

# The Five Account System

By

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Now I want to tell you about a powerful but simple idea for controlling spending and building wealth. This idea is so simple, that when you read it you're likely to dismiss it as 'too obvious'. Please don't. I use this exact idea myself and have done for many years. Also, American Guru Frederic Lehrman has such firm belief in this idea, that he tours the world lecturing on the subject. By the way, check out his excellent audio series 'Prosperity Consciousness' available from Nightingale Connant. Superb stuff.

The idea runs like this:-

The human brain is not terribly good at handling big projects. If you say to your subconscious 'go get a million pounds', it will really flounder because 'one million pounds' is not a concept easily grasped by the brain. It's just too big a number. Too big a project. However, the brain is very good at doing lots of smaller manageable tasks in a serial fashion. "Open a savings account and put £50 in it" is a task you can easily do. No problem.

Going back to our theme of discipline, a command such as: "Save for thirty years and you can retire independently wealthy" is just too much for the brain.

It cannot really contemplate five years, let alone thirty. The task is just too huge, and this is why people don't bother. They say to themselves "Heck, I know that thirty years of saving will make a lot of money, but thirty years is a long time and anything could happen. I'll spend it all now."

Alcoholics are not told: "You must give up drink and for the rest of your life - you cannot ever touch another drop." No. The 'rest of your life' is just too big a project. Instead they are told: "Forget the rest of your life. Don't think about it. The trick is not to drink *today*. Stay sober *one day at a time*."

## One Small Step

So the trick is to realise that the brain can't handle big projects and to break these big projects down into bite-sized pieces. This is the way any large project gets completed. "Put a man on the moon!" is a ludicrous command to the average brain. It's utterly impossible to contemplate the enormity of such a task. The only way to handle it is to start cracking it down into smaller parts and putting teams of people to work on each task.

Thus 'propulsion systems', 'human environment', 'medical', 'food and water', 'navigation', 'power supply' and so on are all set up as separate tasks. Then, within those groups, the tasks are broken down even further. Eventually, you have tens of thousands of manageable tasks such as: "Build a 12-volt power supply which can deliver 3 amps continuous, weighing not more than 0.5Kg and occupying a space of 10cm x 5 cm x 4.5cm". Now that's a task which any electronics engineer can comprehend and get cracking on. But "Put a man on the moon"? Forget it! I don't know how to do that!

Okay, here's how to apply this to your spending and savings habits. It's called the 'five account' method.

It works. Please don't dismiss it. Give it a try.

To operate this system, you must set up five accounts at your bank or building society (or even both - it doesn't matter where the accounts are located). Here are the five accounts:

1. **Income Account.**
2. **Cheque Account.**
3. **Financial Independence Account.**
4. **Large Purchases Account.**
5. **Cash Account.**

Here we are using the ability of the mind to handle small units/projects. We are breaking up our finances into manageable chunks. There are rules associated with each account, and of course, each account has a specific purpose, hopefully suggested by its name! Typically, accounts 3, and 4 would be Building Society 'deposit' accounts, and accounts 1, 2 and 5 would be normal bank accounts or Building Society 'current' accounts. Here are the rules:

## **Income Account**

This has just one function. It's the account into which you pay all the money you receive from all sources. Your pay cheque, the cheque for selling the car, your second job salary, gifts of money, whatever. **Every penny you receive gets paid into this account and nowhere else.** This also makes your accounts and tax computations easy. Just look down the statements for this account, and all your income is listed.

The only function of this account is to receive your income, and to distribute it, by standing order, to the other four accounts. **No money leaves this account apart from payments to the other four accounts.** You do not have a cheque book on this account. Most importantly you do not have a 'cash-card' on this account. It is impossible for you to go to the bank and withdraw money from this account. That's done automatically by standing order, to the other four accounts. I hope I have made myself clear.

## **Cheque Account**

If you have a bank account already, this is the sort of account you will have. It's a 'current' account with a cheque book. That's all. The difference is that at present, your salary cheque (etc) is probably paid into this account. That's now changed. **The only income into this account is by transfer from the Income Account.** The cheque account is for paying bills. You do not write cash cheques or cheques for any other goodies on this account. You do not have a 'hole in the wall' card on this account.

Here's how it works. When you get a bill, you lay it to one side in a pile. A bill is just a request for payment, it is not an actual payment until you have paid it. When you have a suitable pile of bills you have to pay, you add them all up. Let's say the total is £391.62p. You write out a slip to transfer exactly this amount from your income account, into your cheque account, pop it in an envelope, and mail it to the bank. Obviously you can do this on line too. You then write out exactly £391.62 in cheques to pay the bills, and mail the lot. Any bills which are paid by standing order also go through this cheque account so you have to allow for these. Better still is to pay all utility bills by cheque. This gives you total control. You will never be overdrawn.

