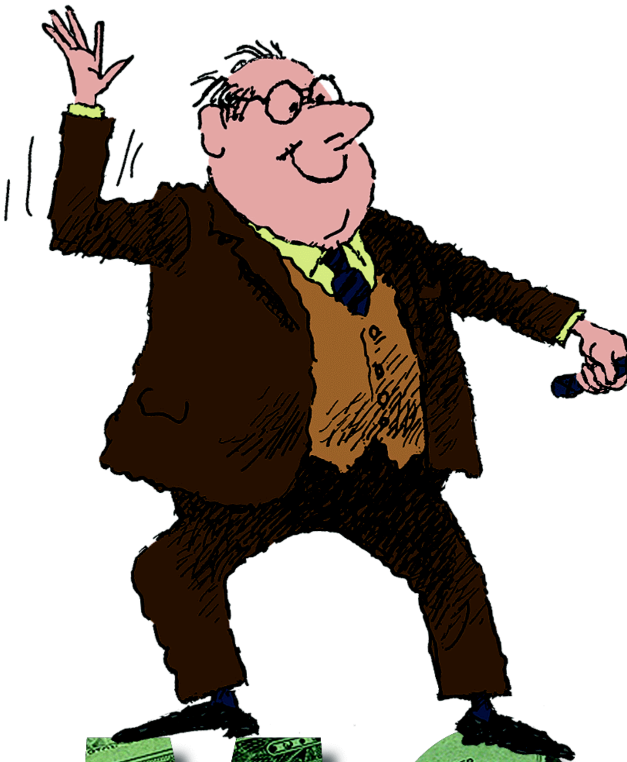
FL 500



Take Charge of Your Money

Utah State University Extension

FL-500

TAKE CHARGE OF YOUR MONEY

Prepared by

Barbara R. Rowe, Ph.D.
Family Resource Management Specialist
and the following
Family and Consumer Science Agents:
Judy Harris, Utah County
JoAnn Hermansen, Sanpete County
Margaret Hopkins, Morgan County
Christine Jensen, Emery County
Rhonda Olson, Uintah County
Ann Parkinson, Sevier County
Kathleen Riggs, Iron County
Joan Sellers, Millard County
Carol Williams, Wayne and Piute Counties

Special thanks to:
Janet Bechman, Specialist, Purdue University Extension Service
Alice M. Morrow, Specialist, Oregon State University Extension Service
David Williams, Attorney at Law, Woodbury & Kesler, Salt Lake City, Utah.

UTAH STATE UNIVERSITY EXTENSION
LOGAN, UTAH
January 2001

TABLE OF CONTENTS

Page

TAKE CHARGE OF YOUR MONEY . . . vii
- Introduction . . . vii
- Your Financial Workbook . . . vii

UNIT 1: GETTING STARTED . . . 1
- Setting Goals . . . 1
- Shoebox Management . . . 2
  - What Records to Keep? . . . 3
  - Where to Keep Them? . . . 3
  - Files at Your Fingertips . . . 3
  - Household Inventory . . . 4
  - Records You Create . . . 5
- Summary . . . 6
- Worksheet 1: What Are Your Goals . . . 7
- Worksheet 2: Your Summary Record . . . 8

UNIT 2: WHERE ARE YOU NOW, WHERE ARE YOU GOING? . . . 17
- Net Worth Statement . . . 17
  - Preparing a Net Worth Statement . . . 17
  - Is Preparing a Net Worth Statement Difficult? . . . 17
  - Using Your Net Worth Statement . . . 19
- Income and Expense Statement . . . 20
  - How Do You Prepare an Income/Expense Statement? . . . 20
  - How Do You Use the Income/Expense Statement? . . . 22
  - Keeping Track . . . 23
  - Preparing a Saving/Spending Plan . . . 23
- Summary . . . 24
- Worksheet 3: Net Worth Statement . . . 25
- Worksheet 4: Income/Expense Statement . . . 26
- Worksheet 5: Savings/Spending Plan . . . 27

UNIT 3: MANAGING CASH AND CHOOSING CREDIT . . . 29
- Where to Bank? . . . 29
- Shopping Around is Critical . . . 29
- Managing Your Accounts . . . 31
- Services and Features to Check . . . 32
- Where to Deposit Your Savings . . . 33
- Give Yourself Credit . . . 34
  - The Many Forms of Credit . . . 34

Page

Do You Need a Bank Card? 35
Shopping for Credit 36
Calculating APR 36
Managing Your Credit 37
What is Credit Scoring? 39
Your Credit Record 39
The Three Major Credit Reporting Agencies 40
What's in Your File? 40
Are You Overextended on Credit? 41
Worksheet 6: Picking Checking Accounts 43
Worksheet 7: Comparing Savings Accounts 44
Financial Fitness Fact Sheet 45
How To Read Your Credit File 52
Worksheet 8: Power Payments with PowerPay 54

UNIT 4: MANAGING FINANCIAL RISK 57
Insurance 57
From Whom to Buy? 57
Save on Insurance Costs 57
Types of Insurance 58
Disability Insurance 58
Life Insurance 59
Medical or Health Insurance 61
Fee-for Service Plans 61
Managed Care Plans 62
Choosing an HMO 62
Shopping for Health Insurance 63
COBRA 64
Medicare 64
Long-Term Care Insurance 66
Property Insurance 66
How Much Coverage Do You Need? 67
Personal Liability Coverage 69
Buying Property Insurance 69
Summary 70
Worksheet 9: Disability Income Needs 71
Worksheet 10: Choosing Health Insurance 72

UNIT 5: INVESTING FOR RETIREMENT 73
Today's Trends: Living Longer and Retiring Earlier 73
What Are the Concerns? 73
Social Security 74

Page

How Much Money Will You Need? 75
Reality Check: How Much Are You Worth? 76
How Will You Fund Your Dreams? 78
Investment Alternatives 78
Low Risk Investments 79
Bonds (another low risk investment) 80
Real Estate (as an investment) 81
Moderate-Risk Investments 82
High Risk Investments 83
Diversification: Many Eggs, Many Baskets 83
Mutual Funds Basics 84
Do Your Homework First 85
Purchasing Stock in Individual Companies 86
Keeping Track 86
Working with an Investment Advisor 87
Worksheet 11: Your Retirement Lifestyle 89
Worksheet 12: Estimated Annual Cost of Living 90
Worksheet 13: Estimated Changes in Spending After Retirement 91
Worksheet 14: Calculating the Effect of Inflation on Your Budget 93
Worksheet 15: Large Future Irregular Expenses 94

UNIT 6: PLANNING FOR YOUR FUTURE 95
Making a Will 95
Various Forms of Ownership 97
Probate 97
Revocable Living Trust 98
Gift and Estate Tax 100
Gift and Estate Tax Credit 100
Gifts to Family and Friends 101
Charitable Gifts 101
A Living Will 102
A Letter of Last Instruction 103
Are You Prepared to Live Alone? 105
Is Divorce Part of Your Future? 106
Once Again, For Richer or Poorer 107
Living Will Example 110
Special Power of Attorney Example 112
Worksheet 16: Are You Ready To Live Alone? 114

RESOURCE LIST 115

GLOSSARY 119

TAKE CHARGE OF YOUR MONEY

INTRODUCTION

Congratulations!! You are beginning the most important journey you will ever take. You are looking at your financial life and preparing to make some changes. You may be motivated by some recent family event such as the birth of a child or the illness of a spouse. You may think that you need to do a better job controlling the money in your life. Or you may just feel that you want to become a more involved partner in your family's financial affairs. If your spouse has been the one to keep track of your investments, choose your insurance carrier, and write the check to the mortgage holder, you may be concerned that if something happened to him or her you wouldn't know where to turn or what to do first.

No matter what your personal reasons are for coming to this series of workshops, you will discover ways to improve and strengthen your financial know-how. You can collect information about your present financial situation and look for ways to improve your long-range financial security. One session builds upon another. As you put together your Financial Workbook, you will be evaluating your own finances in light of the information you gather at each meeting and the exercises you complete at home. Some of the sections of your workbook may seem harder to complete than others, but as you go through the steps one by one, they will become easier. Remember, you eat an elephant one bite at a time.

If your spouse isn't attending the workshops with you, you will want to keep him or her informed of what you're doing. It doesn't help to go home and announce that things are going to be different as a result of your new-found knowledge. Take steps gradually. Do the exercises together, if you can. If you find yourself getting emotional with each other, put the workbook aside and come back to it another day.

YOUR FINANCIAL WORKBOOK

Your Financial Workbook is made up of six units of printed material, handouts distributed at each workshop session, and the exercises you complete outside of class. You will receive a three-ring binder, notebook cover and spine, and a set of dividers at your first session. Each divider is labeled with the unit number and the exercises dealing with that session's topic. At the end of your journey, your completed Financial Workbook will contain a summary record of your important financial documents; a household inventory; net worth, income/expense, and saving/spending plans; banking, credit, and insurance information; data on investing; and ideas for your estate plan.

As the workshop sessions progress, there are some steps that will help you complete your journey successfully. First, complete as many worksheets as you can before the next class. Then, when you get to class, speak up! Bring your concerns and ask questions of the speaker and workshop leader. Read as much of the financial press as you can. Magazines such as **Kiplinger's, Smart**

Money, Barron's, Money, Mutual Funds, and even some issues of **Consumer Reports**, will give you insight into the topics you want to know more about. The reference list on pages 115-117 contains the name of several books on money management or special topics such as investments that you may want to borrow from your local library. Don't forget the list of word definitions on pages 119-124, as the financial world has its own terms and special language.

If you don't already own one, you will want to buy a pocket calculator. There will be times in and out of class when you will want to multiply and divide numbers. And you will want to know that the numbers you are entering onto your worksheets are accurate. Even calculators that can figure the time value of money can be purchased very inexpensively.

As you progress through the worksheets and exercises, you'll need information from Social Security, your retirement plan administrator, and your bank or credit union. You may also need the help of an attorney, certified public accountant, or other professionals. Your Financial Workbook will become a reference to help you manage your financial affairs. It will also be a valuable guide for the person who would have to manage for you in case you become temporarily incapacitated or die. Be sure to let members of your family know where your Financial Workbook is kept, so they can access it quickly.

Your Financial Workbook needs to be updated annually and whenever a significant personal event occurs such as birth or death of a family member, marriage, divorce, relocation, or purchase/sale of assets. Store a copy of your Financial Workbook with a friend or in a safe deposit box and keep the original handy at home.

Every journey of a thousand steps begins with the first one. Enjoy the trip!

UNIT 1: GETTING STARTED

SETTING GOALS

Pretend you are on a plane that has just taken off from Honolulu for a non-stop flight to the mainland. What would you think if you heard this on the intercom?

"Ladies and gentlemen, this is your captain speaking. We're now traveling East across the Pacific Ocean. If all goes well, we soon should be able to look down and see land below us. If we do, we'll hunt for a city that has an airport. When we find one that we think looks good, we'll land and find out where we are. Then we'll decide where we want to go on the next leg of this flight. Meanwhile, folks, just sit back, relax, and enjoy the flight. The jet stream is behind us and we'll soon be traveling more than 550 miles per hour."

Would you want to ride on that airline again? How confident would you be that you would arrive safely and on time? Would you wonder why it is an advantage to go so fast when you're not sure where you are going?

Just as an airplane pilot needs to know where she or he is going, what route to take and when to arrive, we need to know where we are going with our financial lives, how we are going to get there and when we will arrive. The information we need comes from our goals and our records.

Most of us want a better future but few of us write down the goals we will need to meet to achieve it. The first step in setting goals is to think about what is important to you and your family. Your goals will be based on your values.

Stop for a minute and take out Worksheet 1, **What Are Your Goals**? Quickly write down your financial goals. They can be short term (re-covering the sofa) or long-term (saving for the children's college fund).

A wise person once said that "Goals are a dream with a deadline." Unless they have specific amounts, time lines and action plans attached to them, financial goals are really just "wish lists." Between now and the next workshop, write down what each goal is going to cost. When will you need the money (next month, next year, 10 years from now)? How much must you save on a regular basis in order to have the amount needed by the date needed? The difference between a wish and a goal is whether or not you follow these steps. Once you know how much and when, you need to work a monthly figure into your spending plan.

Keep this list where you can see it often. You usually can't work on all goals at once so you have to set priorities. Keep in mind that goals are not final and unchanging. Things happen–new events such as a baby, graduation, marriage, divorce or death in the family can all change your goals. Updating goals is important. As you go through this series of workshops, your goals may change. You may have had a short term goal of making an appointment with your lawyer to revise your will. Before the workshops are over, you may be ready to put that goal on your "finished" pile instead of your "to-do" list. Remember, it is all right to change your goals as your circumstances change.

Shoebox Management

If you had to, could you put your hands on all your receipts and paid bills for the past six months? Do you know where all your insurance policies are and what they cover? Do you have a list of people who are your important financial contacts, such as tax advisors, attorneys, brokers, bankers, and human resources officer at work? Who, besides you, knows where to turn for necessary information about your family's assets and obligations? If you became incapacitated, how easy or difficult would it be for other members of your family to figure out your filing system?

Each family or household must work out its own system for keeping records. However, some general guidelines can be helpful.

First, why do we even take the time to keep financial records? Well, good records can help you keep a closer watch on where your money is going each month and make it easier to reach your financial goals. Second, good records are needed at specific life changes like retirement when you need birth certificates, Social Security numbers, military discharge papers, marriage certificates and such. Third, if a natural disaster occurs (tornadoes, floods) or your home is burglarized, you need a household inventory to prove ownership for your insurance provider. Fourth, it can save you money at tax time.

Three rules are essential for a good money management system:

1. While everyone in the house should know where records are stored, how they are organized, and how information can be found, **one person** needs to take the lead on organizing and maintaining the record system.

2. A **regular schedule** is critical. It can be as basic as a couple of hours at the end of each month to balance the checkbook, pay bills, file papers, and evaluate the family's spending plan. If you have a computerized money management software program such as Microsoft Money or Quicken, it probably won't take even one hour.

3. In the home, only **one place** should be used for keeping records. A file cabinet, a cardboard box, expandable plastic folder, and a fireproof lock box are all handy for keeping records. Office supply stores have a variety of items that can be purchased inexpensively and will organize your records handsomely.

WHAT RECORDS TO KEEP?

What to keep is as important a consideration as where to keep it. Any record that provides information about someone in the family is worth keeping. Therefore, insurance policies, wills, military records, employee benefits, pension information, all need to be kept as well as a summary record of where everything is stored.

Identification records such as birth certificates, passports, marriage licenses, divorce decrees, and copies of death certificates are essential for some types of transactions. Stocks, bonds and other certificates in addition to deeds and titles for houses, cars, and other records of ownership need to be kept where you can find them quickly.

WHERE TO KEEP THEM?

Three main places should be considered when organizing financial records:

1. At home
2. In a safe deposit box
3. With other people

FILES AT YOUR FINGERTIPS

At Home: Current financial records should be kept at home in the location which best meets the needs of your household. File folders or expandable manila envelopes, labeled for each month of the year work well for paid bills and receipts, bank statements and canceled checks, pay stubs, money receipts and any bank-related correspondence. Other records you need to keep at home include any information you will use to prepare your tax return, such as medical receipts, charity contributions, rental property information and other documents you will need to prove deductions.

Current information records may also include file folders containing information about employee benefits, pension plans, health records, warranties, appliance manuals, insurance policies, and copies of the wills and estate plans for family members. In current information files, you can put extra copies of the keys used by family members in marked envelopes. There is never a good time to lose a key, but when one turns up missing it certainly is nice to be able to get a replacement without difficulty.

Probably one of the most important pieces of information to keep handy is a summary record or master list. It describes the location of all important papers, the phone numbers and addresses of professionals you consult on a regular basis, and the numbers on insurance policies, bank accounts and security certificates owned by members of the household. You will create a summary record for your Financial Workbook on Worksheet 2, **Your Summary Record**. You might want to photocopy Worksheet 2 before you begin filling in the spaces. Then, as circumstances and your records change, you will have a blank copy to slip into your Financial Workbook for updating.

Dead Storage*:* Dead storage is for records you might need at some time in the future but don't use on a regular basis. Past years' tax returns and supporting receipts, out-of-date insurance policies and any filed claims, a record of improvements made to your house (such as constructing a new garage) to offset taxable gains possible from its sale would all qualify for dead storage.

Safe Deposit Boxes*:* Safe deposit boxes can be rented from banks, credit unions, and savings and loans. Think of a safe deposit box as a place to store difficult or impossible to replace items. The box can be rented by either one spouse or both spouses. If both spouse's signatures are on the signature card, either one can open the box at any time. This may be very important if one spouse dies or is incapacitated.

Safe deposit boxes are where you store securities such as bonds or stock certificates. Wedding licenses, birth certificates and divorce decrees go here, as do passports. A copy of the summary record belongs here, along with a copy of your household inventory. More on household inventories in a minute.

Other People*:* Some of your records may be best kept with others. Your lawyer should have a copy of your will and you should keep another copy with your current financial records. Depending on your situation, you may want to give the executor of your estate a sealed copy of your will. If you are traveling abroad, you might want to leave a photocopy of your passport with a trusted friend in case yours is lost or stolen. Some people choose to keep their stock, bond or security certificates with their broker. If you have a living will or letter of last instruction, they need to be left with the family member most likely to have to make decisions should you become seriously ill. When you give a friend or family member a sealed copy of your summary record you are assured that in the event of a death or disaster involving you or others in your family there will be someone with access to information which may be necessary at that time.

HOUSEHOLD INVENTORY

A household inventory is so important is deserves a discussion of its own. If all your possessions were destroyed in a fire or flood, or your home was burglarized, could you–from memory–list everything in your house? Even just the items in your hall closet? Do you know how many small appliances you own, complete with model name and the date you bought it? How much would you guess it would cost to replace your family's clothing?

When you buy homeowner/renter's insurance you hope you'll never have to use it. Even with insurance, if you're not prepared for a loss, you may not get the full benefit of the coverage you've bought. A household inventory–in words and pictures–of all your possessions is essential to help your memory under the stress that comes with a personal tragedy like a fire.
A household inventory consists of a list of items in each room of your home along with their approximate value. Ideally, receipts for major durable goods should be placed in the inventory

file at the end of each year to show actual costs. If you have Internet access, a comprehensive fill-in-the-blank Household and Personal Property Inventory Book is available from the University of Illinois Cooperative Extension Service at http://www.ag.uiuc.edu/~disaster/resource.html. A blank spiral-bound notebook would also work. You could also use a data base or computer spreadsheet program to list your possessions. This is easy to update or change. There are some computer software programs available especially for household inventories.

Some people photograph or videotape each room and its contents to create a record of what they have. Color pictures are better for evaluation purposes than black and white and if you make slides instead of color prints, a projector will provide an enlarged view of important details on each item.

Photograph each room, wall by wall, floor to ceiling. For large areas that won't fit into a single shot, snap the area in sections, overlapping your shots slightly. Then take close-ups of the valuables in each room. While you are taking pictures, open the drawers of china cabinets, dressers and stereo cabinets to photograph the contents as well as those of other containers such as tool boxes.

When you have photographed each room, go on to the closets and don't forget the basement, attic and garage. While you're outside, film the lawn furniture and the contents of any storage or tool shed. After you have completed your photo inventory, use a portable tape recorder to walk through your house, describing everything in each room.

If you have especially valuable objects such as jewelry, furs, collections of any kind or antiques, you may need a qualified appraiser to establish value. Take extra care to document these items.

If you do not yet have an inventory of all your belongings, making one may seem to be a monumental undertaking. However, it does not need to be. Break it into steps and inventory one room at a time. Make it a family project, with everyone contributing something to the effort.

Keep your inventory in a safe place. A copy of the inventory and photographs, slides or videotape should be kept in a safe-deposit box with a second copy in your home files. This will make it easier to update the inventory once a year and add new items at the time they are purchased.

RECORDS YOU CREATE

A household inventory is only one of a group of records that you create and maintain. Others include the summary record and an income and expense record.

The *summary record* is the master list of all the important information which concerns your family (Worksheet 2). A *household inventory* is a description of all the contents in your home along with their approximate value.

An *income/expense record* is a statement of what the members of your household earn and spend. The method you use to keep track of the money flow in your household should be one which comfortably fits the spending and earning habits of your family.

Some people record their expenses and earnings in a notebook which is divided into categories for each type of income and expense they have. Other people create a looseleaf notebook and devote a page to each month. Some people use computer software programs such as Intuit's Quicken or Microsoft's Money. They are easy to learn and can create categorized lists of spending that help you see at a glance where your money is going. Any method you choose that works for you is the right one. You do need to have some way of comparing actual expenses with your plan for spending so you pick up any warning signals about potential problems while they are still in the manageable stage.

SUMMARY

Organizing your important papers can be done at any level–from a shoebox under the bed to an office filing cabinet in a special room in your house. It takes management and effort to organize and maintain financial records in a system that is useful to you and your household.

Records you keep at home can be divided into three types: (1) current financial records, (2) personal information records, and (3) dead storage. Current financial records and personal information can be stored almost anywhere but they should be kept together in some systematic way and their storage area known to everyone who lives in the house. Dead storage items can be kept in a box in the attic or basement, but if you or someone acting for you ever needed them they should know where to find them.

Other financial records are kept outside of the house in a safe deposit box or with other people. Record keeping is not difficult but it does require regular effort. The rewards from a good system are potentially better-managed finances and the security in knowing that you've made life easier for anyone who would have to take over for you in an emergency.

Adapted from *Shoebox Management 101,* developed by Karen Klassen Harder and Janet Bechman, Purdue University Extension Service, West Lafayette, IN.

WORKSHEET 1: **WHAT ARE YOUR GOALS?**

SHORT TERM (less than 3 months)

Objective	**Estimated Cost**	**Target Date**	**Monthly Amount to Save**

MEDIUM TERM (3 months to 1 year)

Objective	**Estimated Cost**	**Target Date**	**Monthly Amount to Save**

LONG TERM (more than 1 year)

Objective	**Estimated Cost**	**Target Date**	**Monthly Amount to Save**

WORKSHEET 2: **YOUR SUMMARY RECORD**

Your Name________________________ Address____

Date Record Started_________________ Dates of Updating______________________________

Family Record

Name	**Date of Birth**	**Where Birth Recorded**	**Social Security Number**

Financial Advisers

Name	**Address**	**Phone Number**
Lawyer		
Banker		
Executor of Wills		
Insurance Agent		
Retirement Plan Administrator		
Stockbroker		
Human Resources Officer		
Other Advisers		

Where Important Documents Are Kept

Birth Certificate(s)	
Marriage Certificate	
Death Certificate(s)	
Divorce Decree	
Adoption Papers	
Social Security Card	
Military Service Records Serial Number VA Claim Number GI Insurance Number	
Business Agreements	
Tax Records	
Vehicle Titles	
Service Contracts and Warranties	
Household Inventory	
Other	

Wills

Date of Latest Will	**Location**	**Executor**	**Attorney**
			Address
			Phone number

Trusts

Trust and Location	Trustee Name and Address	Beneficiary

Accounts at Financial Institutions

Type of Account	Name and Address of Institution	Account Number	In Whose Name(s)
Checking accounts			
Savings accounts			
Certificates of Deposit			

Safe-Deposit Box(es)

Location of Box	Box Number	In Whose Name(s)

Real Estate Records
(Include Cemetery Plot)

Location	**Date of Purchase**	**Price**	**In Whose Name(s)**	**Where Deed Recorded**

Retirement/ Pensions/ Individual Retirement Accounts (IRAs)

Employer/Type Plan	**Company**	**Address**	**Phone Number**	**Account Number**	**Where Records Kept**

Mutual Funds

Name of Company	**Number of Shares**	**Purchase Price**	**Date of Purchase**	**In Whose Name(s)**

Individual Stocks/ Bonds

Name of Company	**Number of Shares**	**Purchase Price**	**Date of Purchase**	**In Whose Name(s)**

Other Investments

Name of Company	**Number of Shares**	**Serial Number Certificates**	**Purchase Price**	**Date of Purchase**	**In Whose Name(s)**

Money Owed the Family

(including Mortgages)

Type of Debt	**Owed To**	**Total Owed**	**Amount**	**Where Records Kept**

Insurance Records

Life Insurance

Name of Company	Policy Number	Face Amount	Beneficiaries	Premium Due Date	Name and Address of Agent

Automobile Insurance

Name of Company	Policy Number	Amount	Deductibles	Premium Due Date	Name and Address of Agent

Homeowner's/ Renter's Insurance

Name of Company	Policy Number	Amount	Deductibles	Premium Due Date	Name and Address of Agent

Accident and Health Insurance

Name of Company	Policy Number	Date of Issue	Premium Due Date	Name of Agent

Disability Insurance

Name of Company	Policy Number	Weekly Benefit	Premium Due Date	Name of Agent

Other Insurance Policies

Kind	Name of Company	Policy Number	Type and Amount of Coverage	Name of Agent

Credit Cards

Name of Company	Account Number	Address and Phone Number

Loans and Debts Outstanding
(including Mortgages)

Type of Debt	Owed To	Total Owed	Payment Amount	Where Records Kept
Mortgage				
Automobile				
Automobile				
Automobile				
Home Equity				
Personal Loan				
Furniture				
Appliances				
Other				

Adapted by Barbara R. Rowe, Family Resource Management Specialist, Utah State University Extension Service, Logan, UT 84322-2949 from *Keeping Your Important Papers*, HE-465, Purdue University Cooperative Extension Service, West Lafayette, IN 47907; *Your Financial Organizer*, Teachers Insurance and Annuity Association-College Retirement Equities Fund, 1997; *Your Vital Papers Logbook*, Action for Independent Maturity, 1909 K Street, NW, Washington, DC 20049; *Records and Important Papers*, HE-351, Alabama Cooperative Extension Service, Auburn University, AL 36849; and *Competent Financial Planning: Record Organization*, Bulletin 301, Cooperative Extension Service, University of Maryland.

