine having a car without a car payment or going to school without using a loan to pay for it. "Debt adds considerable risk, most often doesn't bring prosperity, and isn't used by wealthy people nearly as much as we are led to believe," says Ramsey, who suggests it's better to instead live below your means and pay cash for the things you want.

YOU SHOULD CONQUER LARGER DEBTS FIRST

Financial advisers far and wide preach the importance of paying off larger debts with higher interest rates first. While it is a good idea to pay down higher interest debt, there's also something to be said for paying small balances. Research by the Harvard Business Review found that it's very motivating for people to see small balances disappear. Paying off several accounts with small balances can have a powerful impact on one's sense of progress.

STAY-AT-HOME SPOUSES DON'T NEED LIFE INSURANCE

In many families, one spouse or partner works outside the home, while the other focuses on childcare or other responsibilities that do not necessarily involve bringing in income. But it would be foolish to think that such a scenario means you only need life insurance for the breadwinning partner. "If you're the sole earner in your family and your spouse passed away, how would you handle all the auxiliary expenses you would require for childcare and other household management issues?" asks Marc Diana, CEO of the website MoneyTips.

STAY AWAY FROM ALL CREDIT CARDS

Credit cards are viewed as the gateway to debt, and rightfully so. Thus, the popular wisdom has become that it's often best to stay away from them altogether. However, if you make all your payments on time, and pay in full each month to avoid interest, credit cards can have their perks, says Jennifer McDermott, of the personal-finance site finder.com. "Many credit cards have reward programs that allow you to earn points or money back simply by using them," said McDermott. What's more, making all of your payments on time can increase your credit score and a high credit score can make it easier to purchase a home and obtain favorable interest rates.

BUY BECAUSE IT'S A BARGAIN

Snatching something up because it's on sale or is a bargain is one of the biggest false economies out there, says Chelsea Hudson, personal finance expert for TopCashback.com. "In our eagerness to save money on expenses, believing you're getting a bargain can financially punish you in the long run," says Hudson. "Often, you are still wasting money. False economies include bulk buying, inadequate insurance policies and picking price over value."

WORKING HARDER MEANS MORE MONEY

This certainly isn't always the case, says Hudson of TopCashback.com. "Logging in extra hard-working hours doesn't always equate to more money. In fact, overworking can lead to exhaustion and less productivity." Moral of the story: work smarter, not harder.

LEASING A CAR IS WHAT SOPHISTICATED PEOPLE DO

It's often said that it's better to lease things that will rapidly go down in value, rather than buy them. Automobiles are the main focus of this money myth. "Consumer advocates, noted experts, and a good calculator will confirm that the car lease is the most expensive way to operate a vehicle," says Ramsey, author of "The Total Money Makeover."

USED CARS ARE A BETTER VALUE

If you're using a car loan to purchase a vehicle, buying a new car may actually be a better value. An analysis by Finder.com revealed that consumers may end up saving as little as $500 in interest when buying used compared to new. "Meaning that in the long run, the newer car will stretch your dollar further after taking into account additional costs such as insurance and maintenance," said McDermott of Finder.com.

BUDGETS ARE ONLY FOR THE FINANCIALLY SAVVY

Detailed budgets can scare the average American away from creating one. While a line-by-line Excel spreadsheet may be a bit much, there are plenty of alternatives that are less restrictive and less maintenance that can still be useful in keeping you on track, says Hudson of TopCashback.com. The goal of a budget is to help you keep your finances in order.

YOU CAN'T GET A CREDIT CARD WITH BAD CREDIT

If you have bad credit, don't buy into the hype that you can't be approved for a credit card. "People with bad credit should still be able to get a 'secured card,' which requires a cash deposit upfront that then becomes the card's credit line," says Diana, CEO of MoneyTips. "Many credit companies offer secured credit cards, and you can apply for them online. Paying them off on-time can help rebuild your credit." The key however, is to use credit responsibly and not rack up debt for things you can't pay for.

THE HIGHER THE PRICE, THE BETTER THE PRODUCT

Paying more doesn't always mean you're getting a superior product. Though it's a notion we've been sold over and over. It is possible to find less expensive, generic brands and receive the same quality for less, says Hudson, of TopCashback.com. "When you pay more for the same product, you're paying for the brand name, not the product itself," said Hudson.

I CAN SAVE FOR RETIREMENT LATER

Many young adults, especially those in their 20s, don't make retirement savings a financial priority, in large part because retirement seems like such a distant concept. However, it's never too early to start saving for retirement and in fact, the longer you have a 401k, the longer period of time your assets will have to appreciate, says Hudson, of TopCashback.com "Open a retirement account as early as you can and faithfully contribute towards it," said Hudson. "Even if it's only 5 percent of your salary; the longer you save for, the longer your investments have time to grow."

THE 4 PERCENT RULE

Many retirees have been told that they can plan to spend about 4 percent of their retirement nest egg each year during retirement and not run out of money. However, this rule of thumb may be outdated, says Robert Johnson, professor of finance at the Heider College of Business at Creighton University. "While historically that rule of thumb worked in the United States, the current environment of low bond returns increases the likelihood that retirees may well run out of money if that rule is applied going forward," he said. "Better safe than sorry, people would be better served to decrease their spending to perhaps 3 percent to make their money last."

