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Counting life's hidden costs

Caffe lattes, cable TV, bottled water - it adds up quickly

By **KENT STEINRIEDE / The News Journal**

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On most days, after lunch, Alan Stone heads to the Brew Ha Ha! cafe in downtown Wilmington and shells out \$3.05 for a short double skinny latte. It's been a ritual since Stone went to Italy, where it seemed like the locals were ducking into cafes every couple of hours for a jolt.

He could find cheaper coffee. He could even make it himself for far less. For Stone, that just wouldn't be the same.

Day after day, dollar upon dollar, Delawareans like Stone are devoting more money than ever to enjoy the little luxuries of modern life. Consumers now pay freely for things that were free, and spend far more dearly for things that were not. In the pursuit of convenience and comfort, the \$1 cup of coffee has been replaced with the \$2.50 latte. Free TV reception has given way to subscription cable and satellite service. Even water, traditionally one of life's cheapest essentials, now comes bottled in many sizes and often costs more than gasoline.

Welcome to what David Bach calls the latte factor.

Bach, a personal finance guru with a handful of bestselling books, came up with the term years ago for these mini-luxury expenses. It's a simple concept with a catchy name, and despite the considerable financial impact these little "upgrades" have on our lives, few seem inclined to give them up.

"It's almost a ritual," said Neil Jenkins, an insurance executive who has a hard time imagining a work day without a tall decaf latte.

Jenkins, 50, travels often on business. "In a new town, I'll go to a cafe," he said.

We may feel better after a cup of espresso, but we might also pause to consider the cost. Compound that daily latte habit with a cell phone, high-speed Internet access, a health club membership and subscriptions to cable television and Netflix, and a family can pay \$300 a month, or \$3,600 a



The News Journal/BOB HERBERT

Kurt Mueller, 21, sips coffee Wednesday at Brew Ha Ha! in Newark while working on a laptop computer and listening to music on a CD player. The bottled water was for later, he said.

VIDEO

Video coverage in the a.m. webcast
02/24/2005

INTERACT

- [Luxury calculator](#)

Add up how much you spend on luxury items.

year, in bills that mostly didn't exist 10 years ago. In his new book, "Start Late, Finish Rich," Bach calls these new, recurring expenses the "double latte factor."

The impact on budgets is gradual - and often unnoticed. Stone's family spends about \$130 a month for cable television and Internet access, as well as pay-per-view movies at \$3 each. Each month, \$300 pays for their five cell phones. "It's amazing how much cell phones are a part of my life," said Stone, 44.

A lot of little things

As latte habits like Stone's will prove, it's the little things in life that add up. While popular, lattes come at a price: \$2.50 for a small regular latte and as much as \$4.30 for a large flavored one. A small latte every day at work is a \$650-a-year habit. Add a \$2 muffin to the order and you have a \$1,170 habit. In other words, someone who earns \$50,000 a year would need to work for more than a week just to pay for a year's worth of lattes and muffins.

If that \$98 per month were invested instead, at a 10 percent rate of return it would grow to more than \$75,000 in 20 years.

Some people say they have found a happy medium. Kurt Mueller, 21, a regular at the Brew Ha Ha! in Newark, chooses the less expensive regular coffee when he sits down to do some homework on his laptop. However, if he's meeting a friend at the shop - a special occasion - Mueller will order a more expensive flavored latte. "I'm still a college student. I try to be reasonable," he said.

Still, those upgrades tend to go far beyond coffee these days, and can be perceived as more than just "luxuries." Many Americans insist on bottled water instead of tap, prefer sushi-grade tuna in restaurants, have access to thousands of movies and can maintain communication with anyone via cell phone from nearly anywhere in the country. For many families and individuals, such things are becoming harder to think of living without - creating a perceived "baseline" cost of living that's far higher than in previous generations.

"We're getting more sophisticated than we used to be," said Alisa Morkides, who opened the first Brew Ha Ha! 11 years ago and now owns 13 cafes in Delaware and Pennsylvania.