## Cash Account

To stay solvent you must decide how much cash you need a week, and then never spend more. To determine this, look back over your cash withdrawals for the last six months. Decide if you could live on less. Come up with a sensible figure. Let's say it's £150 a week.

Now set up a standing order to transfer £150 a week from your Income Account to your Cash Account.

Your Cash Account will have an ATM cash card, **and nothing else**. When you need cash, you go to a hole in the wall, use this card, and withdraw cash. If you need more cash than £150 a week and the account is empty, then tough luck, you go hungry until the next £150 is transferred. Guess what? This is called discipline - having a limit on the number of sweeties you can withdraw from the jar at any one time, and not just using the card to withdraw the gas bill money or the rent because you 'need a few quid' to spend on whatever trash you think you 'need' right now. Sorry to sound harsh. Been there, done that..

Set it up so that you can't get cash from any other account apart from your cash account. This is to stop temptation. Making sense so far? It's a powerful system, I don't mind telling you.

Now you must sit down and decide two things:-

- a) How much you can afford to save each month. This should ideally be 10% of your net income. Don't say 'no way'. I never met a person who couldn't save 10% of their income, no matter how little that income was. You can always live on 90% of what you earn.
- b) How much you want to allocate each month towards saving for large purchases. This means T.V. dish-washers, holidays, furniture etc. I suggest another 10%, leaving 80% of your salary to split between the cheque account and the cash account.

Let's say you have decided on 10% and 10%. Set up two more standing orders. The first one transfers 10% from the Income Account to the Financial Independence Account. The second transfers 10% from the Income Account to the Large Purchases Account. This should happen automatically, each month after your salary has cleared. You don't have to take a monthly decision to save, it's done for you. If you had to take a monthly decision to save, that decision would ALWAYS be: "I can't afford to save this month because of x, y and z. I'll start next month." So make it automatic. Also, these standing orders come out FIRST, immediately after your pay cheque (or whatever) has been paid in. **You save first and spend what's left.**

Why?

**Because there's never anything left if you spend first and then try to save.**

## Large Purchases Account

This is what its name suggests. Whenever a large purchase comes up, look at this account. If there's enough money to buy the item, then go for it. This is what the account is for, to spend on large purchases. The money in this account is not for saving, or paying bills. It's for spending on goodies. So spend it. If there's not enough money in the kitty, then forget it, you can't afford the item. No debate. No argument. You can't afford it. How do you know you can't afford it? Simple – there's not enough cash in the account. Go away until you have accumulated enough in the account.

Compare that to what most (undisciplined) people do when faced with a large purchase. They buy it anyway. They use the electricity, rent and gas money and then hope that 'something' will turn up. Or they buy it anyway and pay for it over months or years with money which they have already allocated for other things. In other words, they are spending their salary several times over and 'hoping' that 'it will be all right'.

Sad.

This account is usually a Building Society account with a 30-day withdrawal notice. That makes you think for a month before spending the loot - so no impulse purchases! You withdraw the money in cash, or counter cheque made out to the store/person you are buying the item from.

## Financial Independence Account

This is the best and most exciting account. The purpose of it is to make you independently wealthy at some point in the future. Make this a Building Society Account with the longest possible withdrawal notice (120 days?) and the highest interest rate.

The trick here is that you never withdraw the money from this account! Never. No excuses, no exceptions, no emergencies. Consider this money to be gone forever.

You'll get interest on this account. At first it will be pitiful. Leave it to build and build. Eventually, you will get enough interest to 'buy' you a week of life! Then enough to 'buy' you a month of your life back (e.g. interest equivalent to one month's salary). Then a year, then several years. Eventually you will be able to give up work altogether.

If you get a sudden windfall of money, put half of it into this account, and do whatever you like with the rest.

Okay, that's the idea. Simple, huh? But very powerful. It's not just for the poor and needy. I use this system myself. Everyone needs to set limits on their spending. **It doesn't matter how much you're earning, you can always dream up ways of spending until there is nothing left.**

Please, please consider using this system. It's a bit of a pain to set up, but not that tricky. You could do it in an afternoon. The sheer thrill and power of having your finances under precise control has to be experienced. I promise that if you operate this system you will be happier and more wealthy.

It takes discipline, though....

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