UNIT 2: WHERE ARE YOU NOW, WHERE ARE YOU GOING?

NET WORTH STATEMENT

PREPARING A NET WORTH STATEMENT

In our last workshop, we talked about your goals and what it would take to reach your goals. This workshop will give you some of the tools that will help you do just that. Whatever your goal is–buying a different car or house, accumulating an emergency fund, educating your children, or creating a retirement nestegg–there are some tools that will help you get from where you are now to where you want to be.

The first two tools are used to review a your current financial situation: the net worth statement and an income/expense statement. These two tools serve as a foundation for a third tool that will help you reach your goals–a spending plan.

A net worth statement is sometimes called a balance sheet. Like businesses, we need a record of our assets and liabilities–what we own and what we owe. The difference between the two is net worth. Assets are things you own with economic value–the amount you have in your checking and savings accounts, the balance in your retirement fund, and so forth. Liabilities are your debts, money you owe to others.

A net worth statement tells you the fair market value of your assets today, and the balance of your debts today. In other words, it is a snapshot of your financial well-being at one point in time. But if you prepare a net worth statement at about the same time each year, you will see how your net worth changes from year to year and you can make any mid-course corrections.

Why is a net worth statement important? Before you can create a plan to achieve your goals, you need to know the resources you already have. They are also useful as summaries of financial information. You may be asked for this financial information when you apply for a mortgage, take out a car loan, or talk with an attorney about a will.

IS PREPARING A NET WORTH STATEMENT DIFFICULT?

The easiest way to calculate your net worth is to use a preprinted list of assets and liabilities, such as Worksheet 3, **Net Worth Statement**. Similar forms are available from financial institutions such as banks and credit unions, and in many financial publications. Once you have prepared a net worth statement, you may want to develop your own form, one that is just right for your personal situation.

This is where locating all your financial records will come in handy. You will need information from some of those records to complete your net worth statement. Here are some other places to find information about the value of assets and liabilities:

1. Car values are published by the **Kelly Blue Book** (http://www.kbb.com) and Edmunds Automobile Buyers Guide (http://www.edmunds.com. If you have Internet access you can check Autosite (http://www.autosite.com), CarPrices (http://www.carprices.com) or several other web sites for current list price on used cars, vans, trucks, wagons and SUVs.

2. The cash value of whole life insurance policies can be found on a schedule in the policy. It is also available from your insurance agent. The cash value is the amount of money the insurance company would return to you if you terminated the policy today. Term life insurance has no cash surrender value.

3. The values of annuities are available in annual reports or quarterly statements, or from your broker or insurance agent. The daily values of mutual funds, corporate stocks, and bonds are quoted in many newspapers and the **Wall Street Journal** daily. Many brokerage firms keep the balances in your funds posted on their website and accessible with a personal identification number (PIN) assigned to you.

4. Any bank or other vendor of U.S. Savings bonds can tell you how much your bonds are worth now. If you have Internet access, you can price them online at http://www.savingsbonds.com.

5. The human resources officer at your place of employment should be able to tell you the amount you have contributed to your pension or 401(k) plan.

6. Second-hand shops, classified ads, collector's value guides and dealers will be able to help you estimate the value of furniture, appliances, sports and hobby equipment, collections, jewelry and art.

7. The balance owed on installment debts or credit cards is listed on monthly statements from creditors.

8. If you are unsure of the current value of your house or other real property, consult a real estate agent, your municipal property assessor, or your last property tax bill. The principal owed on a mortgage is usually available on quarterly or annual statements from the mortgage holder.

As you work through each item on Worksheet 3, be as accurate as you can, but don't be afraid to round off numbers to the nearest five or ten or even hundred dollars. Don't get bogged down in being accurate to the penny. Your ambition is to analyze the information you have and see how it is helping or not helping you reach your goals. If there are items on the Worksheet that don't apply to you, paste labels over them. Write in ones that you do have. Make this Worksheet a document that is useful to you.

Worksheet 3 is divided into two columns. The first column is where you list all your assets. An asset is anything that can be converted to cash. It isn't necessary to place a value on everything you own; select just those items that have a relatively high value and that could be sold easily. If you have more than one savings account, several stock certificates or multiple life insurance policies, list them and their values on a separate sheet of paper (Worksheet 2 would work) then write the total for each asset on the appropriate line of your net worth statement. Be sure to keep the detailed listing, it will show what you inventoried when you prepare another net worth statement a year from now.

The second column on Worksheet 3 is for Liabilities. These are your debts. It includes loans (including loans against whole life insurance policies), installment credit contracts, current unpaid bills, taxes due, and any other money that you owe. As you did with the Assets column, make new names of debts as needed and paste labels over the items that don't apply to you. If you have several credit cards with balances on them, use a detailed listing to create a total and enter the total into the Liabilities column.

Net worth is the difference between what you owe others (liabilities) and what you own (assets). Usually you will have a positive net worth, showing that if you could sell all your assets tomorrow, you could pay all your debts and still have money left over. Sometimes, an analysis like this reveals that your net worth is negative. In those situations, perhaps your first priority will be to pay off some debt before you reach for your other goals.

USING YOUR NET WORTH STATEMENT

You will use different parts of your statement to analyze different personal goals. If your objective is to look at your retirement plan, then you will be interested in the present value of your pensions, mutual funds, IRAs, 401(k) plans, and investments, as well as their projected future values. If your objective is to build up an emergency fund, you will look at assets that are liquid, such as checking accounts, savings accounts, money market funds and certificates of deposit (CDs). How much you will need for emergencies will depend on many factors–where you work, what you do, the state of your health, the amount of property you own, health and disability insurance you carry, and so on. Some experts recommend that you keep an amount equal to 2 to 3 months expenses in savings; others recommend 6 month's income.

Will the value of your assets increase over time? Some assets appreciate, such as mutual funds, stocks and real estate. Some assets do not appreciate but are income-producing, for example, interest-bearing checking and savings accounts, money market funds, money market deposit accounts, certificates of deposit, and bonds. This is the time to check and see if your interest-bearing accounts are producing a satisfactory return.

Some assets depreciate; they decline in value over time because of wear and tear and because something better comes along. Some examples of this are automobiles, furniture, and appliances. When will you need to repair or replace these assets?

This is also the time to review your liabilities. Have you borrowed money to purchase a car, a recreational vehicle, a home? If so, how does the amount you presently owe compare to the present value of the item?

Sometimes, money is borrowed for items that are investments in human capital. Investments in human capital are those things that increase an individual's knowledge, skills or well-being. Education and medical and dental care are examples of investments in human capital. These items do not show up as financial assets on the net worth statement, but they will show up as debts or decreased savings. Even though they may decrease financial net worth in the short run, they are important assets to the family and the individual.

INCOME AND EXPENSE STATEMENT

The second tool that will help you meet your goals is an income and expense statement (Worksheet 4). An income/expense statement is a picture of your income now and how you have spent your money in a given time period in the past. Why would this be necessary? Because until you know where your money is going now, it is very difficult to be able to put together a plan to meet future goals. An income/expense statement can help identify expenditures to decrease in order to increase savings.

An income/expense statement is not the same as a net worth statement. A net worth statement calculates your financial status at one point in time. An income/ expense statement, in contrast, is a record of your income and outgo over a period of time in the past, usually the previous 12 months. For example, a net worth statement lists the amount you owed on your car at the end of the year; an income/expense statement tells you the total amount you paid in car payments over the past year.

An income/expense statement is also not the same as a budget or spending plan. A budget is a plan for future expenditures and income; it can also be a running record of expenditures and income. Income/expense statements summarize income and expenditures over a longer period of time than budgets, usually a year. Budgets usually cover spending for a week or a month at a time and therefore contain much more detail about the nature of income and expenditures.

HOW DO YOU PREPARE AN INCOME/EXPENSE STATEMENT?

Here is where all the hard work of collecting all your records pays off again. To put together an income/expense statement, you'll need your latest tax return, checkbook registers for the past year, pay stubs and bank statements. If you keep all your financial records on computer, a quick printout of your last year's checking and savings registers is in order. This way, you can sort your expenses by categories or month by month. Some software packages, like Intuit's Quicken and Microsoft Money will calculate a net worth statement and an income/expense report for you from the numbers you have already entered.

Most people calculate their income/expense statement from January 1 to December 31 of the same year. Some do it sometime during the month of January, others wait until they have completed their tax returns and do it in March or April. But you can start and end an income/expense statement in any month and use periods longer than a year if you wish.

Worksheet 4 is a template that you can use to create your own income/expense statement. Begin by listing all sources of income in the left hand column. The easiest way to obtain most of this information is to use your latest tax return. You can also use payroll stubs and listings of all deposits in your checkbook and savings account. Remember to list all sources of income, including money from gifts, interest, dividends and income-producing property. The information about state and local taxes is available on both your tax return and your paycheck stubs and wage statements. You may have other deductions from your pay that fit into other categories. For example, you may have a set amount deducted every pay period for United Way or for disability insurance.

The right hand column in Worksheet 4 is for expenses. Some expenses occur each month. These may be fixed; they are the same amount every month (like a car payment). Or they may be variable; they occur every month but the amount of the expense varies from month to month (like your grocery bill). Some expenses occur irregularly or only a few times in a year. For example, car insurance is a fixed amount that may occur only twice a year. Clothing and vacation expenses are variable and occur irregularly throughout the year.

The most convenient source of information for fixed expenses is your checkbook record, either paper or computerized. Multiply the amount of any fixed payment by the number of times you paid it during a year and enter the amount in the "Expenses" column. If you don't keep financial records on your computer, list on paper the different categories of variable expenses (clothing, transportation, food, medical, etc.). Then go through your check register and record the amount of each expenditure under the appropriate category. If you find that checks were made out to MasterCharge, Visa or a department store for credit purchases, use the billing statements to determine how much was spent in which categories. If you paid finance charges for your credit purchases, list them under "Interest paid."

For checks made out to cash, if you do not know what it was for, list the amount under the heading miscellaneous or HOK (Heaven Only Knows). If this category is a high proportion of your past expenditures, try to reconstruct an estimate of where this cash went. One of the most eye-opening exercises that will help you create this estimate is to keep track of all your cash expenditures for one week. You might find that during this week you bought gas for the car, spent half of your in-pocket money on lunches and coffee breaks, and one-fourth on groceries you purchased on the way home from work. Use these proportions to divide your cash expenditures into the appropriate categories for the total amount in HOK. Take the total expenditures in each category and enter the totals on your income/expense statement. Then add all the income and all the expenses.

If your total income is greater than your total expenses, the difference should be the balance in your cash on hand. If you come out with a surplus on paper–but not in your pocket–you probably underestimated expenses. On the other hand, if your expenses are greater than your income, you may have dipped into savings, used credit, or underestimated your income.

Worksheet 4 is a sample income/expense statement form and one you can use for getting started. After you've worked with it for a while you'll probably want to personalize it by creating your own categories. You might not need some of the categories listed on the form. Or you may want to add a category that fits only you. Likewise, families with different styles of financial management can use an income/expense statement in different ways. Couples who pool their incomes would probably fill out one statement. A couple keeping separate accounts might fill out two statements–one for each person. Some couples with separate accounts may also fill out a third sheet for their joint income or joint expenses.

After you have estimates for last year, think ahead to your income and expenditures for next year. You will be able to predict some items better than others, but do the best you can. The better you estimate, the fewer financial surprises you will have during the year.

If your income is uncertain, as it often is for farm families or people who work on commission, estimate the highest and lowest income you expect for the year. Have an idea what expenses you will adjust if income is at its lowest rather than the highest estimate. For example, can you consolidate trips to town to save on gasoline? Carpool to school events? Eat out less often? Can a major purchase be postponed?

HOW DO YOU USE THE INCOME/EXPENSE STATEMENT?

After completing the income/expense statement, review your income. If your income is increasing, how much can you safely allocate to meet your future financial goals? If income is decreasing, what expenditures are you most willing and able to decrease? Are there ways to get additional income?

Look over your expenditures. Are there expenditures you think should be increased? Decreased? Are there debts that will be completely paid off in the near future? If so, can the money that has been going to debt go into meeting future goals? Utah State University has developed a software program called PowerPay that you can use to help with debt reduction. With PowerPay, you continue to make all payments on current obligations. Then when one debt is paid in full, money used for that debt is used to increase payments on another debt. This enables you to pay more money than is due each month until all debts are paid. If you wish, you can request a credit payment worksheet from your county Extension agent and fill in all the information. There is also a PowerPay worksheet in Unit 3. After you have completed the worksheet, mail it to the Family Resource Management Specialist, 2949 Old Main Hill, Utah State University, Logan, UT 84322-2949. She will calculate a debt repayment plan for you and return it in the mail. All information is kept completely confidential.

As the year progresses, how will you monitor your fiances to see how close your actual expenses and income are to your estimates? An income/expense plan is no help if it isn't used as a tool to help you meet your future goals.

KEEPING TRACK

As you begin to put together an income/expense statement, you may find that you are missing some important pieces of information. Your record keeping in the past may not have been as detailed or complete as you would like it to be. Sales slips may be scattered, tax-related receipts stored "somewhere safe" (if you could just remember where that is), and pay stubs long gone.

There are several little tricks that can help you improve your record keeping system. Some were discussed earlier–make one person responsible for bill paying and keeping track of receipts (but everyone in the household has to cooperate by reporting income and expenses to the bill payer). Have one central location where all pay stubs and bills are stored and be sure everyone in the household knows where it is. And all records relating to the management of investments, savings, bank and credit card statements are kept in an organized file even if that file is a cardboard box under the bed.

Some people record their expenses and earnings in a notebook which is divided into categories for each type of income and expense they have. Other people create a looseleaf notebook and devote a page to each month. Some people use computer software programs such as Intuit's Quicken or Microsoft's Money. They are easy to learn and can create categorized lists of spending that help you see at a glance where your money is going. Any method you choose that works for you is the right one. You do need to have some way of comparing actual expenses with your plan for spending so you pick up any warning signals about potential problems.

If you haven't been keeping track of income and expenses in the past, creating an income/ expense statement for a year may seem like a monumental amount of work. If you can't face going through a year's worth of checks and receipts, don't do it! Keep track for two or three months and create estimates from that. Don't forget the occasional expenditures that only occur periodically–gifts, holidays, car insurance, school clothes and supplies, taxes, and dental care. They have a place in your expenses column as well.

PREPARING A SAVING/SPENDING PLAN

The third tool to help you meet your goals is a saving/spending plan. You've prepared an income/expense statement that will help you see where your money has gone in the past. A spending plan is designed to be a guide for future spending and to pinpoint any leaks that might have shown up in the income/expense statement.

A saving/spending plan is not an income/expense statement. An income/expense statement shows expenditures in the past. A spending plan is a map or blueprint for how you want to spend your income in the future. It allocates certain amounts to fixed and variable expenses, and creates a "big picture" perspective for helping you meet future goals. A saving/spending plan can help you save for emergencies and plan ahead for big expenses.

Worksheet 5 is a sample spending plan. Your own plan may have many more types of expenses as items come up during the year. You can personalize the plan as you did the net worth statement. Paste labels over expense categories you don't have or anticipate. Write in new categories that capture existing expenses that are likely to occur again. Make as many drafts as necessary to arrive at a plan that fits your income and needs. Once you have arrived at a form that makes sense for you, make extra copies. Don't become discouraged if your first plan isn't perfect. Your plan may need to be changed often because your family's needs are changing.

At the top of the saving/spending form, write down all the income you expect in the next month. Then, using the historical record you created in the income/expense statement, itemize expenses for this month. Look ahead to see what must be set aside for future expenses, like car insurance and property taxes. It's okay if every penny isn't budgeted. In fact it's good to have some leeway for the unexpected.

If possible, set aside a little money each month that is a personal allowance. For single persons, a personal allowance allows for small indulgences within self-imposed limits. Many married couples find a personal allowance tends to cut down on conflicts. Two people seldom agree completely on how to spend money. Personal allowances allow each partner to exercise complete discretion over an agreed-upon amount of money and to not have to answer any questions about where it was spent.

During the month, write down the income you actually receive and the money you spend. Compare your actual expenses to the plan you made. If you overspend in one area, adjust your plan the next month No spending plan is perfect the first time!

SUMMARY

This unit has included several exercises that you will finish at home. Creating a Net Worth Statement, Income/Expense Statement and a Spending Plan all at once may seem like a lot of work. And it is! But just as it is difficult to build a house without a blueprint, it is difficult to build a firm financial future without drawing up some plans in advance.

A Net Worth Statement is a big picture tool that shows you your assets and liabilities at one point in time. If you create a new Net Worth Statement each year, you will be able to see progress towards your goals even when it seems extremely slow. An Income/Expense statement is like zooming in on a smaller snapshot of where you have accumulated resources and where your money has gone in the past. It is an historical record, and one that lays the groundwork for the day-to-day Spending Plan. Your Spending Plan is where you incorporate the amount you set aside to meet the future goals you set for yourself. All three tools are there to assist you and we will be referring to them as we go along.

Adapted from *Family Financial Planning: Preparing and Using Financial Statements (EC 1381),* and *Your Saving/Spending Plan (EC 1270)*, developed by Alice Mills Morrow, Oregon State University Extension Service, Corvallis, OR.

WORKSHEET 3: **NET WORTH STATEMENT**

Date_________________________________

Assets	
Cash on hand	$_________
Checking account(s)	_________
Savings account(s)	_________
Money market mutual fund(s)	_________
Money market deposit accounts	_________
Certificates of deposit	_________
Savings bonds	_________
Stocks	_________
Bonds	_________
Mutual funds	_________
Real estate	
Home	_________
Other	_________
Cash value/life insurance	_________
Partnership/business equity	_________
IRA/Roth IRA	_________
Keogh/SEP	_________
Employee retirement fund	_________
401(k)/403(b) plans	_________
Tax-deferred annuities	_________
Other retirement funds	_________
Home furnishings/appliances	_________
Automobile(s)	_________
Antiques, art, collections	_________
Jewelry, furs, etc	_________
Sports and hobby equipment	_________
Other	_________
Total assets	$_________

Liabilities	
Mortgages	
Home	$_________
Other real estate	_________
Automobile loan(s)	_________
Bank loan(s)	_________
Student loan(s)	_________
Credit cards/charge accounts	_________
Past due bills	_________
Taxes	_________
Pledges: charities, church	_________
Partnership/business debt	_________
Loans on life insurance policies	_________
Other liabilities	_________
Total liabilities	_________
Total assets	_________
Less total liabilities	_________
Net worth	$_________

WORKSHEET 4: **INCOME/EXPENSE STATEMENT**

From____________________________ to ____________________________

Income	
Gross salary	$_________
Interest income	_________
Dividends	_________
Business/profit sharing	_________
Profit from rental property	_________
Profit from sale of assets	_________
Alimony/child support received	_________
Annuities	_________
Pension/retirement funds	_________
Social Security	_________
Disability insurance payments	_________
Cash gifts	_________
Other income	_________
	_________
	_________
	_________
Total cash income	**$_________**
Expenses	
Federal taxes	$_________
Social Security (FICA)	_________
State income taxes	_________
Property taxes	_________
Other taxes	_________
Rent/Mortgage	_________
Utilities	
Gas	
Telephone	
Water	
Garbage & sewer	
Electricity	
Property insurance	_________
Household maintenance	_________
Furniture/appliances	_________
Other housing expenses	_________
Savings	_________
Investments	_________
Retirement account(s)	_________
Future goals	_________
Automobile expenses	
Loan payments	_________
Insurance & licenses	_________
Tires, maintenance, repair	_________
Food	_________
Clothing	_________
Medical	
Health insurance	_________
Doctor	_________
Dentist	_________
Prescriptions	_________
Life/disability insurance	_________
Child care expenses	_________
Child support/alimony paid	_________
Recreation, hobbies	_________
Personal care	_________
Education, books	_________
Bank loans	_________
Charge accounts/credit cards	_________
Gifts	_________
Charitable contributions	_________
Business/professional expenses	_________
Personal allowances	_________
Miscellaneous (HOK)	_________
Total expenses	**$_________**
TOTAL INCOME	$_________
LESS TOTAL EXPENSES	_________
DIFFERENCE	$_________

WORKSHEET 5: **SAVINGS/SPENDING PLAN**

From____________________________ to ____________________________

Income

Gross salary $__________
Interest income __________
Dividends __________
Business/profit sharing __________
Profit from rental property __________
Profit from sale of assets __________
Alimony/child support received __________
Annuities __________
Pension/retirement funds __________
Social Security __________
Disability insurance payments __________
Cash gifts __________
Other income __________
____
____

Total cash income $__________

Expenses

Federal taxes $__________
Social Security (FICA) __________
State income taxes __________
Property taxes __________
Other taxes __________
Rent/Mortgage __________
Utilities
- Gas
- Telephone
- Water & garbage
- Electricity

Property insurance __________
Household maintenance __________
Furniture/appliances __________
Other housing expenses __________

Savings __________
Investments __________
Retirement account(s) __________

Future goals __________

Automobile expenses
- Loan payments __________
- Insurance & licenses __________
- Tires & repair __________

Food __________
Clothing __________
Medical
- Health insurance __________
- Doctor __________
- Dentist __________
- Prescriptions __________

Life/disability insurance __________
Child care expenses __________
Child support/alimony paid __________
Recreation, hobbies __________
Personal care __________
Education, books __________
Bank loans __________
Charge accounts/credit cards __________
Gifts __________
Charitable contributions __________
Business/professional expenses __________
Personal allowances __________
Miscellaneous (HOK) __________

Total expenses $_________

UNIT 3: MANAGING CASH AND CHOOSING CREDIT

Once you have created a Net Worth Statement, Income/Expense Statement, and Spending Plan (see Unit 2), you know where you want your money to go to help you meet your future goals. Next you need to choose a financial institution or institutions where you will store your money and begin earning interest on your "goal fund" savings. That brings us to the different types of financial institutions.

WHERE TO BANK?

Commercial Banks. Commercial banks offer probably the broadest range of services and the greatest number of conveniently located branches. Since deregulation in the 1980s, banks have introduced a number of new consumer products and are no longer confined to simply checking, savings and certificates of deposit accounts. They have also introduced a number of new and ever-changing charges for their services, making shopping for the best buy in banking services necessary (more on this later).

Savings and Loan Associations**s**. The traditional role of savings and loans, or thrifts as they are sometimes called, has been as mortgage lenders to the nation's home buyers. They tend to offer more competitive interest rates on savings accounts and consumer loans than commercial banks.

Credit Unions. In the early 1980s, Congress expanded the number of services credit unions could offer their members and put them on an equal footing with commercial banks and savings and loans. Most credit unions are groups of people who work for the same employer or belong to a particular organization or association. Credit unions offer their members a special mix of banking and financial services that includes checking and savings accounts, direct deposit, credit cards, IRAs, ATM cards, and all sorts of consumer loan products. Their interest rates on savings accounts are sometimes higher and rates on consumer loans lower than regular commercial banks.

Brokerage Firms. Again, with deregulation, brokerage firms have ventured into offering bank-like services–check-writing, debit cards, bank cards, and loans. However, their fees may be just a little higher than some other options.

SHOPPING AROUND IS CRITICAL

Financial providers offer so many choices today, it is hard to keep up. You want to get the best deal for your money, but how do you decide what that is? The only way is to shop and compare. *Always consider at least three alternatives before making a decision–three financial institutions, three products, three advisors and so on.* Then you will have a solid basis for the decisions you make.

Which factors are most important in choosing a financial institution? Several are at the top of the list, including safety and financial security.

Safety Counts. When thinking about where to put your money, think safety first. You want to know your money is some place safe. FDIC is the Federal Deposit Insurance Corporation which insures depositors against losses up to $100,000 per account holder should the bank go under. That includes all your different accounts–CDs, money markets, savings and checking (individual and joint)–in all the branches of that bank. NCUA is the National Credit Union Administration, which insures for the same amount at credit unions. SIPC, the Securities Investor Protection Corporation insures account holders up to $500,000 at brokerage firms, of which no more than $100,000 may be in cash. There are ways to insure for more than just $100,000 by using a combination of ownership categories (individual, joint and testamentary) and retirement funds, which are separately insured. But check to be sure that your accounts are all covered. If your funds exceed the insurance limit, move the excess to another insured institution.

Stability. Many financial institutions fail each year. Even with deposit insurance, when a bank fails, people can experience delays in getting their money. To evaluate the financial health of the institution you choose, you can get an independent evaluation from one of three companies: Veribanc Research (1-800-837-1226 or www.veribanc.com), Weiss Research, (561-627-3300 or www.weissinc.com) or Bauer Financial Reports (1-800-388-6686 or www.bauerfinancial.com). Reports range from $10.00 to $30.00 each. Veribank rates banks and thrifts by a color code (green-yellow-red) and stars (0 to 3); Bauer uses a scale of 0 to 5 stars (highest).