Account for every cent

To reduce the bite of the latte factor, Bach suggests keeping track of where every penny of your salary goes; paying for nearly everything with cash; waiting 48 hours before committing to any purchase or service that will cost more



The News Journal/JENNIFER CORBETT

Greg Coverdale of Wilmington and Shene Redden of St. Louis stop Wednesday morning at Brew Ha Ha! on Market Street in Wilmington, where they had scheduled a business meeting.



The News Journal/BOB HERBERT

than \$100; and looking for ways to reduce the cost of luxuries that you feel are important. Bach, for example, brews high-quality coffee at home. A \$10 bag lasts for three weeks and saves him \$3 a day, which equals \$1,200 a year, he writes in his book.

Bach said changes in credit card use are helping reinforce the latte factor. In the last few years, merchants have become more likely to accept credit, debit and and pre-paid gift cards for small purchases - they're being accepted at coffee shops, gas stations, video arcades, convenience stores and online merchants, often with no minimum purchase.

This is thanks to new micropayment technology that has lowered the per-transaction cost to less than 10 cents. From October 2003 to September 2004, the number of Americans who made online purchases for \$2 or less rose from 4 million to 14 million, according to Peppercoin, a Massachusetts company that processes small credit card transactions.

Technology like this allows iTunes to sell songs online for 99 cents, a cost that consumers seem to feel is fair. In December, iTunes celebrated its 200 millionth song download.

Technology also has given Americans easier ways to pay these recurring costs - and given companies easier ways to quietly collect them. Today, everyone from the phone company to Blockbuster video rental wants to set up an automatic payment plan, something modeled after the Internal Revenue Service, Bach says.

"Seventy years ago, the government figured out that Americans can't budget," he said. After years of encouraging the public to save for taxes, the federal government threw in the towel and began automatically deducting taxes from paychecks. That way, the government was sure to get its money, Bach says. "It took corporate America 20 years to figure out the same thing."

Oh, that credit card debt

In the meantime, Americans have waded deeper into credit card debt. The average American last year had about three credit cards and \$2,627 in debt, up 14 percent from the 2003, according to Myvesta, a nonprofit consumer education organization based in Rockville, Md. From 1990 to 2003, the average credit card per household tripled to \$9,200, according to Cardweb.com, which tracks credit card data.

But paying for those small luxuries with a credit card is not an impulse buy, said James B. Twitchell, author of "Living it up: America's Love Affair with Luxury." When it comes to

Kim Hiestand, 20, a University of Delaware junior, works on an assignment Wednesday at Brew Ha Ha! in Newark, where she stopped for coffee. That \$2.50 cup of coffee, five days a week, adds up to \$650 a year.

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WHERE DOES THE MONEY GO?

That morning latte and muffin can add up over the course of a year, especially when you add in the monthly cell phone bill, the high-speed Internet, premium cable and iTunes hookups at home and that XM Satellite Radio service in your car. Here's one menu of items and services that adds up to almost \$5,000 a year.

Caffe latte/coffee:

\$2.50, five times a week = \$650/year

Bottled water:

\$1.50, five times a week = \$390/year

Muffins:

\$2, five times a week = \$520/year

iTunes:

\$20 monthly = \$240/year

Cell phone:

luxuries, consumers usually have a goal, whether they're aware of it or not. "They're rewarding themselves or comforting themselves," said Twitchell, a professor at the University of Florida.

This new consumerism has as much to do with control as quality. What's attractive about iTunes, TiVo, satellite radio, premium cable channels and pay-per-view is the wide selection and the ability to mix-and-match and enjoy the programming on your own terms, without advertising, the very thing that makes these products and services seem luxurious, Twitchell said.

"The new new luxury is, of course, time," he said.

Contact Kent Steinriede at 324-2894 or ksteinriede@delawareonline.com.

\$60 monthly = \$720/year

Health club:

\$50 monthly = \$600/year

Cable subscription:

\$50 monthly = \$600/year

Premium cable:

\$20 monthly = \$240/year

TiVo:

\$13 monthly = \$156/year

Netflix:

\$18 monthly = \$216/year

High-speed Internet:

\$30 monthly = \$360/year

Satellite radio:

\$10 monthly = \$120/year

TOTAL: \$4,812

ON THE WEB

- [David Bach's Finish Rich site](#)