DON'T EVER TAKE A PAY CUT

While there's plenty of truth to the fact that you should never sell yourself short, the reality is that taking a pay cut might be inevitable at some point during your professional life, Hudson says. "Especially during a career or location change, including moving to an area with a lower cost of living or switching to a career that is less stressful," said Hudson. "To get where you want to be, you may need to take a few detours along the way, including a lower salary." You may need to make some monetary sacrifices in your career, and that's perfectly okay.

BUYING IS BETTER THAN RENTING

Renting has always had a negative stigma based on the idea that those who rent are throwing away money or paying someone else's mortgage instead of building equity in a home. "However, changes in the housing market and taxes make it more difficult for owning a home to be the sure-fire way of accumulating wealth," said Hudson. Owning a home also means less flexibility, and brings with it countless additional costs such as homeowners insurance, community fees, repairs, taxes, and more. In other words, buying isn't always better than renting.

SALARIED POSITIONS PAY BETTER THAN HOURLY COMPENSATION

How many times have you heard the line that it's better to have a salaried position than receive hourly compensation? Steven Millstein, a certified financial planner and editor of CreditRepairExpert.org, says this is a myth that should be ignored. "Adjusted for hours worked, salaried positions can end up paying surprisingly little money for the time and effort they require," he said.

YOU SHOULD GET A CREDIT CARD TO BUILD YOUR CREDIT

Some experts firmly believe credit cards lead you down a slippery slope, and reject the notion that it's necessary to constantly focus on improving your credit score. Why?

Because the point of having a good credit score is to successfully obtain more credit. "This myth means we have to get more debt so we can get more debt because debt is how we get stuff," said Ramsey, author of "The Total Money Makeover."

MOVING FOR A JOB THAT PAYS MORE IS A GOOD IDEA

While there may be some truth to this idea, it's critical that you do your research first, says Millstein, editor of CreditRepairExpert. "Before this benefit is a certainty, make sure to adjust for cost of living in your new neighborhood," he explained. "A job that pays twice as much sounds great until you realize that you must live in an area with prices three times as high."

100 MINUS YOUR AGE IN STOCKS

A popular asset-allocation guideline suggests that the percentage of your portfolio that should be in stocks is 100 minus your age. In other words, if you're 60, about 40 percent of your portfolio should be in stocks. Johnson, the professor of finance at Creighton University, says it's a rule that is worth ignoring. "According to data compiled by Ibbotson Associates, large capitalization stocks such as those on the S&P 500, returned 10.2 percent compounded annually from 1926 through 2017," said Johnson. "Over that same time period long-term government bonds returned 5.5 percent annually and T-bills returned 3.4 percent annually. The surest way to build wealth over long time horizons is to invest in a diversified portfolio of common stocks."

YOU SHOULD HAVE 5 TO 7 TIMES YOUR ANNUAL SALARY IN LIFE INSURANCE

Life insurance isn't for everyone. Those who've accumulated enough wealth and assets to care for their own needs and their loved one's needs in the event of their death can forgo paying for life insurance, especially if it's a term policy, advises Johnson. "Life insurance is a terrific risk-management vehicle for some and an incredibly poor investment for many others," said Johnson.

YOUR EXPENSES WILL BE LOWER AFTER RETIREMENT

"The idea that after you retire, your basic expenses will be much lower is among the financial myths that are destroying people's chances for a secure retirement," says financial security expert and New York Times best-selling author Pamela Yellen. Items such as utility bills, the cost of groceries, home or car insurance will all cost more as the years go by, not less. In addition, healthcare costs are also likely to increase.

YOU MUST ACCUMULATE A CERTAIN NUMBER TIMES YOUR SALARY TO RETIRE

Instead of focusing on amassing a multiple of your annual salary as a goal for retirement savings, focus on saving enough to cover your annual living expenses, says Joe Mecca of Coastal Credit Union in Raleigh, North Carolina. "If you make $80,000 annually and only spend $25,000 of it, you have a very different endpoint than someone who spends $75,000 of theirs," said Mecca. "Set your goal around 25 to 30 times your annual expenses instead of a factor of your salary."

I KEEP TRACK OF MY MONEY SO I DON'T NEED TO BUDGET

Checking your bank account on a mobile app or online and knowing the balance isn't the same as budgeting. Don't fool yourself, says Karen Ford, financial coach. "A budget looks forward. Write it down, each month. Pre-plan. So, when a wedding shower or baby shower comes up, you've already got the money planned. If it's not written, it's not real," she advises.

I DON'T NEED DISABILITY INSURANCE

Disability insurance is designed to protect you in case you can't work for any reason, from an accident to an illness. In fact, cancer, heart disease, and other illnesses are usually the reason people need disability insurance, not accidents. "It's easy to think you don't need disability insurance simply because you don't think you'll be disabled during your career. But the truth is, just over one in four people in their 20s will become disabled before they retire," says R. Tyler End, certified financial planner and insurance expert at the insurance website Policygenius.