You can also check on a bank or thrift by reading the institution's financial report. Does the bank or institution operate at a profit every quarter? You want a bank that is making money, not losing it. You also want a bank/credit union whose net worth, when divided by total assets, is at least 5 percent. Then also look for problem loans–find the amount of money the institution sets aside to pay for potential loan losses. Are all overdue loans (90 days past due) covered by the loan-loss reserve? If not, the institution could be headed for trouble. All these figures are in the bank's annual statement, which should be available at the bank; if you don't see a copy, ask for one.

Some other factors to consider when deciding on a financial institution:

Services and Charges. Bank fees are booming! Maintenance fees for regular checking accounts, minimum balance fees for savings accounts, ATM costs, or bouncing a check can add up to real money in a very short period of time. Banks have become increasingly creative at tacking on fees and charges, many of which are not clearly spelled out. The Worksheets which follow this unit walk you through the process of selecting a financial institution, based on the way you use your account(s) and the fees you may incur.

Customer Relations. How do the people at the bank treat you? Do they answer your questions clearly and thoroughly? Does it cost you money to talk with a teller? Is their telephone service comparable to a take-out menu? Can you even get a person on the phone? Do they return your checks without charging you a fee? These are compelling reasons for choosing one institution over another.

Convenience. Where is the institution located? Is there a branch near where you live or work? What hours are they open? Do they have conveniently located ATMs? Do they offer online banking privileges? If you bank by mail, do they return your transaction slips promptly? When you have to go to the bank in person, are there long lines waiting in the lobby? How quickly are deposited funds available to you?

If your bank is offering you more fees than convenience, take your business elsewhere. **Consumer Action** recommends that anyone changing banks transfer the money in their savings account first. By using that money, temporarily at least, to set up your new checking account, you'll be assured that you'll have money standing by in both your new and old accounts during the two or three month transition when there may still be a check working its way through the system.

MANAGING YOUR ACCOUNTS

How many bank/credit unions accounts do you need? Most folks have three–a checking account, a savings account and a place for their emergency fund which can be invested in a number of alternatives.

When selecting a savings account, see what kind of interest the institution is offering. Simple interest is interest paid on the principal only. Compound interest is paid on the original deposit (principal) plus previously reinvested interest. Your money will grow faster with compound interest than simple interest. How often is it computed? A shorter interval (daily versus monthly) will grow your savings faster. Finally, how is it computed–low balance or highest continuous balance? First in, first out, beginning balance? First in, first out, first deposit? Last in, first out? Day of deposit to day of withdrawal? Some of these options are more advantageous to the bank than to you, the account owner.

What are the advantages and pitfalls of having your money in a joint account? Does a joint account automatically have a right of survivorship? In other words, if something happened to your spouse, would you be able to access the money you hold jointly in a checking or savings account? In Utah, if both spouses have valid signatures on the signatory card, both can access the account at any time. However, if only one spouse has his or her signature on the card, and something should happen to that person, the assets in the account would be frozen until a court could release them.

Some institutions offer a grace period during which deposits can be made and assumed to be in the account for the entire period unless later withdrawn. The longer the grace period and the shorter the interest period, the greater the saver's freedom to make withdrawals and deposits without losing interest.

SERVICES AND FEATURES TO CHECK

In the last ten years, banks' typical account fees have exploded along with the number of services they offer. That means consumers have to be better educated about what they want from their financial institution and which features are most important to them.

Checking Account Fees. There may be a monthly service charge for having a checking account at an institution. Many banks will waive this if you have direct deposit of your paycheck or monthly retirement payments. Do you write a lot of checks per month? Some institutions have a policy that there is a minimum number you can write without incurring an excess transaction fee. If you exceed that number, you are charged up to 40¢ for each additional check.

Checks. What is the charge for printing plain-vanilla checks? Self-carbonizing? There are some print-checks-by mail operations that charge fees that are very competitive. And some banks will waive the cost of printing checks on accounts with big balances.

Overdrawn Account. Even the best of us can lose track of our checking account balances from time to time, either because of an honest mistake or because we are playing the waiting game until a deposit clears. But the result can be hefty fees. In a study conducted by **Consumers Report** magazine, returned check charges ranged from zero to $30.00. In addition, banks are starting to charge the recipient of a bounced check a fee in addition to that charged the check writer.

Stop Payment. What will it cost you to stop payment on a check that has gone astray? Some banks levy no stop-payment fees on their accounts. But some banks charge as much as $20.00, regardless of the size of the check you are stopping.

ATM Fees. Banks want consumers to use ATMs to cut down on their personnel costs. But if you're a heavy user, you need to watch how fees are charged for ATM transactions. Some institutions charge customers for withdrawing at their own machines and even more for using a host bank ATM. A small number of institutions even charge merely to make balance inquiries via an ATM.

Miscellaneous Fees. What will it cost for a safe-deposit box? For traveler's checks? Does it cost money to talk to a teller? To retrieve your own checks if they aren't returned with your statement? Sometimes, banks will charge a penalty if an account falls below a certain minimum balance. What is the minimum and what are the fees? Is your ATM card also a debit card or a credit card with a low minimum and an annual fee? All those hidden costs can add up. Worksheet 6, **Picking Checking Accounts**, will help you compile information from three financial institutions.

WHERE TO DEPOSIT YOUR SAVINGS

You can open a regular savings account at almost any financial institution. Savings accounts are the simplest way to earn interest on small amounts of money while keeping that money readily accessible. However, as your savings grow while you work toward meeting those short- and long-range goals you set in the beginning, you might want to consider options that offer you a higher rate of return on your money. Some of those options follow. Worksheet 7, **Comparing Savings Accounts**, lists some of the information you might want to collect from each institution.

Certificate of Deposit. Certificates of Deposit are available from all types of financial institutions–commercial banks, savings and loans, credit unions and brokerage firms. CDs pay a fixed rate of interest, usually higher than regular savings accounts, for a set amount of time. When you buy a CD, you agree to leave your money on deposit for 6 months, 12 months, 18 months or longer. The further away the maturity date, the higher the interest. A penalty is charged for early withdrawals. Some banks offer variable-rate CDs, meaning the rate of interest can vary over the period your money is tied up. If you are considering a variable-rate CD, find out what index the rate is tied to. Also ask if the rate has a floor, a minimum rate below which the earnings cannot drop. Financial institutions have become increasingly competitive in the rates earned by their CDs, so it really pays to shop around.

Money Market Accounts. Money market savings accounts (as opposed to money market mutual funds) are available at many federally insured financial institutions. Similar to a regular savings account except that they pay a higher rate of interest, your money is invested in relatively safe securities such as short-term bonds and CDs. A relatively higher minimum balance may be required to open a MMA instead of a regular savings account. Most money market accounts have tiered rates: if your balance is between zero and $500 you will earn one interest rate; above $500, you will earn a higher rate on the entire balance. A blended rate pays interest in slices– it will pay one rate on the first $500, another rate on the balance between $500 and $1000 and so on.

Money Market Mutual Funds. These are a type of mutual fund that invests in short-term debt obligations issued by the federal government, government agencies and corporations. Funds are quite secure, although not insured. The minimum initial investment is often $500 to $1000 and withdrawals are limited to fixed amounts ($250 to $500). Unlike other types of mutual funds, the price per share doesn't change. For every $1 you put in, you have a dollar plus dividends. Money market mutual funds are not the same as money market savings accounts which carry federal deposit insurance.

Treasury Securities. Treasury securities are a direct obligation of the United States government sold to raise needed cash to make up the difference between government income (taxes) and government spending. Treasury securities are an excellent option for conservative investors– regular payment of interest and repayment of principal is guaranteed. You can purchase Treasury bills, notes and bonds directly from the Federal Reserve, through its Treasury Direct program, or, for a fee, through a bank or brokerage firm. Treasury bills mature in three months, six months or one year. Information on Treasury securities is available by phone, mail, or the Internet (http://www.publicdebt.treas.gov).

Savings Bonds. Series EE or Series I are a savings alternative with liquidity, tax advantages, and security and can be purchased for as little as $50.00. Savings bonds can be redeemed six months after purchase but you will pay a small penalty if you cash them within 5 years of purchase. After 5 years, bonds can be redeemed without withdrawal penalties. Earnings from savings bonds are exempt from state taxes and federal taxes may be deferred until redeemed. Interest rates are usually one to one and a half percentage points above regular savings accounts. EE bonds are sold at 50% of the face value of the bond (so a $100 bond costs $50). I bonds are sold at face value–a $100 bond costs $100. They may be purchased at most banks and credit unions, from Federal Reserve banks through employer's payroll deduction plans, and, if you have Internet access, you may buy them online at http://wwwsavingsbond.gov.

Adapted from *The Great Banking Bazaar* developed by Janet Bechman, Purdue University Extension Service, West Lafayette, IN 47907.

Give Yourself Credit

Buying on credit–it's as American as apple pie! Consumers readily purchase items such as cars, furniture, appliances and clothing, and pay for them while they're in use rather than paying in advance with cash. Retail stores attract shoppers by offering goods now, but delaying payment for several months. Unsolicited offers of pre-arranged credit arrive in the mail daily. A wealth of goods and services can be purchased over the telephone or online by charging to a credit card. Although consumer credit is easy to get and use, using common sense to controlling credit is necessary to prevent overspending and impulse purchasing. Knowledge of the basic forms and costs of credit is essential to being an informed consumer.

The Many Forms of Credit

Installment Credit. Installment credit is usually repaid in equal payments, usually monthly (think of your house mortgage). There is a written contract between the buyer and the seller; the seller owns the goods until all payments are made. The goods are used as security (collateral) for the loan. Finance charges depend on the length of the loan, the amount of the loan, and the interest rate.

Non-Installment Credit. There are two kinds of non-installment credit. One involves single payment loans with the total amount due, plus interest, at the end of the contract. The second is open-ended or revolving credit like department store charge accounts. It is a line of credit that may be used over and over again, and no finance charge is added if the bill is paid in full.

Home Equity Loans. Home equity loans are a kind of a hybrid in that you pay them back monthly, like an installment loan, but a home equity line of credit operates like a revolving credit account where you can add more debt before the loan is repaid. Home equity loans came into fashion when Congress eliminated the paid interest deduction on people's income tax returns. However, interest paid on home loans (including home equity loans) is still tax-deductible.

Bank Cards. The biggest growth spurt in credit has been in bank cards. The average family owns nine different cards, and the average total card balance is about $7,000. Bank cards include travel and entertainment cards like American Express and Diner's Club. Visa and MasterCard offer prestige cards which are like regular cards except they have high limits and offer extras such as emergency aid when traveling. Affinity cards are bank cards sponsored by various organizations where the sponsor receives a tiny percentage every time the card is used.

DO YOU NEED A BANK CARD?

There are a number of good reasons for owning a bank card (a national credit card, issued by a financial institution and honored at a wide range of businesses). It can provide purchasing power, payment flexibility, and cash access worldwide. It can help in paying for unplanned-for expenses. Managed carefully, a bank card can be a useful tool for personal financial planning. Some of the reasons people use bank cards are:

- *Safety*. Carrying a bank card is safer than carrying cash. Anyone can use your cash, Credit cards have built-in safety factors like signatures and personal identification codes (PINs) to keep other people from using them. In case of theft, if you report the loss promptly to the card provider, your liability will be $50, tops.

- *Emergencies*. If your car decides to drop its transmission on I-15, you can quickly and easily pay for a tow truck, dinner, a hotel room...and a new transmission, using your credit card.

- *Identification*. It enables you to cash checks; you can use most cards all over the world. And if you travel, it is virtually impossible to rent a car without a credit card. A credit card number usually will serve as a deposit at most hotels and motels when you are making reservations over the phone.

- *Credit History*. It gives you a credit history, which helps you qualify for other consumer loans when needed. A credit history tells whether you pay your bills on time, how much you owe, and how responsible you are with your money. Many businesses will use this to judge your creditworthiness, your reliability, and your sense of responsibility. Landlords use it when renting; employers can use it in hiring, too.

- *Purchase by Phone or Online.* Using credit cards allows you to shop by mail, by phone, or online for merchandise that may not be available in your area.

- *Merchandise Guarantee.* Pay cash for a product and you don't have a lot of bargaining power with the merchant if you want an exchange or refund. Pay with a credit card and you've got leverage. If you are using mail order, and do not receive the product or service you paid for using your credit card, or if a supplier sends you shoddy, defective, or poor-quality goods and you make an unsuccessful good faith effort to correct the problem with the supplier, you may withhold payment for the amount of the goods charged to your credit card.

SHOPPING FOR CREDIT

All credit cards are not created equal. In fact, they vary dramatically in the fees they charge, when they charge them, benefits, credit limits, and so forth. You can get standard low rate, standard no fee, gold low rate, gold no fee, platinum, reward, affinity, credit union, premium, business, and student credit cards. So shop around. Compare the information from at least three credit issuers before applying for a card.

There are several factors to consider when choosing a credit card, depending on how you use a card. The first is an annual fee. Is there one and how much is it? Some cards are fee free. Some gold and platinum cards are very expensive. Secondly, look at the annual percentage rate. This is the amount of interest you'll be charged on any unpaid balances. It can be as high as 21% or as low as 4%. If you carry a balance, how the APR is calculated is as important as how high it is.

The grace period is a period of time, from 20 to 25 days, within which if a payment is made, no interest is charged. However, if you carry a balance, interest accrues from day one. What credit limit is each card issuer offering you? Is it $500 or $50,000? You don't have to charge up to your limit, but other credit issuers look at it as though you might and would be reluctant to issue you more credit based on what is already available.

What fees are involved? Of course there will be a late fee for a delayed payment, but credit card issuers sometimes don't tell you there are fees for going over your limit, transaction fees for cash advances (and cash advances are set at a different APR than purchases in most cases) and other little subtleties. Did you know that the introductory rates offered are not always the rates applied for transferring balances from other cards? Read the disclosure information that the credit issuer sends you carefully.

Be aware that low "come-on"introductory rates are rarely in effect for longer than six months or a year. After that period, interest rates will climb, sometimes dramatically.

There are websites that can assist you in locating no-fee, low interest credit cards. If you have Internet access, go to http://www.cardweb.com or http://www.financenter.com. Both of these sites can give you "best card" survey results. Use the worksheet in the handout, *Selecting a Credit Card* is for comparing information from three credit card issuers.

CALCULATING APR

It isn't just the amount of interest you need to watch for when you are shopping for a bank card, it is how it is calculated. There are four common methods of figuring interest. They are adjusted balance, average daily balance, previous balance, and double cycle billing.

With an adjusted balance method, payments are subtracted and then the finance charge is figured on the balance each month. This is most favorable to the consumer.

With an average daily balance, which is most common, interest is figured on the unpaid balance for each day in a billing cycle. The total is divided by the number of days in the billing period. Interest is calculated on this average daily balance. Some cards add interest to purchases made during the billing period, some do not.

With previous balance cards, if an account is not paid in full, the finance charge is based on the balance at the beginning of the billing period.

Double cycle billing is the most disadvantageous for consumers. It eliminates the grace period on new purchases made during the current billing cycle and retroactively eliminates the grace period for the previous month each time the account carries a balance. Unlike the one-cycle system where each billing cycle stands alone, you must pay off your balance for at least two months in succession to avoid paying finance charges.

MANAGING YOUR CREDIT

Credit can be a positive tool in personal finance management when used wisely. The key is to manage credit use, which requires that you understand and monitor your billing statements every month. Save purchase receipts until the credit card bill arrives. Then open the bill promptly and compare it with your receipts to check for possible unauthorized charges and billing errors. It only takes one number entered incorrectly into a computer to make you liable for someone else's purchases. Check to see when your new purchases are posted. Is interest charged from the date of posting or does the card have a grace period? If you've returned merchandise, when does the credit appear on your bill? If there is an error on your billing statement, the Fair Credit Billing Act requires that you notify the credit issuer within 60 days. If you do so within these time limits, the creditor must investigate and resolve your complaint in 90 days.

What are the terms on the credit cards you already own? You may be able to find better terms with a new card issuer. Call your present card company and see what terms they will give you. If they are unwilling to meet terms offered you by another company, transfer your balances. Or pay the card off and close the account. Check your credit record after you do this to be sure they really do close the account and post it to your credit record as "account closed at customer's request."

If you have gasoline and credit cards now, the credit card section of your Summary Record (Unit 1) will help you make a list of the cards you have, with account numbers, bill-paying addresses and telephone numbers for reporting a missing card. Then if your card turns up missing, or your purse is stolen, you are only liable for the first $50.00.

It isn't necessary to pay extra to get a copy of your credit report as some credit issuers try to get you to do. See below for more information about obtaining a copy of your credit history. Credit card insurance has so many restrictions on what they will pay and when they will pay it that it is of dubious value. Weigh the cost of credit or debt life insurance against your needs.

Don't reveal any personal information when you use your credit cards. Merchants cannot require you to provide your address or telephone number as a condition to accepting your cards. They may require only a valid card and your signature. This is for your own protection.

For Married Women Only: Credit reports can cause problems for women who have joint accounts, which are based on the income and assets from one person. Spouses need to establish credit in their own names. If you hold joint accounts, check that the information in the accounts is reported in both names. You could have an excellent credit history but the report could be all in your spouse's name. If anything should happen to your spouse, you would be denied credit because no file was reported in your name. A newly married woman should transfer the credit record in her maiden name to her married name, but again, be sure the information on accounts is reported in both names. On the following page is a sample letter you can send to creditors, asking them to report your credit history in both spouse's names. Although credit bureaus may have this information stored, they will not, unless directed by the creditor, report it for both names. That is why it is important to contact each creditor and request that information be reported in both names.

If you become separated or divorced and your spouse is on your credit card account, you may still be liable for your spouse's purchases. Be sure to change the status of your credit cards when your marital status changes. Even when a judge assigns debt to one of spouses in a divorce situation, you are both still liable for the debt until it is completely discharged.

Acme Department Store
Credit Division
1798 South 900 East
Salt Lake City, UT 84106

Dear Madam or Sir:

Under the Equal Credit Opportunity Act, I request that you report all credit information on this account in both names.

____
ACCOUNT NUMBER

ACCOUNT NAMES: *Print or Type*

FIRST MIDDLE LAST

FIRST MIDDLE LAST

STREET, NUMBER, APT.

CITY, STATE, ZIP

WHAT IS CREDIT SCORING?

When you apply for a credit or bank card, you are evaluated based on personal characteristics and your past credit history. Lenders assign a point value and weight to various factors and feed it into their computers to calculate a numerical score. Employers, insurance, and telephone companies may also use credit scores to make decisions.

Lenders typically have a "cutoff" score. If your score is below this number, your credit application will not be approved. What will knock down your net score are frequent address changes, numerous job changes, a post office box address for mailing, low income, working at a new business, too many other charge accounts, slow pay, debt collection activity, high debt to income ratios, and bankruptcy.

Personal stability indicators are marital status, number of children, age (too old or too young), homeowner, spouse's employment, type of job, having a checking and savings account, and automobile ownership.

YOUR CREDIT RECORD

There are only three major credit reporting bureaus. They are Experian (formerly TRW) of Allen, Texas; Equifax of Atlanta, Georgia; and TransUnion of Chester, PA. Smaller, local credit bureaus are affiliates of the Big Three and report and receive data from them. Their addresses, phone numbers and Internet addresses follow this section of Unit 3.

Get a copy of your credit report and check it thoroughly at least once a year. This is particularly important if you have a common last name or are a junior, senior, or third in a line of identical names.

To order a copy of your credit report, you can use "snail" mail, telephone, or go online. Include the following information: your full name, Social Security number, current address and any previous addresses within the last five years, date of birth, home telephone number, spouse's name and date of birth, and the signature of either spouse.

When you receive your credit report, check all the items in your file carefully. Different credit bureaus may report different information, so it can be a good idea to get a credit report from a different bureau each year. For about $30, the search engine Yahoo! has teamed up with QSpace and will combine the credit information from all three credit bureaus into a merged file. Log on to http://www.yahoo.com and search for "credit report online." Then Click on "Yahoo! Credit Reports - online access in 30 seconds."

If you have been denied credit, employment, insurance coverage or rental housing within the last 60 days based on information from a particular bureau or are the victim of identity theft, you are entitled to a free report. Otherwise the price is $8.00.

THE THREE MAJOR CREDIT REPORTING AGENCIES

EXPERIAN NATIONAL CONSUMER
ASSISTANCE CENTER
P.O. Box 9595
Allen, TX 75013-0036
to request a copy of your credit file, call 1-888-397-3742
http://www.experian.com

TRANS UNION LLC
Consumer Disclosure Center
P.O. Box 1000
Chester, PA 19022
to request a copy of your credit file, call 1-800-888-4213
http://www.transunion.com

EQUIFAX
P.O. Box 105496
Atlanta, GA 30348-5496
to request a copy of your credit file, call 1-800-997-2493
http://www.equifax.com

WHAT'S IN YOUR FILE?

Credit reports differ in their ease of readability, color codes, key word or number codes, and other factors. A "How to Read Your Credit File" page from Equifax is one of the handouts for this unit. It explains how to decipher some of the information in your credit history.

All credit reports will contain your name, address, date of birth, name of spouse, number of dependents, and previous addresses as well as employment information. The record will also show how many credit cards you have, the type, number of late payments, number of months an account has been reported, current balances, terms, highest credit limit, and when an account was opened. It will also include any accounts in collection and public record data such as bankruptcies, tax liens, foreclosures, and requests by creditors to view your file. By law, negative information disappears from your credit history in seven years. However, good information stays indefinitely.

If you discover an error in your credit file, write–don't call–the credit bureau and point out the inaccuracy. Then call the creditor–who else have they reported this information to? The bureau then undertakes an investigation. If they come back and say the information appears to be correct, contact the creditor again. If the creditor won't concede the error, write a brief letter (maximum 100 words) explaining the circumstances, and ask that it be inserted in your file. Above all, be persistent.

Adapted from *Understanding Consumer Credit* (HE-615) and *Establishing and Reviewing Your Credit Record* (HE-616), developed by Sue and Mary Ellen Rider, Purdue University Cooperative Extension Service, West Lafayette, IN.

ARE YOU OVEREXTENDED ON CREDIT?

How do you know when credit has turned from a tool into real trouble? There's no single answer because so much depends on your individual circumstances, such as the size and stability of your income and your present and anticipated expenses. One common guideline that is often used is whether your non-mortgage credit is 20% or more of your take home pay. Again, this depends on your individual circumstances.

Here are some of the danger signs that may signal you may be overextended. Any one of these can indicate trouble on the horizon, several are a real concern:

- You are only able to pay the minimum each month
- You are skipping payments
- You are juggling payments–stalling one creditor to pay another
- Receiving past-due notices
- Not paying other bills so you can pay credit cards
- Running out of money before payday
- Using cash advances from credit cards to cover everyday living expenses

Allowing credit accounts to become delinquent, or go into collection damages your credit rating and your financial future. A bad credit rating issued by a credit bureau can negatively affect your ability to rent an apartment or buy a car or a house...or even get a job. There is a way out.

- Figure out your total debt
- Develop a balanced budget that includes paying off your credit accounts
- Set priorities in paying your bills
- Don't make new credit purchases
- Pay back more than the minimum; use PowerPay program
- Consumer Credit Counseling Service

Facing your problems head on and calling your creditors is always the hardest but the best way to handle credit problems. Two services may be of help to you. One is the PowerPay software program developed by Utah State University. Worksheet 8 is a PowerPay form. Fill it out with the names of your creditors, the balances, minimum payments and APR on each account. Mail it to the Family Resource Specialist at Utah State University, 2949 Old Main Hill, Logan, UT 84322-2949. The specialist will enter your data, compute the fastest and best way for you to pay your creditors and mail the results back to you. It is all done privately. As each account is paid, more money is applied to payments to the remaining creditors until all debts are completely discharged. All of the county Extension offices have this software on computers in their offices as well.

The Consumer Credit Counseling Service is a non-profit community agency that can set up debt repayment programs and for a small fee, actually handle the payments. Counselors will work with you to develop a realistic budget and with your creditors to reduce your monthly payments to fit within your new budget. A monthly amount is paid to CCCS and checks are mailed to your creditors once a month until all debts are paid in full. There are four CCCS offices in Utah: one in Ogden, two in Salt Lake City and one in St. George. Their addresses and telephone numbers follow:

CONSUMER CREDIT COUNSELING SERVICES (UTAH)

Phone 1-800-784-0064

2751 Washington Blvd., Upper Suite
P.O. Box 547
Ogden, UT 84402
Direct Phone: (801) 622-5721

946 W. Sunset, Suite L
St. George, UT 84770
Direct Phone: (435) 652-4123

2906 South State, #103
Salt Lake City, UT 84115
Direct Phone: (801) 487-5028

7860 S. Redwood Road
West Jordan, UT 84088
Direct Phone: (801) 784-0064

WORKSHEET 6: **PICKING CHECKING ACCOUNTS**

Questions to ask yourself:

1. How many checks will you write each month?
2. How much money will you be able to keep in the account?

Questions to ask the financial institution:

Name of the financial institution

1. Is the checking free?

If yes, what is the minimum balance required?

If no, what is the monthly fee?

2. Is interest paid?

What is the rate?

Is there a minimum balance needed?

3. What are charges for:

Over-drawn account?

Checks?

Cashier's check?

Deposited check returned for insufficient funds?

4. Other considerations:

Is the location nearby?

Are checks returned with the statement?

How many days before deposited funds are available?

What savings plans are available?

Is overdraft protection available?

What interest rate is charged?

WORKSHEET 7: **COMPARING SAVINGS ACCOUNTS**

	A.	B.	C.
TELEPHONE NO.			
Financial institution			
Complete address of main office			
Type of savings plan (regular passbook account, special accounts, money market account, other)			
Annual interest rate (APR) range			
Frequency of compounding			
Interest computation method Specify: --day of deposit, day of withdrawal --average daily balance --low balance --other: ______	Specify:	Specify:	Specify:
Insured by FDIC, FSLIC, NCUA, other			
Maximum amount insured			
Minimum initial deposit			
Minimum time period savings must be on deposit			
Penalties for early withdrawal			
Service charges/fees: --transaction fee for more than set number of withdrawals.			
--other costs/fees			

Adapted by Barbara R. Rowe, Family Resource Management Specialist, Cooperative Extension, Utah State University, Logan, UT 84322-2949 from *Personal Finance,* Third Ed., Kapoor, Dlabay & Hughes, 1994.

Utah State University Extension

FINANCIAL FITNESS

January 1998 FL/FF-02

SELECTING A CREDIT CARD

Liz Gorham, Ph.D., AFC
Assistant Professor and Family Resource Management Specialist, Utah State University
Marsha A. Goetting, Ph.D., CFP, CFCS
Professor and Extension Family Economics Specialist, Montana State University

Consumers who want to save interest charges on large loans, such as a home mortgage or auto loan, usually comparison shop for the "best deal." Comparison shopping for a credit card is also an excellent practice because terms and conditions of the account can make a difference in how much consumers pay for the privilege of borrowing. Consumers are often amazed at some of the "hidden" costs of some credit cards. With information in this fact sheet, Utahns can compare credit card terms they have already accepted with offers received in the mail and/or over the telephone. The goal is to assist consumers in finding credit cards with terms best suited for their spending and repayment habits.

CREDIT CARD TERMS

The Federal Truth-in-Lending Act requires credit card issuers to display the costs of credit cards in an easy-to-read box format on most applications and solicitations. The Schumer Box that lists the costs of the card is named after the representative who led the legislation through Congress (see Table 1). Although the Schumer Box is helpful, complex interest computation methods and other factors make it challenging for consumers to compare credit card plans. Contained in the following pages are factors consumers may want to consider when selecting a credit card.

Table 1. Schumer Box

Annual Percentage Rate for Purchases	Grace Period for Purchases	Minimum Finance Charges	Balance Calculation Method for Purchases	Annual Fee	Transaction Fees for Cash Advances	Late Payment Fees
19.9% fixed rate	Not less than 25 days	$.50 when a finance charge at a periodic rate is charged	Average daily balance method (including new purchases)	$20 per year	2% with a minimum fee of $3	$10

ANNUAL PERCENTAGE RATE (APR)

The APR is a measure of the cost of credit that includes interest and may also include other charges. The APR is expressed as a yearly interest rate (e.g., 21.2%, 18.5%, 6.9%). In the Schumer Box (Table 1), the APR is 19.9%. The lower the APR, the better for the credit cardholder. The APR is advertised in solicitations and is disclosed to cardholders when the account is opened. It can also be found on each monthly bill. The APR can be somewhat misleading because it does not include the effect of monthly or daily compounding of finance charges, additional fees, or factors that eliminate the grace period, all of which can raise the actual cost to consumers.

The APR can be fixed or variable. A **fixed** rate remains constant until the credit card issuer gives written notice of a change. By Federal law, issuers must give consumers 15 days' notice before changing the interest rate on a credit card. A **variable** interest rate is subject to change depending on the index used by the credit card issuer. Some of the common indexes are the prime rate; the one-, three- or six-month Treasury bill rate; or the Federal Reserve discount rate. Most of these indexes can be found in the money or business section of major newspapers. The variable rate is calculated by adding a fixed percentage (i.e., 9.9%) to the index rate listed for the week specified. Rate changes will raise or lower the finance charge amount paid on accounts. If a credit card has a variable rate feature, ask the card issuer whether there is a minimum and maximum APR and how often and by how much the rate can change. When the prime rate is decreasing, the variable rate is the best choice, but if it is increasing, the more stable fixed rate is generally best. Make a selection based on the risk you are willing to take. A consumer who consistently pays the total balance owed each month will find the APR not as important as other factors.

The **periodic rate** is the interest rate the credit card issuer applies to the outstanding balance to calculate the finance charge for each billing period. The monthly periodic rate is determined by dividing the yearly APR by 12. For example, the monthly periodic rate on an APR of 21.9% is 1.825% (.219 ÷ 12 = .01825). Cardholders with an outstanding balance on their credit cards can *estimate* the monthly finance charge by multiplying the periodic rate times the balance. For example, the estimated finance charge on an outstanding balance of $3,000 at 1.825% is $54.75 ($3,000 x .01825 = $54.75). If the consumer makes a payment of $54.75, the interest due is paid but no money is left to apply toward the principal—this payment only covers the cost of monthly interest and the loan would never be paid off! If the consumer makes a payment of $60, then $5.25 is applied toward the principal. The result is that it will take the consumer over 11 years to pay off the $3,000 debt that would cost the consumer $8,082 ($3,000 + $5,082 interest).

Some credit card issuers offer **tiered rates**. Tiered rates require large amounts be charged to take advantage of the lower interest rates. For example, the APR on charges up to $2,000 may be 18.9% while the rate on charges of $10,000 and above may be 13.4%. Be cautious about charging for unnecessary items just to get a lower interest rate or being tempted to pay less than you otherwise would on the same balance as if it were all at the higher rate. A lower rate on a higher balance can cost as much as a higher rate on a lower balance—so you are not better off financially.

If you have a credit card with a high interest rate, consider calling the bank to request a lower one. If your bank refuses, you have the option of changing to a credit card issuer offering a lower interest rate. There are several organizations that provide a list of banks that offer low-interest-rate/no-annual-fee cards (see Web Site Resources, page 7). A survey by Princeton Survey Research Associates that polled people who ordered a list of low-interest-rate credit cards found that one-fifth called their banks to ask for a lower rate. Of these people, nearly half (43%) got a lower rate simply by asking.

Consumers will have to decide whether having a local or out-of-state credit card issuer is important. Some prefer a local issuer because of the customer service provided by the financial institution.

Grace Period

A grace period is the time between the date a credit card was used to purchase an item and the date the APR (finance charges) will be charged on that purchase. The grace period is not the number of days a consumer has after receiving the bill to pay for it. Many credit card issuers offer a 20 to 25 day grace period while others offer none. The Schumer Box in Table 1 shows a 25-day grace period for this credit card account.

Many cardholders mistakenly believe that if a 25-day grace period is provided, all new purchases will be free of finance charges until after that 25-day period. Under most plans, the only time a cardholder's new purchases escape all finance charges is when *both* of the following conditions are met:

1. There is no unpaid balance left over from the previous billing cycle. That is, either the entire "new balance" on the last month's bill was zero, or, if that new balance was greater than zero, the cardholder paid it in full by the due date.
2. The new balance of purchases made during the current billing cycle is paid in full by the current due date.

If the consumer does not pay the entire outstanding new balance due on the previous statement, any new purchases made in the current month will start accruing interest immediately. The consumer forfeits the grace period. If you have an outstanding balance on your credit card at the beginning of the new billing cycle, you will not benefit at all from the grace period. If your goal is to avoid paying finance charges, *you must pay off your credit card balance in full each month*.

Finance Charges and Balance Computation Method for Purchases

If your credit card plan has no "free" or "grace" period, or if you expect to pay for purchases over time, it is important to know how the card issuer calculates the finance charge. The finance charge, or the dollar amount you pay to use credit, will vary depending upon the method the card issuer uses to figure the balance. The method used can make a difference in the amount of finance charges a consumer will pay—even when the APR is identical to that of another card issuer and the pattern of purchases and payments is the same. For consumers who never carry over a balance (always pay the balance in full), the finance charge computation method used by the credit card issuer is not as important as other factors.

There are two basic ways card issuers calculate balances on which finance charges are computed:

- ***Average Daily Balance (including new purchases or excluding new purchases).*** This method gives the cardholder credit for payment from the day the card issuer *receives* it. To compute the balance due, the card issuer first totals the beginning balance for each day in the billing period. Next, any payments credited to the account are deducted on the day received. New purchases may or may not be added to the balance, depending on the plan, but cash advances typically are added. The daily balances are summed for the billing cycle and the total is then divided by the number of days in the billing period. The result is the "average daily balance." Note the Schumer Box (Table 1) reveals the most commonly used average daily balance method (including new purchases).

- ***Two-Cycle Average Daily Balance (including new purchases or excluding new purchases).*** This balance is the sum of the average daily balances for two billing cycles. The first balance is for the *current* billing cycle, and is figured by adding the outstanding balance (excluding or including new purchases and deducting payments and credits) for each day in the billing cycle, and then dividing by the number of days in the cycle. The second balance is for the *preceding* billing cycle and is figured in the same way as the first balance. The two-cycle average daily balance is used primarily to backcharge interest on a previous balance on which consumers did not pay finance charges (because their balance was zero), but neither did they pay off the current balance due in full. The method affects consumers who *always* or *sometimes* carry over a balance.

Comparison of Finance Charge Computation Methods

Assume a consumer starts the first month with a zero balance and charges $1,000, of which the minimum amount due (listed on the statement) is paid. The next month, another $1,000 is charged and then the entire balance due is paid off. The same pattern is repeated three more times during the year. The stated interest rate on all cards is 19.8% APR. The yearly finance charge varies from $66.00 to $196.20. (See Table 2.)

If you do not understand how the balance on your account is computed, ask the card issuer. An explanation of how the balance was determined must appear on the billing statement the card issuer provides to you.

Table 2. Finance Charge Computation Methods

	Finance Charge
Average Daily Balance (excluding new purchases)	$ 66.00
Average Daily Balance (including new purchases)	$132.00
Two-Cycle Average Daily Balance (including new purchases)	$196.20
Two-Cycle Average Daily Balance (excluding new purchases)	$131.20

Source: Bankcard Holders of America, January 3, 1993. "Credit Cards: What You Don't Know Can Cost You."

ANNUAL FEES

Most credit card issuers charge annual membership or other participation fees. These fees range from $15 to $35 for most cards and from $50 and higher for some "premium" or "gold" cards. Some institutions still offer "no fee" cards, but these are less common than they used to be. Other institutions waive the fee for the first 12 months, but then bill the cardholder as soon as the second year begins. Still other issuers have a use fee (i.e., $1.75) for each month the card is *used*—meaning cardholders will pay $21 a year if the card is used monthly. The best deal for most consumers is a "no fee" card. Some credit card issuers will reduce or eliminate annual fees if cardholders indicate they plan to switch to another company's "no-fee" card. A change can be requested by phone. You also have the option of canceling the card within a stated period to avoid the annual fee. There may, however, be a cancellation fee.

TRANSACTION FEES FOR CASH ADVANCES

Many issuers charge cash advance fees, which typically amount to between 2% and 3% of the total cash advance. The fee may have a minimum amount, often $2, and a maximum amount, such as $10. Note the Schumer Box in Table 1 reveals the cash advance fee is 2% with a minimum fee of $3.00. The cash advance fee may be assessed for *each* cash advance taken. A consumer who is charged $5 for $20 in cash is paying a transaction fee equal to 25% of the amount borrowed. Using a credit card to obtain a cash loan is often the most expensive way for consumers to borrow money.

Some issuers charge higher interest rates on cash advances than for purchases. As an example, one card issuer offers a 7.9% APR on purchases made with the credit card, but charges a rate of 21.65% APR on cash advances. Issuers are not required to disclose the cash advance APR rate in solicitations or on applications. However, the information is usually provided in materials sent with the credit card to the applicant. A cash advance can also be obtained with a credit card at a bank or an automated teller machine (ATM) or by using checks linked to a credit card account.

Several card issuers offer cash advances with 25-day grace periods. The transaction fee they charge for the cash advance, however, may be more expensive than simply paying interest from the date of the advance. In addition, if the cash advance is not paid off in full when due, finance charges are accrued at the cash advance rate beginning on the first day of the new billing cycle until it is paid back. Below is an example of charges that could be imposed for a $200 cash advance that is paid in full when the bill arrives:

Cash Advance Fee = $4 ($200 x .02 = $4)

Interest for one month = $3 (18% APR; $200 x .015 = $3)

Total cost of cash advance = $7 ($4 fee + $3 interest = $7)

In comparison, a $200 purchase with a credit card having a grace period would cost nothing if it is paid off promptly in full by the billing due date.

Late Payment Fees

Late fees are typically charged when a cardholder fails to make at least the minimum monthly payment by the due date. Some issuers charge a flat late fee, for example, $10. Other issuers charge a fee that is a percentage of the minimum payment due (e.g., 2 to 5%). Note the Schumer Box in Table 1 reveals the late payment fee is $10. Some issuers allow cardholders 10 or 20 days to pay their bill after the due date before a late fee will be charged. Other issuers, however, charge late fees immediately after the due date. To avoid late fees, mail payments in plenty of time to arrive before the due date. If payments are made at the bank's branch or ATM, find out how long it takes payments to be processed. Some banks do not credit payments made at ATMs for several days.

Other Fees

In a review of credit card offers that were sent unsolicited to the authors, the following additional fees were discovered:

- Close-out account fee of $25 and written notice to close a credit card account.
- Inactivity fee of $15.
- Annual fee of $25 to cardholders who pay their bills in full each month.
- Application fee of $100 for the privilege of applying for the credit card.
- Missed payment fees that consist of increasing the lower advertised APR to the higher prime rate plus an additional 12.9%.
- Over credit-limit fees of $10 to $15.
- Surcharge fees consisting of additional charges on top of the APR. For example, one issuer tacks a 5.1% credit protection surcharge onto its 16.8% APR variable rate card if the cardholder does not have other accounts at that institution. The effective APR is 21.9% and there is no grace period.
- Debt consolidation and transfer fees. One of the credit card advertising pitches is "Transfer balances from your other bank, gasoline, and department store credit cards" to an issuer that offers a low interest rate. Generally the offer is good for a limited number of days or months. Loan consolidation is not a benefit to the cardholder unless it is for the same or shorter time period, or for the same or lower APR. Changing creditors to whom money is owed may incur a transfer fee. Cardholders who have consolidated several creditors into one loan may be tempted to incur more charges because it "seems like" they do not have as many creditors as before requesting payments.

Caution

The following caution is for credit cardholders that use a low interest rate offer to transfer a debt to a credit card that has an existing balance being charged at a higher rate of interest. Monthly payments made after the transfer may be credited to only the lower interest rate debt, not the higher rate debt.

As an example, assume you have a credit card account with Bank A at an 18% APR. You have another credit card account with Bank B at a 21% APR. Bank A wants to increase customer account balances to draw more interest—so the offer is made to consolidate your loans from other credit card companies at a low introductory rate of 5.9% APR for the first 6 months. The amount you bring into this account from credit card Bank B is credited to your Bank A credit card account. You now have one consolidated account at Bank A—but with two lines of debt—one that is charging 18% APR and the other that is charging 5.9% APR. When you make a payment, the amount goes toward the newly "consolidated" debt at 5.9% APR, not the higher 18% APR. The better policy would be, of course, for you to pay off the higher 18% APR debt first, and then apply the payments toward the lower 5.9% APR debt. If you find yourself in this situation and want to be sure your payments (as well as any dollars paid beyond the minimum payment) are applied to the higher APR, ask the institution for the appropriate procedure.

Other Considerations

Line of credit. A line of credit is the amount the card issuer will allow a cardholder to charge. It is listed on the notification or disclosure statement enclosed with a new card or renewal card and on the billing statement. Generally a line of credit large enough for emergencies and large purchases, but not so high as to encourage overuse of credit, is desired. Credit limits can usually be reduced or increased by contacting the creditor by phone.

When a payment is made, the available line of credit may not reflect that payment for a certain period of time, such as 14 days.

Hours. Some cards do not have 24-hour, 7-day customer service. This may be a consideration if you cannot make calls during working hours or when traveling away from home.

Billing cycle. Will the credit cardholder allow you to change your billing cycle to be better timed with your pay day?

Incentive offers. Credit card companies often use rewards to entice consumers to use their cards. Examples of incentives offered include frequent-flier miles, discounts on new-car purchases, free gas, free golf clubs and guaranteed tee-off times at golf courses in Florida. Consider whether the "incentive" could be obtained at less cost for cash. For example, Smart Money reports that if you charge $8,500 a year on a credit card carrying an average balance of $1,500, you would earn enough frequent-flier miles to get a free domestic ticket in three years. But you would also be paying $265 in interest each year (17.65% APR), plus a total of $150 in annual fees. That means the "free" ticket would end up costing $945. For the same money, a consumer may be able to buy three round-trip tickets from New York to Los Angeles!

Minimum monthly payment. The minimum monthly payment is the lowest dollar amount that a cardholder is required to pay each month to the financial institution that issued the credit card. Generally the minimum monthly payment is equal to 2% of the new balance or $10, whichever is greater. Some statements refer to the minimum as the "Cardholder Amount Due," but that amount is not the total owed.

The lower the payment, the longer it will take for you to pay off the balance and the more finance charges you will pay. For example, a cardholder who makes a minimum payment of $80 on an outstanding balance of $4,000 at a 21% APR will take almost 10 years to pay off the loan. The cost of the interest is $5,592 with the cardholder paying a total of $9,592—almost twice the cost of the original loan. Obviously, making a minimum payment results in more finance charges being paid to the credit card issuer.

If a cardholder does not pay anything, or pays less than the minimum, late fees will be charged. The credit card issuer may also cancel the card. In addition, there may be a negative report sent to a credit bureau. That report could affect the cardholder's ability to obtain credit in the future.

Some cards allow the cardholder to skip a payment without a penalty especially at holiday times. Although this sounds like the issuer is providing a break to the cardholder, interest will be charged during this period and more in finance charges will be owed than before.

Rebates. Some credit card issuers offer yearly cash rebates to entice consumers to use their cards. The rebate may be computed as a percentage of total charges. The actual dollar amount of a rebate is generally very minimal and many cards have ended their rebate offers.

Toll Free Number. Some cards do not have a toll free customer service number. This may be a consideration for people who need frequent help reading their statements.

Summary

As this Financial Fitness fact sheet has demonstrated, terms differ among credit card issuers, so shop around for the card that is best for your spending and repayment habits. Use the comparison chart (last page) to help you make a decision. Which credit card is best may depend on how you plan to use it. If you plan to pay bills in full each month, the size of the annual fee or other fees may be more important than the annual percentage rate and balance computation method. If, however, you expect to carry a balance monthly on your credit card purchases, the APR and the balance computation method are very important terms to consider. In either case, costs will be affected by whether or not the credit card issuer provides a grace period.

Once you have selected a credit card, keep abreast of changes that are announced either as enclosures with your bills or as a separate mailing. These announcements are not "junk" mail. Terms and conditions may change to the point that you decide it is time to shop for a different credit card.

Credit Card Resources on the Internet

Bank Rate Monitor (http://www.bankrate.com)

CardTrak (http://cardtrak.com)

Consumer Information Center
(http://www.pueblo.gsa.gov/cic_text/money/shop.txt)

Consumer Information Center
(http://www.pueblo.gsa.gov/cic_text/money/rscredit.txt)

Federal Reserve Board
(http://www.bog.frb.fed.us/pubs/shop)

USA Today
(http://banx.com/usatoday/cards/bq-cards.htm)

Internet sites listed may change or disappear over time; consumers may want to search for additional sites to learn more about credit card offers.

REFERENCES

"Choosing and Using Credit Cards." (December 1988). Federal Trade Commission.

"Confessions of a Credit Card Surfer." (February 1996). *Kiplinger's Personal Finance Magazine*, (p. 73-77).

Credit Wise: Coming to Terms." (1994) Video program, American Express Company.

Detweiler, G. (1993). "Credit Cards: What You Don't Know Can Cost You!" *Advancing the Consumer Interest*, Vol. 5, No. 2 (p. 6-11).

Detweiler, G. (1993). *The Ultimate Credit Handbook*, Plume.

"Financial Responsibility: Consumers Take Action When Armed With Information." (Summer 1993). American Express Company.

Gorham, L. (1996). "Credit Card Selection: Pitches and Hitches." Utah State University Extension Service, Logan, Utah.

"Have Credit Card Issuers Been Irresponsible in Giving Consumers Too Much Credit?" (April 1997). *At Home With Consumers*, Vol. 18, No. 1 (p. 1-8).

Miller, R. and Stephenson, M. (1996). "Choosing and Using a Credit Card." Cooperative Extension Service, University of Maryland at College Park.

Schwartz, N.D. and Medintz, S. (February 1997). *Smart Money*, (p. 112-117).

"Understanding Credit Cards Costs." (July 1996). Consumer Action.

COMPARISON SHOPPING FOR A CREDIT CARD

Terms	Credit Card Issuers		
	#1	#2	#3
*1. Annual percentage rate (APR)			
*2. Grace period for purchases			
*3. Minimum finance charges			
*4. Balance computation method used to determine finance charges			
*5. Annual fees			
*6. Transaction fee for cash advances			
*7. Late payment fees			
8. Inactivity fees			
9. Over the limit fees			
10. Missed payment fees			
11. Fees if balance paid in full each month			
12. Surcharge fees			
13. Consolidation fees			
14. Additional fees (list) a. ______ b. ______ c. ______	______ ______ ______	______ ______ ______	______ ______ ______
15. Other considerations. (list) a. ______ b. ______ c. ______	______ ______ ______	______ ______ ______	______ ______ ______

*These items are listed in the Schumer Box (See Table 1).

How to Read Your Credit File

EQUIFAX

Please address all future correspondence to:

Equifax Credit Information Services
P O Box 740256
Atlanta, GA 30374

SAMPLE CREDIT FILE

This section includes your name, current and previous addresses and other identifying information reported by creditors.

Personal Identification Information

Your Name
123 Current Address
City, State 00000

Social Security #: 123-45-6789
Date of Birth: April 10th, 1940

Previous Address(es):
456 Former Rd, Atlanta, GA 30000
P.O. Box XXXX, Savannah, GA 40000

Last Reported Employment: Engineer, Highway Planning

This section includes public record items obtained from local, state and federal courts.

Public Record Information

Lien Filed 03/93; Fulton CTY; Case or Other ID Number-32114; Amount-$26667; Class-State; Released 07/93; Verified 07/93

Bankruptcy Filed 12/92; Northern District Ct; Case or Other ID Number-673HC12; Liabilities-$15787; Personal; Individual; Discharged; Assets-$780

Satisfied Judgment Filed 07/99; Fulton CTY; Case or Other ID Number-898872; Defendant-John Consumer; Amount-$8984; Plaintiff-ABC Real Estate; Satisfied 08/99; Verified 09/99

This section includes accounts that creditors have turned over to a collection agency.

Collection Agency Account Information

Pro Coll (800) XXX-XXXX

Collection Reported 05/99; Assigned 09/98 to Pro Coll (800) XXX-XXXX Client - ABC Hospital; Amount-$978; Unpaid; Balance $978 Date of Last Activity 08/98; Individual Account; Account Number 787652JC

This section contains both open and closed accounts.

1-Credit grantor reporting the information.
2-Account number reported by the credit grantor.
3-See explanation below.
4-Month and year the credit grantor opened the account.
5-Number of months account payment history has been reported.
6-Date of last payment, change or occurrence.
7-Highest amount charged or the credit limit.
8-Number of installments or monthly payment.
9-The amount owed as of the date reported.
10-The amount past due as of the date reported.
11-See explanation below.
12-Date of last account update.

Credit Account Information

Company Name	Account Number	Whose Acct	Date Opened	Months Reviewed	Date of Last Activity	High Credit	Terms	Items as of Date Reported: Balance	Past Due	Status	Date Rptd.
1	2	3	4	5	6	7	8	9	10	11	12
Store	3251	J	10/96	36	9/99	$950		$0		R1	9/99
Bank	4735	A	11/95	24	5/99	$750		$0		I1	4/99
Gas	5411	A	6/96	12	3/99	$500		$0		01	9/99
Auto	5297	I	5/95	48	12/98	$1100	$50	$300	$200	I5	4/99

Previous Payment History: 3 Times 30 days late; 4 Times 60 days late
Previous Status: 01/99 - I2; 02/99 - I3; 03/99 - I4

This section includes a list of businesses that have received your credit file in the last 24 months.

Companies that Requested your Credit File

09/06/98 Equifax Disclosure	08/27/98 Department Store
07/29/98 PRM Bankcard	07/03/98 AM Bankcard
04/10/98 AR Department Store	12/31/97 Equifax-Update

Whose Account

Indicates who is responsible for the account and the type of participation you have with the account.

J = Joint
I = Individual
U = Undesignated
A = Authorized User
T = Terminated
M = Maker
C = Co-Maker/Co-Signer
B = On behalf of another person
S = Shared

Status

Type of Account

O = Open (entire balance due each month)
R = Revolving (payment amount variable)
I = Installment (fixed number of payments)

Timeliness of Payment

0 = Approved not used; too new to rate
1 = Paid as agreed
2 = 30+ days past due
3 = 60+ days past due
4 = 90+ days past due
5 = Pays or paid 120+ days past the due date; or collection account
7 = Making regular payments under wage earner plan or similar arrangement
8 = Repossession
9 = Charged off to bad debt

Inquiries NOT reported to businesses:

PRM- This type of inquiry means that only your name and address were given to a credit grantor so they could offer you an application for credit. (PRM inquiries remain for twelve months)

AM or AR- These inquiries indicate a periodic review of your credit history by one of your creditors. (AM and AR inquiries remain for twelve months)

Equifax, ACIS or Update - These inquiries indicate Equifax's activity in response to your contact with us for either a copy of your credit file or a request for research.