YOU NEED A LOT OF MONEY TO INVEST

With technology today, it's no longer necessary to have thousands (or even hundreds) of dollars to start investing. "Spare change apps, like acorns, allow you to invest pennies at a time by rounding up purchases and investing that money," said Dustyn Ferguson, creator of the site dimewilltell.com. "You no longer need to incur high fees for every transaction either, which makes investing small amounts of money actually viable."

THE STOCK MARKET IS TOO COMPLEX FOR AVERAGE INVESTORS

Don't buy into the notion that you have to be an expert to succeed as an investor. It's simply not true, says Timothy Wiedman, retired Doane University professor who taught personal finance for years. Those 40 and under should have most of their investments in the stock market — but should do so intelligently, says Wiedman, who recommends low-cost stock index mutual funds that mirror the market as a whole. Investing in such funds does not require any particular investing savvy and provides a better return than nearly any fixed-income investment portfolio.

YOU SHOULD HAVE 3 TO 6 MONTHS' INCOME IN AN EMERGENCY RESERVE

The three to six months' savings rule of thumb has been around for years. The reality however, is that you need enough money in your emergency fund to pay your expenses for the entire time it takes to find a job, (as that's when most people dip into such funds.) Depending on your occupation, it can much longer than three to six months to find work. Given that reality, your emergency reserve may need to be far larger.

GOING TO COLLEGE REQUIRES GOING INTO DEBT

While the skyrocketing cost of college in the United States is no myth, the first approach to funding education shouldn't always be loans. "There are a plethora of scholarships out there, and many of them go unclaimed," says Jennifer Hayes, creator of the site Smarty Pants Finance. "Billions, yes, billions with a B, of dollars in scholarships and grants are left on the table each year." Fastweb, Big Future, and Scholarships.com are some of the best places to start when looking to fund your education, said Hayes.

YOUR INCOME COMES FROM ONE JOB

The days of getting a "one good job" are long gone, says Adrian Huether, head of finance for the software company Evisions. "It is a myth," said Huether. "Nowadays, the new norm is having two to five streams of income. The future of work is multiple streams of income via the world of freelancing and the booming gig economy."

YOU SHOULD INSURE YOUR KIDS' LIVES BECAUSE IT'S SO INEXPENSIVE

When contemplating insurance coverage options, adding insurance coverage for your children's lives might be inexpensive, but it isn't necessarily the most beneficial approach. "It might be cheap, but so is an additional $100,000 in term insurance on one of the parents, which is a far better choice," said Scott Johnson, owner of the site Whole Vs. Term Life Insurance.

MORE INCOME EQUALS MORE WEALTH

When people start earning more, they often spend more, buying things they've always wanted or felt they needed. In the end, they're not any better off financially. One of the best ways to ensure that higher earnings translate into a higher net worth is to remain focused on whether all of the spending is moving you in the direction you need to go.

COUPONS ARE A GREAT WAY TO SAVE MONEY

Coupon clippers are 22 percent more likely than those who don't use coupons to report spending more than they planned, according to a proprietary study completed by Elevate's Center for the New Middle Class. "The most effective way to control spending is to set strict spending limits," says Jonathan Walker, Elevate's executive director. "Those who set limits were able to maintain their spending." Those who failed to plan at all spent 125 percent more than strict planners.

PERSONAL FINANCES HAVE LITTLE TO DO WITH THE MACRO-ECONOMY

One of the most glaring outdated money truths is that you should ignore day-to-day financial news and ups and downs when it comes to your investments, says James Pollard of TheAdvisorCoach.com. "Today, that's not true because times really are changing," said Pollard. "Retail stores are shutting down, people are cutting their cable subscriptions ... All of these macro societal changes affect your personal finances and investments if you happen to have invested in old 'safe' companies that do business in these areas."

A DEBIT CARD IS THE SAFEST PAYMENT CHOICE

The notion that using a debit card is far safer than many other payment options has long since become antiquated. "At one point there was some truth to this," Chargebacks911 co-founder Monica Eaton-Cardone said. "Debit cards are protected by the FDIC, to an extent, and are more easily recovered than lost cash." However, the rise of the internet has altered the landscape. Cash doesn't work online. And most credit cards offer zero liability for fraudulent purchases, making them the safest bet.

MONEY DOESN'T BUY HAPPINESS

It's a saying we've all heard time and again: Money doesn't buy happiness. As it turns out, it does, especially for low- and middle-income people. One study from Princeton University found that as the income of test subjects increased, their outlook on life improved. In addition, income increases were found to bolster emotional well-being, improving the quality of day-to-day existence.

IT'S TOO LATE TO REACH FINANCIAL GOALS

If you remember nothing else, remember this: It is never too late to have an impact on your finances. It's true that if you don't start saving until later in life, you're unlikely to be able to retire at 55. However, there are always actions you can take to improve your financial outlook and goals. Even small steps, like increasing the amount you're setting aside right now, will help in the long run.