PRM, AM, AR, Equifax, ACIS, Update and INQ These inquiries do not appear on credit files businesses receive, only on copies provided to you.

WORKSHEET 8: **POWER PAYMENTS WITH POWERPAY©**

PowerPay© Credit Payment Worksheet

PowerPay© was developed by Utah State University Cooperative Extension Service

All information will be kept confidential.

Name: ____________________________Phone: _______________________ Date ______________

Address: __________________________City: _________________State: _________ Zip: _________

The PowerPay© debt reduction computer program can analyze options for one to thirty debts. Possible creditors might be the overdraft on a checking account, payments to a doctor, installment loans, bank or store credit cards, or home equity line of credit.

PowerPay© can calculate repayment for debts where extra payments are applied to the principal and where there is no pre-payment penalty.

The following information is needed for each creditor: current balance, monthly payment, and interest rate (Annual Percentage Rate or APR).

#	Creditor	Balance Owing	Monthly Payment	Annual % Rate
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				
11.				
12.				
13.				
14.				
(Answer all questions on the other side of this form.)				
15.				

#	Creditor	Balance Owing	Monthly Payment	Annual % Rate
16.				
17.				
18.				
19.				
20.				
21.				
22.				
23.				
24.				
25.				
26.				
27.				
28.				
29.				
30.				

The computer analysis will determine what order of power payments (rolling payment over to next debt) will save the most money and pay off the debt quickest at this level of payment.

Would you also like an analysis of savings if a little extra money is added to the debt payment each month?
If so, specify how much extra money each month? $ ____________________
Would you like an analysis of savings if a one-time lump sum payment is added?
If so, specify the amount to be added: $____________________________
and the month and year it will be added: Month__________________Year______________

Are you interested in consolidating debts to take advantage of a lower interest rate?
If so, specify (by number listed) which debts you will consolidate:
____
At what interest rate? __________%
What monthly payment (same as before added together or other) do you anticipate? $___________
What one-time fee do you anticipate you will pay for debt consolidation? $___________

Return to: Family Resource Management Specialist
2949 Old Main Hill
Utah State University
Logan, UT 84322-2949

UNIT 4: MANAGING FINANCIAL RISK

INSURANCE

Part of every individual and family money management plan needs to include protection against financial loss due to premature death, illness, accident or unemployment; illness, disability or death of a spouse; injury, illness or death of other family members; loss of real or personal property; or personal liability for damage to other people's property. Insurance is one way to provide this protection.

Insurance is based on the concept of shared risk. Your insurance premium (payment) is pooled into a common fund along with thousands of other premiums. The insurance company then uses the money in the pool to cover the losses of individual policyholders. Everyone pays a little so that no one person has to suffer the entire financial loss.

Insurance policies are available to cover a variety of financial risks such as:

- loss of income due to disability or death
- medical expenses due to injury or illness
- damage or loss of property due to fire, storm, theft, or collision
- personal liability for injury to others or damage to their property

FROM WHOM TO BUY?

You will want to buy insurance coverage from financially sound companies with professionally trained representatives. Protection is available from a wide range of sources, so it is relatively easy to find a reputable insurer.

Start with the recommendations of your friends and family, or people where you work. Who do they use and why? A more official view is offered by A.M. Best's Ratings (www.ambest.com, go to "ratings information"), Standard & Poors (www.standardpoor.com, go to "ratings services"), or Moody's (www.moodys.com, click on "ratings"); major insurance rating agencies. As a general rule, deal with companies rated A++, Aaa, A+, or A. In addition, **Consumer Reports**, **Kiplinger's Personal Finance Magazine**, and **Money** magazines periodically provide satisfaction ratings on various types of insurance and insurance companies.

SAVE ON INSURANCE COSTS

Comparison Shopping. Insurance premiums for similar coverage vary widely from one company to another. Check the rates of at least three companies before deciding on one. Be sure you are comparing similar coverage when you check premium costs.

Deductibles. A deductible is the money you must pay toward a loss before the insurance company will pay–the larger the deductible, the lower the premium. Just be sure you keep enough money in emergency savings to be able to pay deductibles.

Group Plans. Group plans are almost always a savings over individual plans–especially with health insurance. Look into joining a group insurance plan at the place you work, through your credit union or a social organization.

Fewer Payments. You can usually save a few dollars by paying premiums once or twice a year instead of breaking them down into monthly payments.

If you have Internet access you can do some rate shopping online at these sites: Accuquote (http://www.accuqote.com), MasterQuote (http://www.masterquote.com), RightQuote (http://www.rightquote.com) TermQuote (http://www.term-quote.com) or Quotesmith (http://www.quotesmith.com).

TYPES OF INSURANCE

DISABILITY INSURANCE

Disability insurance provides regular cash income lost as the result of an accident or serious illness. Sometimes we forget that our most valuable asset is our ability to earn money. So we insure our houses, our cars, and our RVs and forget to insure our earning power. Disability insurance protects you if you suffer a long-term disability and are unable to work for months or years. Disability insurance can be purchased privately; sometimes disability insurance is offered at a discounted premium as an employee benefit.

In the insurance industry, disability has different definitions. Some policies define it as being unable to do your regular work; others when you are unable to work at any job. When shopping for disability insurance here are some things to look for:

- *When do benefits begin?* There is usually a waiting period that lasts between 30 and 90 days from the disability. Some waiting periods may be as long as 180 days. If you have substantial savings that will carry you through, a longer waiting period may be attractive and it can be purchased for a lower price. But if you need every paycheck to meet other obligations, you are probably better off paying a slightly higher premium for a shorter waiting period.

- *How long are benefits paid?* The maximum time may be only a few years, to age 65, or for life. If you become permanently disabled, it could be financially disastrous for your benefits to end after only a few years.

- *How much will be paid?* Aim for a benefit amount that, when added to your other income, will equal at least 70% of your gross pay.

- *Ask for "noncancellable" and "guaranteed renewable" coverage*. Either one will protect you against having your insurance carrier drop you if your health turns bad. The premiums will be higher, but guaranteed coverage is well worth the extra cost.

- *Consider both accident and sickness coverage*. Some disability income policies pay only for accidents, but you want to be insured for a disabling illness too.

- *Waiver of premium.* Make sure the policy includes a feature that lets you waive (not pay) the premium while you are disabled.

- *Cost of living adjustments* should increase your basic benefit so that it stays in step with inflation should you become disabled.

Disability income insurance benefits and rates vary widely so it pays to shop around. Weigh the costs and benefits carefully before making a decision on any particular policy. Worksheet 9, **Disability Income Needs** will help you determine how much disability insurance you need.

Other Sources of Disability Income. If your disability is total, and you pay *Social Security*, you and your dependents may be entitled to some benefits through that program, based on your salary and the number of years you have been covered. Benefits are available after a five month waiting period, however at least 70% of all applicants for Social Security disability benefits are turned down. If your accident or illness occurred at your place of work or resulted from your type of employment, you could be entitled to *workers' compensation* benefits from the state. However, this coverage does not take effect if you are disabled away from your job. Other possible sources of disability income include the *Veteran's Administration* pension disability benefits, *civil service disability* benefits for government workers, *state vocational* rehabilitation benefits, and group *union disability* benefits.

LIFE INSURANCE

Life insurance is your protection against dying too soon. Most people buy life insurance to protect someone who financially depends on them. That someone could be both spouses in a two-income family, it could be a nonemployed spouse and children in a single-income family, or it could be an aging parent or business partner. If something happens to the policyholder, the beneficiaries named in the policy receive a sum of money at the policyholder's death.

There are two types of life insurance–*term* and *whole life*. *Term insurance* pays only when the policyholder dies. It offers protection for a specified period of time, usually 5, 10, 15 or 20 years or up to age 65. Of course if you stop paying the premiums before the term is up, the insurance disappears. If you have a renewable option built into your policy, term insurance can be continued for another term, although most don't continue past age 70.

Term insurance premiums rise with the policy holder's age. As you grow older, you can avoid these increases by buying *decreasing term insurance*. Under this plan, the premiums remain constant but the face amount of coverage declines annually. Another option is level-premium or guaranteed premium term insurance which keeps premium costs constant for a five- or ten-year interval at which time they increase if you elect to renew for another five to ten years. A convertible term insurance policy gives the owner the option of exchanging a term policy for a whole-life policy without evidence of insurability. However, this option is usually available only in the early years of the term policy.

Whole life insurance (also called cash-value, straight life or ordinary life) premiums stay the same over the life of the policy. In return, the insurance company pays a pre-assigned sum to your beneficiaries when you die. The amount of your premium depends on the age at which you purchase the policy. Whole life insurance also offers a forced savings feature. The policy has a cash value which increases over the years and that you, the policyholder, can borrow against.

Universal life insurance is a blend of term insurance and whole life insurance. Essentially, universal life insurance combines annual term insurance with an investment program. The rate of return on the investment portion is tied to some financial index or dictated by the insurance company.

Variable life insurance is a form of whole life insurance that allows the policyholder to choose the investments made with the cash-value portion of the policy and to share in any gains or losses. The face amount of the policy and the policy's cash value may rise or fall based on changes in the rates of return on the invested funds.

Which kind of life insurance is best? Financial planners disagree. Many say term life is best because whole life (cash value) policies have big upfront charges that go to pay agent commissions and decrease the amount put into savings. Others argue that whole life coverage is best when it is maintained for long periods of time. Most term policies can't be renewed past age 70. The defining element may be how long your life insurance needs will last and how much coverage you can afford. Cash-value or whole life policies are usually more expensive. If you have no children at home, and are past retirement age, you probably only need term insurance coverage to pay any medical and hospital expenses of a last illness and funeral expenses.

Life insurance policies also contain a number of provisions including grace periods that cover you even when your premiums are late, suicide clauses, guaranteed insurability, and double indemnity payments in cases of accidental death.

How much insurance will you need? Much depends upon whether your spouse is working, the age(s) of any dependents, if there are any special needs children, the amount of assets you own, the amount you spend for living expenses, the estimated cost of your funeral expenses and estate taxes, and any income other than insurance your family will have coming in after you die. There are several multiple earning approaches you can use:

- $100,000 insurance for every $10,000 in earned income,
- 6 to 10 times the gross annual total income of the insured (if applicable, from both spouses),
- Insurance company's table of factored values based on age of insured and gross annual

income, or

- Multiply your current gross income by 7 years and .70 (70 percent).

Along with choosing the type of policy to buy, you need to choose a payout option. Some insurers will only allow a lump-sum payment to the beneficiary(ies), but other policies provide for equal periodic installments for a specified number of years or for as long as the beneficiary may live.

Accelerated Death Benefits. A new type of insurance payout is known as an *accelerated death benefit* (ADB) or *living needs benefit*. Designed for the terminally ill, the policyholder receives 50% of the death benefit during his or her final year of life to help pay medical expenses. Proceeds for survivors then are reduced by the terminal illness benefit received.

Prior to buying life insurance, read every word of the contract and, if necessary, ask your agent for an explanation of any language or terms you do not understand. Many insurance companies have rewritten their contracts to make them more customer-friendly, but these are legal documents and so technical terms abound.

After purchasing a new life insurance policy, give your attorney a copy of it. Also, your beneficiaries will need to know where the policy is kept because in order to obtain the insurance proceeds, they will have send it to the company, along with a copy of the death certificate.

For more information on life insurance, go to the library and check out the July 1998 issue of **Consumer Reports** magazine or, if you have Internet access, log onto www.connicomputers.com/reports/knowlife.html and download "What You Should Know About Buying Life Insurance" written by the American Council of Life Insurance.

MEDICAL OR HEALTH INSURANCE

Health insurance is a form of protection whose primary purpose is to diminish the financial burdens suffered by individuals because of illness or injury. Like other forms of insurance, it diminishes financial risk by dividing losses among many individuals. You pay the insurance company a specified premium and the company guarantees you some degree of protection. There are basically two types of health insurance plans: 1) traditional fee-for-service health insurance, and 2) managed care plans such as preferred provider organizations (PPO) or health maintenance organizations (HMOs).

FEE-FOR-SERVICE PLANS

Traditional fee-for-service plans make payment to health care providers for specific services rendered. There are several types of coverages offered by traditional fee-for-service health insurance policies. Hospital/surgical/medical coverages are usually bought as a unit and referred to as basic coverage. Together, they cover part or all of daily hospital room and board, routine nursing care, minor medical supplies, laboratory tests, x-rays, anesthesia, operating room fees, and drugs. Basic coverage also pays doctors for any services provided during hospitalization and generally pays for local ambulance service.

Payments made by health insurance policies are frequently based on “reasonable and customary” charges for the procedure performed. Some policies pay only a set amount for specific procedures or per day regardless of the actual charge. In those situations, the provider may take the set fee as payment in full or bill the policy holder for the difference.

MANAGED CARE PLANS

In an era of rapidly rising medical costs, health care is moving toward a managed care environment. Managed care refers to a variety of methods which attempt to control the costs of health care. It also refers to the sharing of your health care through the cooperative arrangement of a variety of providers. Providers include nurses, physicians, therapists and specialists.

In a *preferred provider organization* (PPO), the health care providers–physicians, pharmacists, therapists and so forth–contract with the insurer to provide their services at a lower rate. You make a smaller co-payment for covered expenses than if you used a health care provider who was not a preferred provider with your insurer. The co-payment is usually a percentage, such as 20, 30, or 50 percent of your bill. The deductible is the out-of-pocket amount you must pay before your insurer begins to reimburse you for covered expenses. Depending on the particular type of health care coverage you choose, the co-payment may be your responsibility before or after a deductible is met.

Another form of managed care is a *health maintenance organization* (HMO). In an HMO, you or your insurer pre-pay a set amount per month to the HMO for health care services you might need. After payments are made to the HMO on your behalf, you become a member of that HMO. When you visit your HMO, you use health care providers contracting with that particular HMO.

HMOs do not have deductibles but do use co-payments. In an HMO, the co-payment is usually a fixed dollar amount such as $5, $10, or $20. Several types of HMOs exist and they differ in terms of the rules applied to the members and the providers.

An *individual practice association* (IPA) is a type of HMO that does not maintain its own staff and clinic buildings, but contracts with a number of doctors in private practice to provide services to members on a fee-for-service basis from their own offices. Commonly, they are paid a set amount per patient in advance and the provider then absorbs the costs of all services to patients. They share a common administrative unit for billing and insurance.

CHOOSING AN HMO

HMOs vary in the quality of care offered, so comparative shopping is important. Carefully read all the literature available, considering these factors:

Coverage: What is covered and not covered? Does the plan cover prescriptions? Are there age limits for dependents? Are there any exclusions for certain handicaps?

Price: What are the monthly premiums, deductibles, and co-payments?

Physicians: Can you select your primary physician and change doctors if dissatisfied? Are staff doctors board-certified or board-eligible in their specialties? What is their turnover rate?

Hours: Are full-service hours offered? Are they convenient for your working schedule? What is the typical wait for scheduled appointments?

Second Opinion: Will you have the right to obtain a second opinion or see a specialist?

Appeal Procedures: How are grievances handled? The HMO should have a convenient and prompt method of resolving problems and disputes.

Overall: Compare the HMO's services and costs with those of your present health care arrangements. Are your friends and coworkers who belong to the HMO satisfied? Are there any complaints on record about it?

SHOPPING FOR HEALTH INSURANCE

Group plans comprise more than 85% of all the health insurance issued by insurance companies. Most of these plans are employer sponsored and the employer often pays part or all of their cost. Coverage through a group policy is the least costly but the benefits can vary greatly. If you are shopping for an individual policy, look for broad coverage which includes basic as well as major medical insurance. A policy with a high lifetime or maximum benefit insures against financial catastrophe due to an extended illness.

Don't use insurance dollars against losses that you can afford to cover yourself. Maintain an emergency fund for small health care expenses.

Avoid duplication of coverage. Most health insurance policies have a coordination of benefits (COB) provisions. The COB is a method of integrating the benefits payable under more than one health insurance plan so that the benefits received from all sources are limited to 100% of allowable medical expenses.

Choose a plan with the highest deductible and co-payments that you can afford to reduce your premiums. As with other insurance policies, the more you are willing to share in the payment of your claims, the less you will have to pay in premiums.

When choosing a co-payment percentage, don't assume the worst and scare yourself. A 20% co-payment does not mean you will have to come up with $20,000 for a $100,000 claim. Insurance companies almost always set a maximum out-of-pocket limit on your annual co-payments and they cover 100% of any medical expenses that go over that cap.

Note any pre-existing condition clauses. Such clauses mean that during the first weeks or months of the policy the insurance will not cover medical conditions you had when you purchased the policy. Also check exclusions–items NOT covered by the insurance. Common exclusions are routine eye exams, dental care, eyeglasses, and cosmetic surgery.

You want a health insurance plan that is guaranteed renewable; one that you have the right to renew as long as you pay the premiums.

Worksheet 10, **Choosing Health Insurance**, will help you compare the pros and cons of different health insurance policies.

COBRA

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), if you leave your job, or are divorced or widowed, you may be able to continue your group policy for a time. If you are terminated or laid off, you and your dependents may continue coverage for up to 18 months. However, you, not your employer, must pay the premiums.

Widows, divorced or separated spouses, and dependent children may continue coverage under COBRA for up to three years. When you retire you, your spouse, and dependent children can continue group coverage for up to 18 months. The coverage ends if the premiums are not paid or if you become eligible for other group coverage through employment, marriage, or Medicare.

MEDICARE

Medicare is the government-run health insurance plan for the elderly. At its core is a two-part major medical plan. Enrollment in Part A (hospital expenses) is automatic at age 65 and requires no premium. Part B, which covers physician and other charges including home health care coverage is optional and is open to all Part A recipients and to anyone else age 65 or older. Those choosing Part B pay a small monthly premium that is adjusted annually.

Medicare Part A will pay benefits for all approved inpatient hospital expenses for the first 60 days, except an initial deductible ($768 per benefit period in 2000). If you have an unusually long continuous hospitalization, you'll pay $192 per day for days 61 through 90 in 2000; $384 per day for days 91 through 150; and all costs beyond 150 days. Clearly, a long hospitalization could escalate your out-of-pocket expenses dramatically.

Part B of Medicare is designed to cover physician services, outpatient hospital care and lab services. In addition to the monthly premium, you must pay an annual deductible of $100 and 20% of the amount Medicare approves for each of your medical bills. If your doctor or health care provider does not accept the amount Medicare approves as a reasonable charge for that service, you are responsible for paying the 20% coinsurance charge *plus the difference between the Medicare-approved amount and your provider's actual bill.*

Medigap insurance can help pay the costs Medicare doesn't cover. In 1992, Congress established federal standards for Medigap policies. Insurers can offer ten plans, labeled A through J. Of the ten standard policies, Plan A is the core package and the other nine plans have a different combination of benefits. However, all plans include the core package.

Comparing Medigap Benefits

The 10 basic Medigap policies offer a broad range of coverage.

	TYPE OF POLICY									
WHAT POLICY PAYS FOR	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**I**	**J**
Basic Medicare cost-sharing	●	●	●	●	●	●	●	●	●	●
Hospital deductible ($696)		●	●	●	●	●	●	●	●	●
Skilled nursing home co-payments			●	●	●	●	●	●	●	●
Medical-services deductible ($100)			●			●				●
Foreign travel emergencies			●	●	●	●	●	●	●	●
At-home recovery assistance				●			●		●	●
Excess doctor charges						100%	80%		100%	100%
Preventive screening					●					●
Outpatient prescription drugs[1]								$1,250[2]	$1,250[2]	$3,000[2]

[1]50% after $250 deductible [2]Maximum

Sources: United Seniors Health Cooperative; Prudential AARP Operations. Some choices may be unavailable in Mass, Minn., Wis., N.Y., Vt., Del., and Pa.

Although Medigap policies are standardized, the premiums charged by various insurance companies *for the same plan* vary widely. Anyone planning to get this insurance coverage must carefully examine different companies for the best price.

When choosing a Medigap policy, check when coverage begins for pre-existing conditions–conditions you had when you purchased the policy. Find out about limits on your benefits and check your right to renew. If the company can refuse your policy, it may drop your coverage when you need it most.

In 1999, Medicare was expanded to move enrollees away from Medicare's traditional fee-for-service program and towards a new managed care option called Medicare + Choice. More changes are forecast for the future. For more information about Medicare choices, contact the American Association of Retired Persons (AARP) or log onto www.medicare.gov. The Internet site includes a feature called Medicare Compare that will allow you to compare different plans side by side. It also has a comparison form for Medigap policies.

LONG-TERM CARE INSURANCE

Long-term care insurance, virtually unknown a decade ago, is growing faster than any other form of insurance. Long-term care is day-in, day-out help that you could need if you ever have a serious illness or disability that is permanent or lasts a long time and leaves you unable to care for yourself. You may or may not need lengthy care in a nursing home, but you might need help at home with dressing, bathing, or doing household chores.

The annual premium of long term care policies can range from under $300 up to $15,000, depending on your age and the choices you make. The older you are when you enroll, the higher your annual premium. Long-term care insurance may cover one or more of the three levels of at-home or nursing home care. In a skilled facility, nursing care is provided under the direction of a doctor. In intermediate care facilities, patients periodically need one or more procedures which cannot be done by persons without professional skill or training. Custodial care is primarily for meeting personal needs and could be provided by persons who do not have professional skills or training. Policies that pay for a stay in a facility offering skilled or intermediate care should provide at least six months to a year of coverage.

Do your homework before you purchase a policy. Here are some options to consider:

1. Buy a policy that pays until your passing. A year's worth or even a few years of benefits won't protect your assets if your disability is permanent.
2. Also be sure to get a policy that adjusts the daily benefit amount for increases in the cost of living.
3. Get a policy that covers care in your home or other settings if you don't need to be in a high-cost nursing home.
4. Ask when benefits begin. Some begin on the first day the patient is admitted to a skilled care facility and a few start paying only after 100 days have passed. The earlier the benefits start, the more expensive the policy will be. Policies which require hospitalization before a nursing home stay may be too restrictive. Since hospital stays have become shorter, this requirement has become more difficult to meet.
5. Check for exclusions or limitations on the policy. If you have been treated for a medical condition before buying a long-term care policy, a claim for that condition may not be paid until the policy has been in force for one month to two years. Some policies exclude coverage for patients with Alzheimer's and Parkinson's disease.

PROPERTY INSURANCE

Few people can afford to be without adequate property insurance coverage. Our homes, furniture, clothing, and other personal belongings represent a substantial financial commitment, one that would be extremely difficult, if not impossible, to replace.

The standard homeowner's insurance policy is divided into two sections. Section 1 provides protection from various types of property damage losses including damage to the building, damage to other structures on the property, damage to the building contents, and expenses rising out of the loss of use of the building. Section 2 deals with liability and applies when you are legally liable for the losses or injury of another person (for example, the postman slips on your front steps).

Insurance companies offer six or eight different types of insurance (see Table on next page). The basic form (HO-1) protects your home and property against 11 named risks. Broad form (HO-2) includes several additional risks. Special form or comprehensive homeowners insurance (HO-3) covers the building for all causes of loss or damage except those specifically excluded by the policy. Common exclusions are flood, earthquake, war, and nuclear accidents. Special coverage for floods and earthquakes is available. HO-4 is renter's insurance. It protects the insured from losses to the contents of a building rather than the building itself. HO-6 is for condominium dwellers and covers losses on contents and personal property, losses due to additional living expenses if the unit becomes untenable, and liability protection. HO-8 is protection designed for the owners of older homes. It covers the cost of homes with high replacement cost compared to current market value. For example, replacing the decorative woodwork and leaded glass windows in a Victorian home would be very costly to duplicate; HO-8 coverage pays for the restoration of property, but not necessarily with the same materials as used in the original.

HOW MUCH COVERAGE DO YOU NEED?

Your insurance protection should be based on the amount of money you need to rebuild or repair your home, not the amount you paid for it. As construction costs increase, you may need to increase the amount of coverage you have.

Most homeowner's policies contain a provision requiring that the building be insured for at least 80% of its replacement value in order for the policy to fully reimburse (minus the deductible) any losses to the building. For example a home with a replacement value of $100,000 would need to be insured for *at least* $80,000 and this amount would be the maximum that the insurance company would be obligated to pay for any loss. Should a house be insured for less than 80% of replacement cost, the insurance company would base its payment of claims on the portion of coverage carried.

The percentage of replacement cost you buy for your house determines more than the dollar amount you can expect to be reimbursed for loss or damage claims. The amount of coverage for almost everything else in your homeowner's policy, like personal property, other structures like garages, and damage to the property to others are based on the amount of coverage you have on the house. Personal belongings are generally covered up to an amount ranging from 55 to 75 percent of the insurance on the building.

Insurance companies base claim settlements on one of two methods. Under the actual cash value (ACV) methods, the payment you received is based on the replacement cost of a damaged or lost item minus depreciation. So a 10-year old sofa that would cost you $1,000 to replace might be valued at $300 with depreciation calculated in. Under the replacement value method of settling claims, you receive the full cost of repairing or replacing a damaged or lost item; you are reimbursed $1,000 for a $1,000 sofa. Replacement value coverage is about 10 to 20% more expensive than ACV coverage.

PERILS INSURED UNDER THE VARIOUS TYPES OF HOMEOWNERS POLICIES

BASIC HO1	BROAD HO-2	SPECIAL HO-3		RENTER'S HO4	COMPREHENSIVE HO-5	UNIT-OWNERS HO-6	OLDER HOME HO-8	
●	●	○	■	■	●	■	●	1. Fire or lightning
●	●	○	■	■	●	■	●	2. Windstorm or hail
●	●	○	■	■	●	■	●	3. Explosion
●	●	○	■	■	●	■	●	4. Riot or civil commotion
●	●	○	■	■	●	■	●	5. Aircraft
●	●	○	■	■	●	■	●	6. Vehicles
●	●	○	■	■	●	■	●	7. Smoke
●	●	○	■	■	●	■	●	8. Vandalism and malicious mischief
●	●	○	■	■	●	■	●	9. Theft
●	●	○	■	■	●	■	●	10. Breakage of glass constituting a part of the building
	●	○	■	■	●	■		11. Falling objects
	●	○	■	■	●	■		12. Weight of ice, snow, sleet
	●	○	■	■	●	■		13. Volcanic eruption
	●	○	■	■	●	■		14. Sudden and accidental tearing asunder, cracking, burning, or bulging of a steam or hot water heating system or of appliances for heating water
	●	○	■	■	●	■		15. Accidental discharge, leakage or overflow of water or steam from within a plumbing, heating or air-conditioning system or domestic appliance
	●	○	■	■	●	■		16. Freezing of plumbing
	●	○	■	■	●	■		17. Sudden and accidental injury from artificially generated currents to electrical appliances, devices, fixtures and wiring (TV and radio tubes not included)
		○			●			All perils except flood, earthquake, war, nuclear accident and others specified in your policy. Check your policy for a complete listing of perils excluded.

○Dwelling Only ■ Personal Property Only ● Dwelling and Personal Property

Source: Insurance Information Institute

Remember in Unit 1, when you prepared a household inventory of all your personal belongings? This is an extremely useful, if time-consuming job. Having pictures or a videotape of your personal property, plus sales receipts or other evidence of cost will be invaluable if you ever need to file a claim.

If you own expensive jewelry, furs, silverware, or valuable collections of any kind, it is usually wise to purchase additional insurance coverage. Most companies limit the amounts they will pay for these items without an additional "floater" or "rider" policy. These policies will independently insure specific items against theft or damage in the home or away from home.

PERSONAL LIABILITY COVERAGE

Personal liability insurance provides protection against claims for damages, including lawsuits, arising from injury to visitors on your property or from accidents caused by you, your family, or your pets. If, for example, a visitor slips and falls on your front porch, you could be sued for hundreds of thousands of dollars. You could also be liable for damages caused by a tree in your yard falling and damaging your neighbor's house or garage.

In either event, the insurance company will pay the damages assessed against you up to the limits of the liability policy. Minimum liability coverage is usually $25,000, but larger amounts can be purchased very inexpensively. An "umbrella" policy, which picks up where the liability portion of your homeowner's insurance leaves off, can increase your coverage to $1 million or more. Such protection can cost only a few dollars more per year in premium costs. It gives you higher limits on your liability coverage and it offers broader coverage than your homeowner's policy should you be found liable for injury to someone else or to someone else's property.

BUYING PROPERTY INSURANCE

First, estimate what it would cost to rebuild your house–at current prices–should it be destroyed. Then take a look at the inventory of the contents of your home. What would it cost to repair or replace your belongings? How much would your living expenses be if damage to your home forced you to live temporarily in a hotel and eat every meal in restaurants? Once you've determined what it would cost to replace or rebuild your home and know something about the kind of coverages available, shop around. The cost of homeowner's insurance varies widely, from one geographic area to another and from one company to another.

Ask friends or relatives to recommend agents or companies from whom they have had good service. Also check consumer guides and online insurance quote services. This will give you an idea of price ranges and tell you which companies have the lowest prices. But don't decide based on price alone. The insurer you select should offer a quality product and the kind of service you would expect if you needed assistance in filing a claim.

Consider the largest deductible you can afford–that's the amount of any loss that you agree to pay. The higher the deductible, the lower the premium. Some companies that sell homeowner's, auto and liability coverage will take from 5 to 15% off your premium if you buy two or more policies from them.

Making your home more disaster resistant by adding storm shutters, reinforcing your roof and modernizing your heating and electrical systems can save money on premiums. Plus you can usually get discounts of at least 5 percent for installing smoke detectors, burglar alarms or dead-bolt locks on your doors.

Finally, review the limits in your policy and the value of your possessions at least once a year. Add any major purchases or additions to your home. Look critically at some possessions you may have over-insured as well. If your five-year-old fur coat is no longer worth what you paid for it, you'll want to reduce or cancel your floater policy accordingly.

SUMMARY

It is important to review your insurance needs and policies on a regular basis. Property appreciates, income needs change, new items of personal property may need protection, you grow older and your personal needs change accordingly. Also, insurance products change constantly. When reviewing your individual policies, check the company's current rating to see if it still meets your standards.

Be an informed consumer of insurance products. It has been said that too often insurance is sold, not bought. A little study before you see an insurance agent will help you make your insurance dollar go as far as it can in fitting you with the proper protection for your situation at all stages of life.

WORKSHEET 9: **DISABILITY INCOME NEEDS**

The following work sheet will help you determine how much disability insurance you need.

Disability Income Needs

Resources needed

1. Total annual family living expenses	**$....................**
2. Subtract annual expenses which go away if you become isabled, such as taxes (disability benefits may be partly or fully tax free)*, work-related expenses, entertainment, and travel	**(....................)**
3. Adjusted annual family living expenses (subtract Line 2 from Line 1)	**.......................**
Resources available	
4. Annual income from savings and investments (dividends and interest)	**.......................**
5. Annual income from spouse's job	**.......................**
6. Disability benefits provided by employer's policy	**.......................**
7. Disability benefits provided by other disability policies currently owned	**.......................**
8. Total available resources (add lines 4, 5, 6, and 7)	**.......................**
9. Additional resources needed either from liquidating assets or additional disability insurance (subtract Line 8 from Line 3)	**.......................**

*If you become disabled, very few expenses go away, but only benefits for which the insured paid the premium are tax free.

WORKSHEET 10: **CHOOSING HEALTH INSURANCE**

	Policy 1	**Policy 2**	**Policy 3**
Company			
Benefits	Level of Benefits		
Hospital			
Physician services			
Outpatient services			
Ambulance			
Prescription drugs			
Chiropractic services			
Other services and supplies			
Exclusions			
Pre-existing Condition Limitations			
Waiting Period			
Co-insurance	%	%	%
Guaranteed Renewable/Noncancellation	Yes/No	Yes/No	Yes/No
Stop Loss			
Lifetime Maximum Benefits			
Annual Premium			
Other Features for Comparison			

UNIT 5: INVESTING FOR RETIREMENT

Are you looking forward to the day you retire? To having more time to travel, spend with family and friends, enjoy new hobbies, or increase your volunteer work? Or does the thought of retirement make you slightly uneasy–unsure that you will have enough money to stop working, but not knowing how much you need to save? Being able to retire when you want and how you want is important to many of us.

TODAY'S TRENDS: LIVING LONGER AND RETIRING EARLIER

A study commissioned by Social Security reveals that despite the popular perception that people are working longer, in reality the trend is toward early retirement. Increasingly, 62 has replaced age 65 as the common retirement age. And a whole generation of Gen-Xers say they will retire by age 60, according to a recent national retirement survey released by the Employment Benefit Research Institute.

At the same time, longer life expectancies mean people are living longer, healthier and more active lives. These trends point to a need to make sure retirees don't outlive their retirement savings. Fewer and fewer of them can count on a traditional defined-benefit pension that guarantees lifetime payments.

WHAT ARE THE CONCERNS?

For many people, there are several major concerns that block early retirement. The first is health care. Paying for health care is among the top considerations for people who retire early because Medicare is not available until age 65. Health insurance and medical costs increase about 30% for many people after retirement. Although most retirees are covered by Medicare at age 65, supplemental "Medigap" insurance is usually recommended unless employer-provided insurance continues into retirement. Routine dental care and prescription drug costs may also increase, since they are not covered by Medicare.

Another major factor is inflation. About half of those working now say they expect personal savings to be their most important source of retirement income, compared with 20% of current retirees. At an annual inflation rate of 6%, the cost of living could double in about 12 years. So if you can live on $40,000 a year now, you will need $80,000 a year in 12 years and $160,000 in 24 years just to have the same standard of living you enjoy today. Will your savings and investments keep up?

A third concern is the future of Social Security. No matter what adjustments are made to that program in the future, it is important to remember that the program was always designed as a base to build on. By itself, Social Security is an insufficient source of post-employment income. For middle-income earners it will only replace 20 to 30 percent of earnings.

SOCIAL SECURITY

In order to qualify for Social Security benefits, most workers must earn a minimum of 40 quarters (10 years) in jobs covered by the Social Security system. How much you receive will depend, in part, on how much you earned while working in a covered job and your age at the time you retire. If you are married and at least age 62, you will receive your own benefit or a benefit based on your spouse's wage record (if covered), whichever is larger. Starting in the year 2000, the age at which full retirement benefits are payable will be increased in gradual steps to age 67. This will affect people born in 1938 and later.

Social Security Normal Retirement Age by Year of Birth

Year of Birth	Normal Retirement Age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

You may retire earlier than the age at which you receive full benefits if you are willing to take a permanent reduction in your benefits. Currently, persons retiring at age 62 receive 80% of the benefits they would have received had they waited to full retirement age. At age 63 it is about 86.7%, at age 64 it is about 93.3%. If the age at which you would receive full retirement benefits is older than 65, you will still be able to take retirement benefits at age 62, but the reduction in your benefit amount will be greater than it is for people retiring now. There is also a 3% to 8% per year bonus if you choose to delay retirement until age 70. The percentage varies depending on your year of birth.

If you are divorced you are entitled to half your ex-spouse's Social Security benefits if the marriage lasted for 10 or more years, you are age 62 or older, and the divorce occurred at least 2 years prior to applying for benefits. This is true even if your ex-spouse has remarried. However, you must be unmarried at the time you apply. You may have remarried but you must be a widow or re-divorced to be able to claim your former spouse's benefits. If you are eligible for your own retirement benefits and for benefits as an ex-spouse, your own benefits are always paid first. If your former spouse's benefits are higher, you will get a combination of benefits equaling the higher spouse benefit. Even if your former spouse has not applied for benefits, you can get benefits.

To know what your Social Security benefits will be, you will need a statement from the Social Security Administration. To obtain one, call Social Security's toll-free number (1-800-772-1213) and ask for a "Personal Earnings and Benefit Earnings Estimate." They will mail it to you in a few days. If you have Internet access, you can go to http://www.ssa.gov and complete the form online. In a few weeks you will receive a calculation of your estimated monthly benefits.

HOW MUCH MONEY WILL YOU NEED?

How much money will you need to retire comfortably? There is no easy answer because much depends on your lifestyle after retirement and your goals. Do you plan to travel? Start a business? Move to a less expensive region of the country? Complete Worksheet 12, **Your Retirement Lifestyle**. It will help you put a price tag on your dreams. At what age will you retire? How long do you think you will live after retirement? (See table)

"U.S. Life Expectancies, 1994" – All Races

Year of Birth	Both Sexes	Male	Female
1994	75.7	72.4	79.0
1993	75.5	72.2	78.8
1992	75.8	72.3	79.1
1991	75.5	72.0	78.9
1990	75.4	71.8	78.8
1989	75.1	71.7	78.5
1988	74.9	71.4	78.3
1987	74.9	71.4	78.3
1986	74.7	71.2	78.2
1985	74.7	71.1	78.2
1984	74.7	71.1	78.2
1983	74.6	71.0	78.1
1982	74.5	70.8	78.1
1981	74.1	70.4	77.8
1980	73.7	70.0	77.4
1979	73.9	70.0	77.8
1978	73.5	69.6	77.3
1977	73.3	69.5	77.2
1976	72.9	69.1	76.8
1975	72.6	68.8	76.6
1974	72.0	68.2	75.9
1973	71.4	67.6	75.3
1972	71.2	67.4	75.1
1971	71.1	67.4	75.0
1970	70.8	67.1	74.7
1960	69.7	66.6	73.1
1950	68.2	65.6	71.1
1940	62.9	60.8	65.2

From: Singh G. K., Koehanek K.D., & MacDorman M. Advance report of final mortality statistics, 1994. **Monthly vital statistics report; vol. 45 no. 3., supp.** P. 19. Hyattsville, Maryland: National Center for Health Statistics. 1996.

What employer benefits will follow you into retirement? What will be the growth rate of your existing savings and retirement funds? These are very individual factors. So any financial plan that makes an estimate of the amount to save for retirement is a "best guess" rather than a solid fact. However, once you have identified what you already have, or will have when you retire, the easier it will be to know how much you will need to set aside each year to achieve the lifestyle you desire.

The *Income and Expense Statement* you completed in Unit 2 told you how much you are spending now. How will your spending patterns change after retirement? You may spend less on certain categories: taxes (income taxes are usually lower), and savings and investments. You probably won't be contributing to a pension fund, but the need for savings will still be there. Worksheet 14, **Estimated Changes in Spending After Retirement**, will help you estimate your future spending. Don't forget to figure in the inflation factor (Worksheet 15, **Calculating the Effect of Inflation on Your Budget**). Although inflation has been in the low single-digits the past decade, that hasn't always been the case. And most pension benefits do not have a cost-of-living increase built in.

Some expenses that you have now will continue into retirement (utilities, food, household maintenance). But some expenses do not occur every month. These are the ones you are most likely not to plan for–a new roof, an appliance that dies, another car. Write down all these large irregular expenses on Worksheet 16, **Large Future Irregular Expenses**, when you expect them to occur, and your estimate of their replacement cost.

Do some years have more expenses than others? Can you shift some of those costs around? Or can you set aside extra savings to pay for them?. Can keeping items in good repair shift the life of some items so they won't have to be replaced so soon? The answers to these questions will determine how much you need to be setting aside.

REALITY CHECK: HOW MUCH ARE YOU WORTH?

Remember the exercises in Unit 2, where you calculated your Net Worth and your current Income and Expense Statement? Pull those out now. They can serve as the basis for your retirement planning. If you haven't calculated your Net Worth or current Income and Expenses, now is the time to begin!

Where will your retirement income come from? The primary sources for most retirees are Social Security, public and private pensions, and personal savings and investments. Between 10 and 20 percent of retirees also have earnings from post-retirement employment. Do you plan to work after "retirement?"

Pensions are important benefits provided by private and public employers. If you have rights to a pension, you are fortunate. Many people work in jobs where no pensions are provided or they have not worked long enough in any one job to earn vested rights to a pension. ("Vesting" refers to the date when you are entitled to the money you and your employer have contributed to your pension, even if you leave the job before you retire.)

If you do have rights to a pension, what kind is it? Pension plans can be one of two types–a defined benefit or defined contribution plan.

Defined-benefit plans. With a defined benefit plan, your employer promises you a specific benefit that is calculated by a formula based on your years of employment and pay. For example, the average of your last three or five year's salary multiplied by the number of years of service.

Defined-contribution plans. With a defined contribution plan, you, your employer, or both, set aside money during your working years to establish a fund that pays retirement benefits when you leave that employer or retire. The amount of the contributions made to the plan are clearly specified, but because the account fluctuates with investment gains and losses, expenses and interest, the exact amount of the benefit remains unknown until withdrawal.

Pension plans are not all the same. There are four basic methods that pension plans can use to determine vesting, and they can also credit years of service differently. If you are away from your job for long periods, some years may not count. Most plans use age 65 as the "normal retirement age." Retiring earlier than age 65 will generally give you a reduced benefit.

Pension plans must provide a "joint and survivor" option as one payout alternative. Then, if the retired employee dies, his or her spouse can continue to receive payments. Choosing this option means that the retiree's monthly benefits will be less. If you and your spouse do not want a J&S option, both of you must sign and have notarized a statement saying that you do not want this choice.

If you don't know what pension rights you have, and how much your pension might be, talk to someone in the personnel or human resources office of your employer and ask for a projection of your benefit payments. Ask if your employer "integrates" your pension with Social Security, which means a certain percentage of your Social Security benefit will be subtracted from your pension, thus reducing your pension income. Find out what your payout options are. Will it be a fixed number of dollars? Can you receive a lump sum that you then invest or will it be paid in monthly or annual checks? If you take your pension in a lump sum there may be significant tax consequences unless you reinvest it in an Individual Retirement Account (IRA) within a specific time limit. (For more on IRAs, see Financial Freedom fact sheet FL/FF 06, *Withdrawals from Individual Retirement Accounts [IRAs],* available at http://extension.usu.edu/publica/fampubs.htm.)

Continued Employment. Do you plan to "retire" to a new career? Do you plan to work part-time in retirement to add to your income? More than two-thirds of today's workers say they plan to work for pay after they retire. Since Congress repealed the restriction on earnings in 1999, seniors can work for any amount of money without giving back a portion of their Social Security benefits.

Adapted from *Understanding Your Pension,* developed by Janet Bechman, Purdue University Extension Service, West Lafayette, IN and *Planning for Retirement Income*, developed by Jeanne Hogarth, Cornell Cooperative Extension, Ithaca, NY.

HOW WILL YOU FUND YOUR DREAMS?

Most people have a gap between their desired retirement income and the amount that will be provided by Social Security and employer pension or retirement benefits. Personal savings and investments can help fill in the rest.

If you haven't started saving money for retirement, now is the time to start. The more sources of income you have (and the earlier you start saving) the more comfortable your retirement is likely to be. What are some strategies you can use to fund your retirement dream? You could open an Individual Retirement Account (IRA) and invest up to $2,000 in a tax-deferred account ($4,000 for married couples) each year. Or you could increase the amount you contribute to employer-sponsored retirement accounts at work, like 401(k)s. You can have regular deductions from your paycheck deposited into a mutual fund or brokerage account. You can set aside any raises and/or tax refunds. All of these strategies will help you meet your financial goals for retirement.

INVESTMENT ALTERNATIVES

Money and risk always go together. Even if you put all your extra cash into a peach can buried in your back yard, you're taking a risk. Someone might steal it, the dog might dig it up, and over the years inflation will erode its purchasing power. On the other hand, investing your savings is a risk too. The bigger risk you are willing to take, the bigger your possible gain or loss. ***There is no such thing as a risk-free investment.***

How can a relatively inexperienced investor cope with the risks which are built into all investments? Probably the best strategy is to divide your money between several categories of well-researched and thought-out investments, each of which promises to grow somewhat faster than the rate of inflation. And within each category, to further diversify your holdings by spreading your money across a number of individual investments. This is what well-run stock or bond mutual fund companies do when they purchase the stock of established businesses.

Here is an overview of the types of investments, presented roughly in the order of increasing risk:

Low Risk Investments. Low risk often means low return. Your rate of return needs to at least equal inflation or you are losing money faster than you are making it. Some low risk investments include bank savings accounts, CDs, money market accounts, Treasury bills, EE savings bonds, and fixed-rate annuities. In some circles, real estate such as apartments and undeveloped land is considered a low-risk investment, but it has problems associated with it that make it a less attractive alternative than some other choices (see below). Most bonds are low-risk options.

Moderate Risk Investments. In the area of moderate risk, high quality stocks such as utilities, "blue chip," and growth stocks are all good choices. Mutual funds come with a variety of fund objectives to meet a wide spectrum of investor needs. Variable-rate annuities are moderate risk, although they offer no guaranteed rate of return.

High Risk Investments. High risk investments offer the highest rates of return for the money you put in. Small company (small cap) funds fall into this category, as do sector funds (funds which invest in just one sector of the market such as high tech), emerging market funds, gold and precious metals, and collectibles.

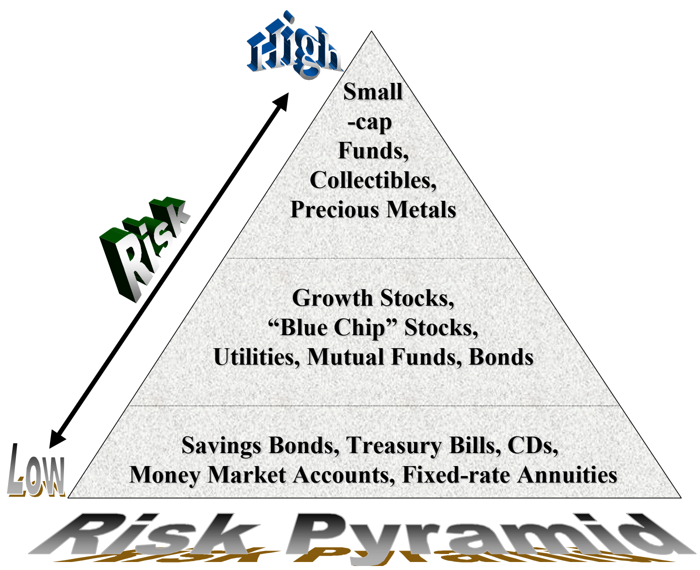
LOW RISK INVESTMENTS

Remember in Unit 3 when you looked at places to put your savings account? Those were low-risk options because they sacrificed higher rates of return for safety and stability. You want that for a savings account, but not as a long-term investment vehicle. If your investment choice is only paying 4% and inflation is running at 3.6%, you are barely keeping up. This section reviews some of those choices.

Savings and Money Market Accounts at banks and credit unions have one big advantage. They are insured by the federal government for up to $100,000 per account. By setting up accounts in different financial institutions you can obtain insurance coverage for unlimited amounts. Savings accounts offer quick and easy access to your money in case of an emergency–but so do other types of investments that pay a higher rate of return.

Certificates of Deposit increase your rate of return over a passbook savings account if you can tie your money up for an extended period of time (6 months, 1 year, 2 years, or 10). The longer you commit your money, the higher the interest rate. Shop around for the best rate; they vary significantly from institution to institution.

Money Market Mutual Funds pay a significantly higher interest rate than bank savings accounts and sometimes slightly more than bank CDs. Your money is readily available (unlike CDs), but there is no government insurance. Most funds invest in short-term U.S. Treasury securities. This is a conservative choice and not the best pick for the long-term as their main objective is capital preservation, not growth.



U.S. Treasury Securities. The U.S. government sells securities in the form of treasury bills, notes, and bonds to finance its debt. The securities are backed by the U.S. government. Interest is exempt from state and local taxes. *Treasury Bills* sell at a discount from face value. Bills don’t have a stated interest rate, the yield is the difference between the purchase price and the face value. Bills mature in 13, 26, or 52 weeks. A minimum investment is $10,000. *Treasury Notes* mature in 1 to10 years, and pay a fixed interest rate twice a year. A minimum investment is $1000 for notes maturing in four years or more and $5000 for those maturing in less than four years. *Treasury Bonds* mature in 10 years or more (up to 30 years). Bonds pay a stated rate of interest which is paid twice a year. Here the minimum investment is $1000. Although Treasury securities are very safe, if interest rates rise, the market price of your security will decline. If interest rates fall, the market price of your security will rise.

Savings Bonds. EE savings bonds are issued at a 50% discount (a $50 bond costs $25) and mature in twelve years or less depending on interest rate. You do not pay any state or local taxes. EE bonds come in denominations from $50 to $10,000. At the time this is written, EE bonds are earning 5.73%, I bonds 7.49%, and HH bonds (which can only be purchased by rolling over EE bonds) are paying 4.00%. If you have Internet access, there is a world of information about savings bonds at http://www.savingsbonds.gov.

Fixed-rate Annuities are a contract between you and an insurance company. In exchange for an up-front payment, this type of annuity guarantees you a monthly or annual payment for the rest of your life. In effect you are making a bet with the insurance company; if you live beyond your life expectancy, you'll collect way more than you paid for the annuity. If you live only a few years, you will collect much less. Annuities are popular because they are tax deferred and the rate of return, although fixed, is better than that of CDs. They usually carry higher management fees than some other investment alternatives. Be sure to check with rating companies such as A.M. Best (http://www.ambest.com), Moody's (http://www.moodys.com) and Duff and Phelps (http://www.duffllc.com) before buying. Annuities generally require a $5,000 minimum investment.

BONDS (ANOTHER LOW-RISK INVESTMENT)

Other than U.S. Treasury bonds (see above), there are two other kinds of bonds that are purchased by conservative investors: municipal and corporate.

Municipal bonds are issued by states, cities, and other government agencies, primarily to raise money for some kind of building project (schools, libraries, sewer systems and such). The income an investor receives from municipal bonds is not taxed by the federal government or the state where the bond is issued. Municipal bonds pay a lower rate of interest than that paid on corporate bonds. But bonds can make sense for an investor if they are in a high tax bracket or live in states with relatively high income taxes. If you buy at different maturity dates, you spread out the risk. To avoid the risk inherent in buying bonds from just one or two municipalities, you can buy shares in municipal bond funds. They are widely available from dozens of investment companies.

Corporate bonds don't carry the same tax advantages as municipal bonds, but they generally have a higher rate of return. Corporate bonds perform the same function that municipal bonds do; they allow for-profit companies to raise capital for expansion and on-going operations. Corporate bonds generally pay higher interest rates than municipal bonds as they are riskier. Therefore, investors have to be compensated for their greater risk. Look for bonds with an A or higher rating from Standard and Poors (http://www.standardandpoors.com) or Moodys (http://www.moodys.com). "Junk" bonds have to pay a high rate of return just to find purchasers who are willing to take the added risk. As with municipal bonds, you can spread your risk by buying a corporate bond mutual fund which invests in the bonds of many companies. Finance magazines such as **Kiplinger's Personal Finance, Money, Business Week**, and **Forbes** regularly rate the performance of different bond funds.

REAL ESTATE (AS AN INVESTMENT)

Many people look at real estate (not your home, but commercial-use property or residential rental units) as a good low- to moderate-risk investment. But there are several drawbacks to investing in real estate that you might want to consider first.

One is diversification. You most likely already own a house or condominium and have a large portion of your assets tied up in real estate. Do you really want to put more eggs into this basket? Second is the lack of knowledge factor. If you don't work in real estate, how will you gain the intimate knowledge of the local market that you need to be a savvy investor?

Third is what has been called the "dirty-hands factor." If you buy rental units, can you repair the plumbing, fix broken steps, replace hot water heaters? If you own it, you are the person tenants will call when something goes wrong. If you don't do the maintenance and repair yourself, you will have to find people who will do the work and keep track of the costs. In addition, if you own rental property, you open yourself up to lawsuits by tenants who trip over a skateboard left in an unlighted hall or are otherwise harmed on your property. You will need lots of liability insurance to protect your personal assets.

If you have most of your investment money and savings tied up in real estate, it will take time to get your money out. Real estate isn't a very liquid investment. If you buy undeveloped land with the hope that a shopping center will locate there and you can sell for a big profit in the future, you have to figure in the taxes and insurance you will pay every year until the land is sold.

If you really like the idea of investing in real estate, limit some of the negatives by investing in a real estate investment trust (REIT). REITs operate like a real estate mutual fund to pool investors' contributions and invest them in commercial and residential real estate. Like a mutual fund, REITs provide diversification and professional management. They are required to distribute almost all of their annual income as dividends to investors. REIT shares are purchased from brokers and trade like stock on major exchanges. Additional information about REITs can be obtained from brokerage firms or the National Association of Real Estate Investment Trusts (http://www.nareit.com).

Another way to invest in real estate is to buy Ginnie Maes. Ginnie Maes are home mortgage-backed securities issued by the Government National Mortgage Association (GNMA). There are also Freddie Mac (Federal Home Loan Mortgage Corporation) and Fannie Mae (Federal National Mortgage Association) mortgage pools. Ginnie Maes are the most popular because they carry the "full faith and credit" guarantee of the federal government. In fact, Ginny Mae securities are the only ones in the mortgage market that carry the same unconditional federal government guarantee as Treasury bonds.

Maes and Macs are similar to bonds in that they bear interest and carry maturity dates. But they differ from bonds in that they return part of your principal along with interest payments. With Ginnie Maes and Fannie Maes the investor receives a check representing interest plus a return of principal every month. Freddie Macs pay interest monthly, but you may have to wait up to a year to collect on your principal. Maes and Macs are primarily for the income-oriented investor. They generally carry high yields but you can never be certain how much money you will receive each month and how long those payments will last. If you invest in a pool backed by 30-year mortgages that are paid down at a faster-than-average rate, you'll get a higher effective yield than the one quoted, but the investment will mature sooner. If the homeowners in your mortgage pool are paying back their mortgages at a slower-than-average rate, your effective yield will be lower but the investment will pay out longer. If you have Internet access, more information on Maes and Macs can be found at http://www.fanniemae.com, http://wwwginniemae.gov, and http://www.freddiemac.com.

MODERATE-RISK INVESTMENTS

Stocks. Each share of stock consists of a small ownership or equity interest in the corporation that issues it. If the company's profits increase, or some other positive event occurs, the price of the stock will go up. Of course, stocks may also lose money or the company may suffer some serious problems (like a product recall) and then the price will drop. However, over the long term, stocks have outperformed other types of investments, including bonds.

Mutual funds are a way for investors to pool their funds together and then buy stock in a number of companies. There are two great advantages to mutual funds–one is turning the job of picking and managing your investments over to the experts and the other is increased portfolio diversification. Most investors with limited capital can't afford to buy a little of this and a little of that to create true diversification. But investing in a mutual fund creates a diversified portfolio immediately. More on mutual funds below.

Variable-rate Annuities are similar to fixed-rate annuities in that they are a contract with an insurance company, except that in this instance, the company chooses investments from an array of investment vehicles so they don't pay a steady return but one that fluctuates with the stock market. You could get back less than you put in or more. Often annuities have an insurance feature guaranteeing that if you die before you begin withdrawals, your beneficiaries will receive at least as much as you have contributed. The advantage of variable annuities is that the money you invest grows free of income and capital gains tax. But earnings you invest in an annuity are subject to federal income tax in the year they are withdrawn (at ordinary income rates, not capital gains). Annuities can be a good investment for those in a high tax bracket. But the considerable fees they charge can more than offset the advantage of having your taxes on earnings deferred.

HIGH RISK INVESTMENTS

High risk investments are those that promise the highest returns for your investment dollar. And of course the most risk. Some of the riskier high-return investments are:

*Speculative stock*s are those of companies that are growing rapidly and have potential for the future. They tend to make rapid gains in a rising stock market. But big gains can be followed by equally sudden drops.

Commodities. At the very top of the investment risk pyramid are commodities. These include products such as pork, grains, coffee, and sugar. To invest wisely, you need considerable knowledge of the commodity in question and the markets in which it is created and sold as well as the changing situations of the buyers.

Gold and precious metals tend to skyrocket in value in times of high inflation but there is a tremendous downside too. The payoff here is that a major financial disaster will cause inflation to go completely out of control or some other catastrophic happening (like a major war in the Middle East that shuts off oil supplies) will reduce the value of paper money. Investments in these items produce no interest or dividends and you might have a hard time finding buyers when you need them. A better approach is to buy stock in one of the companies that mines gold or a mutual fund that specializes in gold-mining stocks.

Collectibles such as antiques, toys, sports memorabilia, and so forth are only for the experienced and knowledgeable collector. To make money with this type of investment you need a collection of items in top condition stored in an environment that will protect them. Regular maintenance, insurance and sealed storage may be necessary. When you want to sell, it can take a while to find a buyer willing to pay your price.

DIVERSIFICATION: MANY EGGS, MANY BASKETS

How can a relatively inexperienced investor cope with risk? No investor, not even Warren Buffet, is smart enough or lucky enough to be right all the time or even a majority of the time. Knowing this, financial planners advise selecting a variety of investment vehicles. Done properly, diversification can reduce about 70% of the total risk of investing.

There are really just a few simple rules for asset diversification. The first is to invest in a variety of assets, in other words, a mix of stocks, bonds, and cash-based securities like Treasuries or CDs. Choose a variety of securities or funds within one asset class, for example stocks from large, medium, small, and international companies in different industries. And finally, when buying bonds, choose a variety of maturity dates.

By diversifying, you won't lose as much as if you put money into just one investment vehicle right before its value goes down. If the market goes straight up from the time you invest, you won't make as much with a diversified portfolio either. However, most people are concerned about protecting their retirement fund from dramatic losses.

Another technique to soften the ups and downs of the investment market is dollar-cost averaging. Using this method, you invest a set amount of money on a regular basis over a long period of time–regardless of the price per share of the investment. By doing so, you purchase more shares when the price is down and fewer when the market is high. As a result, you will acquire most of your shares at a below-average cost per share. As most investors know, market timing–always buying low and selling high–is very hard to accomplish. Dollar-cost averaging takes much of the guesswork and emotion out of investing.

A third way to acquire instant diversification is to purchase mutual funds.

MUTUAL FUNDS BASICS

There are a few things to keep in mind if you're considering investing in mutual funds. All mutual funds are not created equal. Some are excellent investments, others just do reasonably well. And some fund managers are complete dunderheads. How to know one from the other?

First, check the fund's rating with Morningstar (http://www.morningstar, or the reference section of your local library) just as a preliminary precaution. They have a 5-4-3-2-1 star rating system on a number of factors. Look at the funds with 4- and 5-star ratings. Second, look at the financial press. Magazines such as **Smart Money**, **Kiplinger's**, **Money**, **Mutual Fund**, **Business Week**, **Forbes**, even **Consumer Reports**, publish annual reports on stock and bond funds. See if the same fund is mentioned as performing well in several of these magazines. Look for funds that have been in existence for a number of years and have not recently changed managers.

What type of companies is the fund investing in? There are probably as many flavors of mutual funds as there are of ice cream. There are growth funds, growth and income funds, social consciousness funds that only invest in environmentally friendly companies and so forth. It is important to find a fund (or funds) whose objectives match yours. If you want growth but not income, you can find funds that do that. If you believe that "tech" stocks are the future, you can buy mutual funds that only invest in high tech companies.

You can diversify even more by spreading your money among several funds. Many investment firms have "fund families" that allow you to move your money from one fund to another easily. You might consider an index fund which mimics the entire market or a broad segment of the market (such as the S&P 500). Index funds are created on the theory that most funds don't outperform the market, so they match their portfolio to one or the other index and a computer does the picking. That way very little buying and selling (read transaction fees) needs to be done.

Mutual fund companies sell their products as "load" or "no-load" funds. A load is an up-front sales commission. A no-load fund puts all of your money to work for you from day one. But some no-loads are really "back-loaded," meaning a commission is charged when you sell your shares, so look for that feature. Even though they are no-loads, every mutual fund charges management fees, called 12(b)[1] fees. What percentage of your investment dollar is going there? Every mutual fund must publish a prospectus listing all fees, so it is easy to check.

DO YOUR HOMEWORK FIRST

Before you invest, check for quality. These companies are rating services and are available in most public libraries and on the Internet.

Bonds: Standard and Poors S&P Ratings, 10 South Wacker Drive, Suite 2915, Chicago, IL 60606, phone: 312-831-0400,(www.standardandpoors.com) and Moody's Financial Communications Inc., 60 Madison Avenue, New York, NY 10010, phone 800-342-5647, (http://www.moodys.com).

Annuities: Standard and Poors, Moodys, A.M. Best, Ambest Road, Oldwich, NJ 08858, phone: 908/ 439-2200, (http://www.ambest.com).

Stocks: ValueLine, 220 East 42nd Street, New York, NY 10017-5891, phone 800-535-9648, (http://www.valueline.com), Standard & Poors Stock Guide

Mutual Funds: Morningstar Mutual Funds, 225 West Wacker Drive, Chicago, IL 60606, phone: 800-735-0700 (http://www.morningstar.com).

For government sources, check the U.S. Securities and Exchange Commission, Office of Investor Education and Assistance, 450 5th Street, NW, Washington DC 20549, phone: 800-732-0330 or http://www.sec.gov.

Annual subscriptions to Morningstar and ValueLine cost $425 and $295 respectively. Fortunately these publications are available in most library reference rooms and can be consulted free of charge. Trial subscriptions for three months are also available for $55 (Morningstar) and $49 (ValueLine).

There are three investor organizations that might also be of assistance in your search.
American Association of Individual Investors (AAII), 625 N. Michigan Avenue, Suite 1900, Chicago, IL 60611-311, phone 312-280-0170 or http://www.aaii.com. Individual membership in AAII costs $49 per year and includes the AAII Journal, an annual no-load mutual fund investor's guide, an annual tax publication, local chapter membership, and reduced registration fees for investment seminars and an annual AAII national conference.

National Association of Investors Corporation (NAIC), P.O. Box 220, Royal Oak, MI 48068, phone: 248-583-6242 or http://www.better-investing.org. NAIC membership costs $39 a year for an individual or $35 for an investment club and $14 per club members. NAIC provides stock selection materials and software and a low-cost investment plan that allows members to purchase their first share of stock from participating companies. Two other member services are the monthly magazine Better Investing and over 75 regional councils that provide local seminars and investor assistance.

The Investor's Alliance, Inc., 219 Commercial Boulevard, Fort Lauderdale, FL 33308-4440, phone: 888-683-1181, or http//www.freequote.com. Membership in Investor's Alliance costs $49 per year and includes 12 issues of the Investor Journal newsletter. For $89 a year, members can also receive free daily securities updates via a modem. Stock purchase discounts are available to members at either level.

An excellent resource for beginning investors is the online basic investing home study course offered by the Cooperative State Research, Education and Extension Service of USDA. The course is called *Investing for Your Future* and is available at http://www.investing.rutgers.edu.

Adapted from *Getting Help: A Guide to Investor Resources*, developed by Barbara O'Neill, Rutgers Cooperative Extension, Newton, NJ.

PURCHASING STOCK IN INDIVIDUAL COMPANIES

Purchasing stock in individual companies is an alternative to investing in the market by purchasing mutual funds. Signing up with one of the many low-cost Internet brokers, or establishing an account with a conventional broker is not difficult. But do you have or are you willing to take the time to become knowledgeable about the market? As a novice investor, you are very unlikely to pick a stock that outperforms market averages. Every time you cash in a stock you'll be obligated to pay capital gains on your profits, reducing the amount you have to spend next time. Finally, you can invest in an underperforming stock and lose your savings overnight. A stockbroker was overheard to say that for every seven stocks she buys, two do better than she expected, two do worse, and three perform as anticipated.

If you buy individual stocks, every transaction costs you fees, so if you are determined to buy stocks one by one, then use a discount or deep discount broker. Many are online. Learn everything about the companies you do invest in; don't rely on the advice of one sales agent or broker. Read the financial press to gain information about companies and industries you are familiar with and learn everything you can about them. Pick stocks you plan to hold for an extended period. If you buy and sell often, taxes and trading costs can eat up your profits. Just say "no" to day-trading strategies that emphasize buying and selling the same day to make lots of small profits.

KEEPING TRACK

Every time you sell a share of stock or a bond or mutual fund at a profit, taxes are due. Investment assets held for a year or less are taxed at the rate of ordinary income (rates range from

15 to 39.6%). Investment assets held for more than a year are taxed at a maximum rate of 18% (8% for investors in the 15% marginal tax bracket). These rules make it critical that you keep track of every investment– what it was, when you bought it, how much you bought, and the purchase price. Record the date the asset was sold and what the net proceeds were. Statements from your bank, credit union or broker will help you keep track of your individual investments but only you know the whole picture. Their statements will also help you keep track of reinvested dividends for each reinvestment is treated as a new purchase. When you sell, knowing what you bought when is critical to get the best tax advantage.

Go back to the Summary Record you completed in Unit 1. There are separate forms for entering this information for individual stocks, bonds and mutual funds. Net purchase price is the price plus the cost of the asset plus commissions. Net proceeds are the amount received from the sale minus commissions or fees. Your net purchase price minus net proceeds determines your capital gain or loss. You can also use the handout, **Keeping Track of Your Investments**, to follow your investment purchases.

WORKING WITH AN INVESTMENT ADVISOR

Being an investor takes some know-how. You can do it yourself or you can reach out to people in the financial services industry to find advice and help. Investment advisors can save you time and money. However, unlike doctors, lawyers and accountants, who set and enforce defined standards of professional training and licensing, there are many people who can hang up their shingle and call themselves an investment advisor. The one credential that holds practitioners to the most rigorous standards is the certified financial planner (CFP) designation which is issued by the Certified Financial Planner Board of Standards in Denver.

Because finding a good advisor you can work with is so important, it pays to get referrals from friends and other professionals. Ask these people if they are satisfied with the investment advisor's services. Remember to interview at least three people before choosing the one you want to work with. Here are some questions to ask:

- What professional training do they have? Do they have a college degree and/or a graduate degree? Ask them what subject matter area their degree is in. You can also ask them what special education and training they have in financial planning education. Ask what certification they have, if any, in the area of investments and/or financial planning. What do they do to keep themselves updated? Try to find out how much professional training they receive each year.

- What professional organizations do they belong to? Membership in professional organizations related to investments and financial planning will help keep them aware of changes in their field. It is helpful to ask if they participate in the meetings of their professional organizations.

- Ask how they get paid. It may feel awkward, but you have to know who is paying them and how that is influencing the advice you receive. Do they sell products that generate commissions or do they work as a fee-only advisor? If they say fee-only, learn how they determine their fee. Is it based on an hourly basis, a flat fee, or a percentage of your invested income? Ask them if their fees have a cap or maximum amount. If they work on fee and commissions, ask them if there is any credit for the flat fee after the commissions reach a certain amount.

- What financial services do they provide? Learn if their services include cash management, tax planning, estate planning, insurance needs and retirement planning. What is their experience in working with people like you? What income level do most of their clients have?

- Will they be the only one working on your plan? What are the qualifications of others who will be involved? Will any other partner in the firm receive income the advisor charges to you? What kind of continuing services will you receive? Ask if there are additional fees for this help.

- Learn if the investment advisor will provide you with a written analysis and recommendations for reaching your financial goals. You can ask to see a sample of the investment plan they will offer you if you decide to use their services. Examine the sample plan to be sure you understand it. Ask if they will assist you with implementing their recommendations. They may help you or refer you to other investment professionals.

- Under most circumstances, firms offering investment advice are required to be registered with the SEC. Ask if their firm is registered with the U.S. Securities and Exchange Commission or the State of Utah Division of Securities.

When you do buy, the check should always be made to the brokerage firm or to the investment company that issued the investment. A reputable advisor would never run your money through his or her personal account. Don’t give your advisor blanket permission to buy and sell on your account. If you do, you lose control and that can lead to excess commissions and fees.

Remember it is your future and your money. Take time to know who will be giving you guidance and suggestions. Always ask your advisor what can go wrong before you make any investment decision. Know the risks as well as the benefits before you invest.

Adapted from *Talking to a Financial Planner*, developed by Suzanne Badenhop, Extension Specialist, University of Kentucky, Lexington.

WORKSHEET 11: **YOUR RETIREMENT LIFESTYLE**

What will your lifestyle be like during retirement? Beside each item listed below, describe what you really want in retirement.

1. Your home(where you will live):

2. Transportation (your own car, public transportation)

3. Food (how often will you eat out or entertain friends or family?)

4. Clothing and personal care (how will these needs change?

5. Health and health care (exercise equipment, health club fees)

6. Entertainment (movies, reading books, theater, clubs, shopping)

7. Hobbies (wood working, gardening)

8. Recreation (golfing, fishing)

9. Travel

WORKSHEET 12: **ESTIMATED ANNUAL COST OF LIVING**

Fill in the first column with what you are now spending annually to live. Then figure the Inflation Factor by following the steps listed on the Inflation Factor table on page 6. Fill in the inflation factor in the second column. (You may do this only for the total or for each category of costs.) Multiply column 1 by column 2 to get an idea of the income you will need your first year of retirement.

	Totals if You Were Retired Now	**Inflation Factor**	**Future Budget at Time of Retirement in ______Years**
Shelter	$		$
Household Operation and Maintenance	$		$
Home Improvement............................	$		$
Automobile and Transportation............	$		$
Food...	$		$
Clothing...	$		$
Personal...	$		$
Medical and Health.............................	$		$
Recreation, Education.........................	$		$
Contributions......................................	$		$
Taxes...	$		$
Insurance..	$		$
Savings, Investments...........................	$		$
Any Future Irregular Expense (ex. new roof, new car, new furnace)	$		$
TOTAL	$		$

Adapted from “Planning a Retirement Budget, “CEH Topics,” Hogarth, Cornell University, 1987.

WORKSHEET 13: **ESTIMATED CHANGES IN SPENDING AFTER RETIREMENT**

Use this worksheet to calculate possible changes in your expenses. For each expense category, figure the difference between what you are spending now and what you expect to spend after retirement. If the retirement expenses will be lower, put the difference in the "less" column; if it will be higher, put the difference in the "more" column. Add the figures in both columns and compare the totals. Which total is larger" What does that suggest about your future spending? Will you need to make some changes in what you expect to spend?

Expense	Now Spend About How Much?	Expect to Spend After Retirement	Less After Retirement	More After Retirement
Work Related:				
Transportation	$__________	$__________	$________	$__________
Clothing	$ _________	$__________	$________	$__________
Dues	$__________	$__________	$________	$__________
Meals	$__________	$__________	$________	$__________
Other	$__________	$__________	$________	$__________
Society Security Taxes (taken out of check)	$_________	$__________	$________	$__________
Income Taxes	$__________	$__________	$________	$__________
Pension Plan Contributions	$__________	$__________	$________	$________
Contributions to Other Retirement Accounts (IRA, etc.)	$__________	$__________	$________	$__________
Savings, Investments for Retirement	$__________	$__________	$________	$__________
Travel	$__________	$__________	$________	$__________
Entertainment, Leisure Activities	$__________	$__________	$________	$__________
Health Insurance	$__________	$__________	$________	$__________
Other Health Care	$__________	$__________	$________	$__________
			$________	$__________
			Less	More

Adapted from "Financial Planning for Retirement," NCR-265, Field & Hathaway, Michigan State University CES, 5/87.

THE INFLATION FACTOR

What is inflation? It is a widespread and sustained increase in the general price level of goods and services. Economists say when prices go up 3 percent or more a year, the country is in a state of inflation. While just about everyone gets hurt by inflation, people who live on fixed incomes may feel the crunch more than others because each of their dollars buys less. Increases in inflation rates have been extremely modest in recent years–between 2 percent and 4 percent. But even a 2 percent increase every year will have a cumulative effect, and prices will be higher in the future than they are right now. That's why it makes sense to build inflation into your retirement plans.

On Worksheet #? . "Estimated Annual Cost of Living," you filled in the first column with the cost you calculated for each of the expense categories listed. To fill in the second column, turn to Table 1. "Annual Rate of Inflation."

(1) Choose the number of years you have until your retirement starts from the column on the left of Table 1, "Years to Retirement."

(2) Then select an inflation rate from the row across the top. Inflation cannot be predicted from year to year. In 1980, it was 12.4 percent. In 1997, it was 2.2 percent.

(3) Read across and down to find the appropriate inflation factor corresponding to your predicted rate of inflation. For example, 10 years at 6 percent inflation gives a factor of 1.79.

(4) Multiply your estimated annual cost of living expenses from the first column of worksheet 2 by the inflation factor to get an idea of the amount of income you will need for your first year of retirement. (Example: $14,000 x 1.79 = $25,060.)

Table 1. Annual Rate of Inflation

Years to Retirement	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%
1	1.02	1.03	1.04	1.05	1.06	1.07	1.08	1.09	1.10	1.11
2	1.04	1.06	1.08	1.10	1.12	1.15	1.17	1.19	1.21	1.23
3	1.06	1.09	1.13	1.16	1.19	1.23	1.26	1.30	1.33	1.37
4	1.08	1.13	1.17	1.22	1.26	1.31	1.36	1.41	1.46	1.52
5	1.10	1.16	1.22	1.28	1.34	1.40	1.47	1.54	1.61	1.69
6	1.12	1.19	1.27	1.34	1.42	1.50	1.59	1.68	1.77	1.87
7	1.14	1.23	1.32	1.41	1.50	1.61	1.71	1.83	1.95	2.08
8	1.16	1.27	1.37	1.48	1.59	1.72	1.85	1.99	2.14	2.30
9	1.18	1.31	1.42	1.55	1.69	1.84	2.00	2.17	2.36	2.56
10	1.20	1.34	1.48	1.63	1.79	1.97	2.16	2.37	2.59	2.84
11	1.22	1.38	1.54	1.71	1.90	2.11	2.33	2.58	2.85	3.15
12	1.24	1.43	1.60	1.80	2.01	2.25	2.52	2.81	3.14	3.50
13	1.26	1.47	1.67	1.89	2.13	2.41	2.72	3.07	3.45	3.88
14	1.28	1.51	1.73	1.98	2.26	2.58	2.94	3.34	3.80	4.31
15	1.30	1.56	1.80	2.08	2 .40	2.76	3.17	3.64	4.18	4.78
16	1.32	1.61	1.87	2.18	2.54	2.95	3.43	3.97	4.60	5.31
17	1.34	1.65	1.95	2.29	2.69	3.16	3.70	4.33	5.05	5.90
18	1.36	1.70	2.03	2.41	2.85	3.38	4.00	4.72	5.56	6.54
19	1.38	1.75	2.11	2.53	3.03	3.62	4.32	5.14	6.12	7.26
20	1.40	1.81	2.19	2.65	3.21	3.87	4.66	5.60	6.73	8.06

WORKSHEET 14: CALCULATING THE EFFECT OF INFLATION ON YOUR BUDGET

(1) You would like to retire at age ______. That would be _______ years from now.
(2) What do you think the average inflation rate will be over those years? _____ percent.
(3) Inflation factor (from page 92) = __________.
(4) Your estimated retirement expenses of $ _________ x inflation factor of _________ = $_____________ income needed the first year of retirement to live as you plan.

Example:

(1) Mr. And Mrs. Jones would like to retire at age 62, 11 years from now.
(2) They guess that the inflation rate will rise but slowly and average about 5 percent.
(3) 11 years at 5 percent = 1.71 inflation factor.
(4) Their estimated retirement expenses of $32,277 expenses x inflation factor of 1.71 = $55,194 income needed in their first year of retirement to live as they plan.

"U.S. Life Expectancies, 1994" – All Races

Year	Box Sexes	Male	Female
1994	75.7	72.4	79.0
1993	75.5	72.2	78.8
1992	75.8	72.3	79.1
1991	75.5	72.0	78.9
1990	75.4	71.8	78.8
1989	75.1	71.7	78.5
1988	74.9	71.4	78.3
1987	74.9	71.4	78.3
1986	74.7	71.2	78.2
1985	74.7	71.1	78.2
1984	74.7	71.1	78.2
1983	74.6	71.0	78.1
1982	74.5	70.8	78.1
1981	74.1	70.4	77.8
1980	73.7	70.0	77.4
1979	73.9	70.0	77.8
1978	73.5	69.6	77.3
1977	73.3	69.5	77.2
1976	72.9	69.1	76.8
1975	72.6	68.8	76.6
1974	72.0	68.2	75.9
1973	71.4	67.6	75.3
1972	71.2	67.4	75.1
1971	71.1	67.4	75.0
1970	70.8	67.1	74.7
1960	69.7	66.6	73.1
1950	68.2	65.6	71.1
1940	62.9	60.8	65.2

From: Singh G. K., Koehanek K.D., & MacDorman M. Advance report of final mortality statistics, 1994. **Monthly vital statistics report; vol. 45 no. 3., supp.** P. 19. Hyattsville, Maryland: National Center for Health Statistics. 1996.

WORKSHEET 15: **LARGE FUTURE IRREGULAR EXPENSES**

Expense	**Year Bought**	**Ave. Expected Years of Life**	**Year to Replace**	**Present Price**	****Est. Price in Replacement Year**
Vehicles:					
Car	_______	?	______	$______	$__________
Other Vehicles	_______	?	______	$______	$__________
Appliances:					
Range	_______	12-13	______	$______	$__________
Refrigerator	_______	15	______	$______	$__________
Dishwasher	_______	11	______	$______	$__________
Washer	_______	11	______	$______	$__________
Dryer	_______	13-14	______	$______	$__________
Freezer	_______	20	______	$______	$__________
Furnace	_______	25-30	______	$______	$__________
Water heater	_______	12	______	$______	$__________
Other	_______	_____	______	$______	$__________
House:					
Roof (varies with type)	_______	15-30	______	$______	$__________
Fencing	_______	20-30	______	$______	$__________
Other	_______	_____	______	$______	$__________
Furnishings:					
Carpet	_______	8-15	______	$______	$__________
Draperies, Window	_______	10	______	$______	$__________
Treatments	_______	15	______	$______	$__________
Floor, hard surface	_______	will vary	______	$______	$__________
Furniture	_______	______	______	$______	$__________
Other					

**Can calculate by 1) counting years until replacement year; 2) choosing inflation factor from that chart and multiplying by "present price," *or* you can stop with "present price" and enter total for each year on Worksheet "Estimated Annual Costs," and multiply that total by the inflation factor selected.

Adapted from "Financial Planning for Retirement," NCR-264, Field & Hathaway, Michigan State University CES, 5/87.

UNIT 6: PLANNING FOR YOUR FUTURE

Planning prepares you for the expected and unexpected occurrences that happen in life. Many people fail to plan for life-altering events such as a sudden and incapacitating illness, death (their own or a spouse's), separation, divorce or remarriage. Yet all these circumstances would have a momentous impact on your finances.

Planning for the future means looking at where you stand now financially, and the actions you need to take to secure your financial future. This unit discusses preparing a will or living trust, probate, living wills and health care powers of attorney, a letter of last instructions, living alone due to widowhood or divorce, and remarriage. Probably the most important action you can take is making sure that your family members have the information and knowledge they need to cope emotionally and survive financially if you should die suddenly or become incapacitated.

Such steps need to be taken by everyone. However, the need to take them is especially great if you are only 5 or 10 years away from retirement. You've spent all your working years saving and investing, building up a retirement fund and other assets, and now you need to decide how you are going to live in the near future and how you are going to distribute your estate.

MAKING A WILL

A will is a legal document that puts your wishes on paper. If you die intestate–that is, without a will–the state will distribute your property according to its laws, which may not be what you would like at all (see Various Forms of Ownership, below).

Most of us don't intend to die without a will, but it does happen fairly often. It is particularly important to have a will if you have minor children, who will need to have a guardian appointed to take care of them and any assets they may inherit. In naming a guardian, you will want to choose someone whose philosophy on raising children is similar to yours and who is willing to accept the responsibility.

Selecting an *executor* is another important part of preparing a will. Your executor can be a family member, a friend, an attorney, an accountant, or the trust department of your bank. It just needs to be someone both willing and able to carry out the complicated tasks assigned to the job. These include preparing an inventory of assets, collecting any money due your estate, paying off any debts, preparing and filing all income and estate tax returns, liquidating assets, distributing the estate and making a final accounting to the probate court. In Utah, fees paid to executors, whether professionals or friends, must be limited to what is "reasonable." Some executors, for example family members, may waive collecting any fee at all.

Before visiting an attorney who will write your will, take some time to organize what you will need. Inventory your assets and try to put a price tag on each one. You can use the Net Worth Statement you completed in Unit 2. Prepare a list of family members and other beneficiaries. Have an idea about what specific property you want to go to specific people. Taking inventory of your assets may be key to preparing your will. Specific gifts should be clearly described in your will. Wills often use a residuary clause to dispose of the bulk of the assets–"All the rest of my estate goes to...." Be precise when naming beneficiaries. State the person's full name and relationship to you (child, cousin, sister, friend, etc.) so your executor will know exactly who you mean. Clarity will also help prevent any challenges to your will.

If you have family heirlooms that you would like to see remain in the family, you need to make decisions about them, too. Often, personal belongings such as jewelry, china, or furniture have a great deal of sentimental or emotional value and can create more hard feelings among family members than the transfer of real estate. If you would like some help in planning for the transfer of your personal property, ask your local Extension agent for a copy of the fact sheet, *Who Gets Grandma's Yellow Pie Plate?* Or if you have Internet access, go to http://www.montana.edu/wwwpb/pubs/mt9701.html and download it. These materials contain information and tools to help family members through the process of passing family heirlooms from generation to generation. You don't need to include an itemization of your personal property and who you wish to have it in your will, you can write a letter of intent that specifically identifies certain items and the persons you want to receive those items. (For example, "To my daughter Alice, I leave grandma's garnet pendant.") Attach a copy of this separate listing to your copy of your will and leave one with your attorney. To be sure your wishes are carried out, the will must refer to a "personal property letter." If there is no will or no reference to a separate listing in the will, the personal property letter is not binding. This letter should be signed and dated each time a change is made.

Legal fees for drafting a will vary with the complexities of your estate and your family situation. A simple will costs between $50 and $200. Generally, writing a will costs less than writing a living trust.

If you die leaving no will, your property will be distributed according to Utah law. If you are unmarried with no children, your property will pass to your parents, or if you have no surviving parent, to your brothers and sisters. If you are unmarried with children, your property will pass in equal shares to your children. The court will appoint a guardian to handle the estate of any child under age 18.

If you are married with no children, your property will pass to your surviving spouse. This is also true if all your children are the biological children of both of you. If you are married but have children who are the child of one but not the other spouse, the property is divided: one-half to the surviving spouse and the other half in equal shares to children of the deceased.

Once you write a will, you may need to change it. A change in marital status, move to a new state, the birth of a child, or a change in tax laws can all prompt a review and rewrite of your will. Be sure to sign the new will and have it witnessed before destroying the old one. Be sure to consult your attorney before changing you will. Improper changes may not be effective and may inadvertently invalidate other parts of the will. So take the time to do it right.

VARIOUS FORMS OF OWNERSHIP

The legal manner in which property is held or titled determines who has rights in and control over the property and who receives the property at death. Here are some of the common forms of property ownership.

Sole Ownership**:** The property has one owner. When the owner dies, the property passes to his or her heirs according to the will, or if there is no will, the state's intestacy law. Solely owned property with designated beneficiaries such as Individual Retirement Accounts (IRAs), pensions, or life insurance, pass automatically to the beneficiary.

Tenancy in Common**:** The property is owned by two or more owners (tenants) in equal or unequal shares. When an owner dies, his or her share passes to heirs according to his or her will or the state's intestacy law. It does not pass automatically to a spouse or the other owners. An owner can sell his or her share to anyone without the consent of the other owners, although in a practical sense, finding a buyer might be problematic.

Joint Ownership with Rights or Survivorship**:** The property is owned by two or more owners in equal shares. When one owner dies, his or her share passes automatically to the surviving owner(s). An owner can sell his or her share to anyone without the consent of the other owners, although it would be unusual to find a willing buyer.

Community Property: If you live in a state with community property laws such as Nevada, Arizona, California, or Idaho, all property acquired by a married person is considered to be owned fifty-fifty with his or her spouse during the marriage. Community property does not include property in one spouse's name that was owned before marriage or inherited and kept separate. If one spouse dies, his or her half of the community property and all their separate property are distributed by will or the state's intestacy laws. It does not automatically pass to the surviving spouse.

For more information about planning your will, go to http://www.usu.ext.publica/fampubs.htm. Click on FL/FF-03, *Estate Planning: Your Will*. Your county Extension office should also have a copy of a videotape, *What If...* which was prepared by Salt Lake City attorney David Williams, and also discusses these issues.

PROBATE

Probate is a legal process to determine who should receive a person's property at death, who should handle their business affairs, such as paying bills, and who should care for any minor children and their assets. Probate operates according to state law and because Utah is one of the states that has adopted the Uniform Probate Code (UPC), it is a relatively simple and inexpensive process.

Not all property a person owns is subject to probate. Property held in joint tenancy with right of survivorship; property held in a trust; life insurance or retirement assets such as IRAs, Keoghs, and pensions payable to a named beneficiary; payable-on-death checking and savings accounts (POD), and registrations on securities and securities accounts are all examples of non-probate property.

There are three types of probate administration: informal proceedings, formal proceedings and a small estate summary procedure. An estate may be opened informally and closed formally, opened formally and closed informally or any combination of the above.

Informal procedure. Here an application for an informal probate proceeding is filed with a district court clerk. If the clerk determines that all legal requirements have been met, he or she files the will and appoints a personal representative (executor) who can then proceed to settle the estate.

Formal procedure. Formal probate may be necessary when no will exists, when the validity of a will may be questioned, or when parties disagree about who the personal representative is or the distribution of assets. With formal probate, proceedings are held before a district court judge after notification to all interested parties.

Small estate probate procedure. If it appears from an inventory and appraisal that the value of the probate-able estate does not exceed $25,000, less reasonable funeral expenses and costs of any last illness, the personal representative may immediately distribute the estate without notice to creditors.

Although probate may appear complicated, it really is just a series of steps. The first is locating and filing the will if one exists; then appointing a personal representative or executor; publishing notices in newspapers to inform potential heirs and creditors about the probate hearing; filing an inventory and appraisal of the property; paying creditors, taxes, and fees; preparing a final accounting; and distributing the assets.

Adapted from *Probate*, developed by Marsha Goetting, Montana State University Extension Service, Bozeman; *What If–Preparing for Death or Incapacity*, developed by David Williams, attorney, and Carol Williams, Utah State University Extension; and *A Consumer's Guide to Probate*, available from the American Association of Retired Persons (AARP).

REVOCABLE LIVING TRUST

A revocable living trust is a trust that is created during your lifetime (living) and which you can change or terminate at any time (revocable). It is a legal arrangement by which you transfer assets to a trustee who manages the assets for the beneficiary or beneficiaries named in the trust agreement. The person creating the trust is called the *grantor* or *trustor*. A trust can be created by more than one person–*co-grantors*. Assets in the trust are transferred to the *trustee*, who manages the assets according to the directions in the trust agreement. The trustee may be the person(s) creating the trust, some other person, or a corporate entity such as a bank.

The trust agreement is a document containing instructions to the trustee as to how the assets in the trust are to be invested and managed, who is to receive income from the trust, and what happens to the trust if the grantor becomes incompetent or dies. The *beneficiary* or *beneficiaries* named in the trust agreement may be the individual who created the trust, other individuals, or organizations. Most often in a revocable living trust, the grantor is also the trustee and beneficiary. After the grantor's death either someone else becomes the beneficiary, or the trust terminates and the assets are distributed to the people or organizations named in the trust agreement.

For the purposes of avoiding probate, a living trust does no good until you transfer property from your name to the trust's name. For example, you have to go to the bank and fill out a form to change the name on your checking and savings accounts and to the County Recorder's office to change the title on your home from "Michael D. Biers" to the "Michael D. Biers Living Trust." The cost to transfer property is usually minimal, but it takes time to organize your papers and make the transfers. If you acquire new property, you must also take care to place it in the trust's name and not your own. About 49% of all people who have living trusts never complete this second step, which pretty much negates the advantages of setting up a trust.

There are two major advantages to a revocable living trust. The first is financial management in the case of incompetency, the second is avoidance of probate.

Planning for incompetency. If you were incapacitated from a serious accident, advanced age, or critical illness, a living trust allows your successor or backup trustee to handle your financial affairs. The trust agreement tells how and who is to determine you are incompetent and gives directions for the handling of your financial affairs. A successor trustee does not have the power to make your health care decisions. That is the responsibility of the health care agent named in your medical or health care power of attorney (see below).

Another tool for planning for management of your day-to-day financial affairs when you cannot is a *Durable or "Springing" Power of Attorney.* This is a document giving someone the power to manage your finances in the event you are no longer able to do so. A Durable Power of Attorney is not a tool to avoid probate.

Avoidance of probate: As noted before, a living trust can be used to avoid probate. While the disadvantages of probate are often exaggerated, it is true that a living trust can cut the time and costs involved in settling your estate. If you own real property in more than one state, say a vacation home in Arizona and a ski cabin in Idaho, separate probate proceedings would have to be held in each state. A living trust can direct the transfer of that out-of-state property to beneficiaries anywhere and help you avoid the expense of multiple probate proceedings. And a living trust assures that your wishes are kept private, while probate records are public, available for everyone to see.

Having a living trust does not negate the necessity of having a will. Only in a will can you name a guardian for minor children. And, you may leave assets out of your trust by accident. So even with a living trust, you will still need what is called a "pour-over" will to transfer to the trust any assets not included in the trust. Most attorneys will include a pour-over will as part of a living trust package.

There are disadvantages to living trusts as well. It costs more and takes more time to set up a living trust than it does to prepare a will. Trustee fees must be paid if you are not your own trustee. Plus, as a trustee, you may find it more difficult to deal with stockbrokers, life insurance companies, credit unions, and others who need to know who has what powers under the trust agreement. Many financial institutions will not loan money to a trust. If you wanted to refinance your home when the home is owned by the trust, you might have to transfer the house out of the trust, complete the refinancing, and then transfer back to the trust.

Finally, a revocable living trust has no significant income tax advantages. If you are the grantor, income generated by the trust assets is income to you and reported on your personal state and federal income tax returns. For tax purposes, you own the property in the trust and at your death it is included in your taxable estate. Although during your lifetime, a living trust has no income tax advantages, properly drafted trusts can have significant estate tax advantages.

Gift and Estate Taxes

Each time property transfers to a new owner there is a potential tax. When property is sold there may be an income tax on the gain from the sale. When property passes to a new owner because at the death of the former owner, there may be a Federal estate tax. When property is transferred by gift, there may be a Federal gift tax. **Whenever you are planning to transfer property—by sale, gift, or planning a transfer that will take place at the time of your death—get your legal and financial advice before you make the transfer.**

Gift and Estate Tax Credit

Federal tax law, gives each of us a "Unified Gift and Estate Tax Credit." This credit allows a certain amount of property to be exempt from Federal gift or estate tax. The Economic Growth and tax Reconciliation Act, passed in 2001, changed the amounts of both the tax rate and the amount that is exempt from 2002 until 2009. Under the new tax law, the credit and the amount of property exempt from estate taxes are as follows:

Year	Amount of Credit	Gift Tax Rate
2002 - 03	$1 million	50%
2004	$1.5 million	48%
2005	$1.5 million	47%
2006	$2 million	46%
2007 - 8	$2 million	45%
2009	$3.5 million	45%

At death your gross estate includes everything that you own or have incidents of ownership in at your death. If the potential value of your estate at death, or if you are married the potential value of you and your spouse's combined estates, is close to or exceeds the exemption amount, estate planning is a concern. With relatively simple tax planning a married couple, in the year 2006 could pass up to $2,000,000 and pay no federal estate tax. **The time to do your estate tax planning is while you and your spouse are both alive.**

GIFTS TO FAMILY AND FRIENDS

If you make substantial gifts to family members and friends during your life there may be a federal gift tax. Under present tax law, each year you can give an individual gifts valued at no more than $10,000 free of Federal gift tax. You can make gifts to as many individuals as you want. For example, if you had four children you could give each of them $10,000 and there would be no federal gift tax. You could do this every year, and as long as no individual received more than $10,000 there would be no federal gift tax. Married couples can give gifts totaling #20,000 annually.

Remember, once you give property away, you have transferred ownership. You have no interest in the property and can receive no benefit from the property. **Don't give away property if you are not willing to give up control and/or you cannot afford to be without the income or use of the property.**

CHARITABLE GIFTS

Gifts to charitable organizations (those which the IRS says are qualified charitable organizations) are not subject to gift or estate tax. In addition, charitable gifts made while you are alive may have income tax benefits for you.

Charitable gifts may be "deferred" which means you make the gift now, but it does not become fully effective until some later date. For example, you give financial assets such as your stock account to a charitable organization, in return you get an annuity (income for you life) and after your death the charitable organization gets full use of the property given.

If there is a charitable organization you wish to benefit, either during your life or at your death, talk with the organization about alternative ways of making charitable gifts. In addition, seek advice from your attorney and/or financial advisor.

Adapted from *Revocable Living Trusts*, developed by Alice Mills Morrow, Oregon State University Extension Service, Corvallis, *Living Trusts and Wills*, available from the American Association of Retired Persons (AARP) and *What If—Preparing for Death or Incapacity*, developed by David Williams, attorney, and Carol Williams, Utah State University Extension.

A LIVING WILL

A living will is not a "will" in the same sense as the legal document which distributes your property. A living will is a written statement of your wishes concerning the use of extraordinary medical treatment or artificial nutrition and fluids to keep you alive if there is no reasonable hope of recovery from a terminal illness or accident. A living will gives medical personnel permission to withhold or withdraw life support systems that will delay death. It is <u>not</u> about mercy killing.

A majority of states, including Utah, recognize living wills and all states authorize a health care power of attorney which allows you to designate someone else to make medical decisions if you become incapacitated. You can include specific treatment instructions to that person. A blank copy of Utah's Living Will form is included at the end of this Unit.

Your decision to write a living will and a health care power of attorney depends on your moral and ethical belief system. If your belief system guides you to choose life at any cost, a living will can also make these feelings known to your family members and physicians.

You must follow certain requirements to make your living will legally effective.

- You must be at least 18 years old and of sound mind when you sign it.
- It must be signed in the presence of two adult witnesses who are not related to you by blood or marriage or entitled to any part of your estate.
- Witnesses may not be directly financially responsible for your medical care, nor agents of any health care facility in which you are a patient at the time of signing.
- Before a living will can be used to withhold or withdraw life-sustaining treatment, two doctors must examine and certify in writing that the person who signed the living will is terminally ill or in a persistent vegetative state.

It is your responsibility to inform your physician that you have signed a living will; it is your physician's responsibility to make your living will a part of your medical record. However, patients admitted for emergency care often don't have complete medical records with them. For that reason, MedicAlert sells bracelets engraved LIVING WILL/DO NOT RESUSCITATE.

Keep your living will in a place where you and your family members can find it easily. Some lawyers suggest that you sign several copies and have each one witnessed and certified (this makes revoking your living will a little more complicated as you have to destroy each of the originals). Carry a card in your wallet stating that you have a living will, where the original is located and who to contact to get the original. If you put the original in your safe deposit box, make sure someone knows where it is and has access to it. Otherwise, your living will may be found too late.

Give a copy of your living will to your family so they understand your wishes. If you do not have a living will, your family is left with the decision and they may not be able to agree on what action to take. A living will removes the decision from your family's shoulders and makes the decision yours.

You may revoke or cancel your living will at any time. You do this by (1) tearing up and destroying the document, or (2) signing a note saying the living will is revoked, or (3) telling someone you wish to revoke your living will. However, if you have discussed this issue with your doctor, be sure to tell your doctor that you have revoked your living will.

A ***health care power of attorney*** is a document that allows someone else to make medical decisions for you if you cannot make them for yourself. To be effective, you must sign the document in the presence of two qualified witnesses and have it notarized. A blank copy of Utah's Health Care Power of Attorney forms is included in the Worksheet section at the end of this Unit.

You may appoint any competent person who is at least 18 years old and not providing paid health care to you. The person you appoint is called your health care agent. You can give your health care agent the same power and authority as you have yourself to make your medical decisions. This includes the power to consent to your doctor giving, withholding, or stopping any medical treatment, including life-sustaining procedures.

You may limit your health care agent's power. To be sure that your agent understands how you want everything handled, you may provide directions or guidelines in your health care power of attorney. However, a too-complicated health care power of attorney may leave your doctor unsure as to just what decisions may be made by your appointed agent.
Your health care power of attorney becomes effective when you are unable to communicate your wishes due to any illness or injury. You may withdraw your health care power of attorney by stating in writing, "I hereby revoke the Special Power of Attorney dated _______________ given to ____________ for making medical treatment decisions on my behalf."

Give a copy of your health care power of attorney to your appointed health care agent and to your physician. Also, carry a card identifying who has your health care power of attorney as well as where your living will is located.

You may get copies of Utah's living will and medical durable power of attorney forms from Utah Legal Services/ 254 West 400 South/ Salt Lake City, UT 84101 (801-328-8891) or the Utah Medical Association/ 540 East 500 South/ Salt Lake City, UT 84102 (801-355-7477). If you have Internet access, go to the Choice in Dying website (http://www.choices.org) for more information and to download Utah's Advance Directives.

Adapted from *Preparing a Living Will,* available from the Utah Medical Association and *Health Care Powers of Attorney*, available from the American Association of Retired Persons (AARP).

A Letter of Last Instruction

You've drafted a will or trust, you've even made a living will and filled out a health care power of attorney. You think you can breathe easier. Not yet! You also need to prepare a summary of information for your personal representative (who can be someone different from your health care agent) or others who will be handling your estate. This "letter of last instruction" isn't a will or a substitute for a will. Its purpose is to let someone else know everything he or she would need to know, in order to handle your personal finances should anything happen to you.

People often put off writing the letter. It is–quite frankly–a *big* job of organizing and detail gathering. But if you've completed the worksheets in Unit 1, you already have a head start.

Logically, the person who handles the family bill paying and record storage should write the letter to the person who would have to take over. Generally, this means your spouse, adult child or other relative, your lawyer or other executor. Married couples usually prepare the letter together, but if your spouse drags his or her feet, do it alone.

You probably won't be able to write the letter all at once. Try tackling it one section at a time. Allow yourself a month or so to complete it. The object is to get as much detail down on paper as you possible can. In your letter, be specific about locations–"in the safe deposit box," or "in the bottom left-hand drawer of my desk."

Once your letter is done, make several copies of it. Give one to your lawyer, clip another to your copy of your will, keep one in the place your family would look first. And don't let it rust–update it annually.

The letter, to be opened at the time of your death, should include the following:

1. Names, addresses and telephone numbers of those to be notified on your death. (Be sure to keep this list up-to-date.)
2. Instructions for your funeral and burial, or cremation and memorial service if desired.
3. Location of your will.
4. Location of your safe deposit box and its key, and a list of its contents.
5. Location of your essential personal papers, including:
    - birth or baptismal certificates,
    - marriage certificate, dissolution or divorce records,
    - papers for adopted children,
    - naturalization or citizenship papers,
    - Social Security card and records (for possible benefits),
    - military service records (for possible benefits).
6. Location of life, health and property insurance policies; also burial insurance and notation if prepaid.
7. Location of papers for pension or retirement plans and individual annuities.
8. Location of membership certificates in unions, lodges or fraternal organizations which provide death or cemetery benefits.
9. List of personal and real property you own.
10. Location of signed original and copies of list or separate writing of how you want your personal property and family heirlooms distributed after your death.
11. Location of income tax returns and supporting records.
12. Location of all credit cards and a list of the account numbers, addresses and phone

numbers of the companies.

13. Location of any trust funds which you have set up or in which you are named, and the names of trustees and copy of the trust fund agreement.
14. Names and addresses of advisors such as your lawyer, your banker, insurance representatives, broker, CPA, or tax advisor.
15. Your father's full name and mother's maiden name, which will be needed for the death certificate.
16. Instructions and directions concerning your business.
17. A statement of reasons for actions taken in your will, such as disinheritance.

Knowing where these items are located will make it easier, and less stressful for your family to settle your estate when you are gone.

Adapted from *Letter of Last Instructions*, developed by Marsha Goetting, Montana State University Extension Service, Bozeman; and *Everybody Needs One: A Letter of Instruction*, Citicorp Consumer News, Vol. 18, No. 17.

ARE YOU PREPARED TO LIVE ALONE?

Whether you've been together a short time or long, you go through a tremendous amount of emotional and financial stress after losing a partner. Trying to take charge of all the responsibilities you have to handle alone at the same time you are making important decisions about your future can seem overwhelming.

Be gentle with yourself as you walk the path of healing. Eat properly, drink enough water and fluids to nourish your body, and get plenty of rest. Try to postpone unnecessary changes and big decisions. Wait a while, some experts counsel at least a year, before moving to a new house or making a major career change.

In most relationships, there is a certain amount of task specialization that takes place. One partner does the cooking, the other does the gardening. One partner takes care of the car, the other pays the bills. Now you will be required to do many new tasks yourself. You'll need many documents to apply for survivor's benefits, insurance, and other benefits you might be able to claim. To ensure that you have access to these and other documents needed to transfer titles, be sure your name is on the family safe deposit box and that you have a complete list of where your family's legal and financial records are stored. Review Unit 1 which contains a Summary Record for listing the names and telephone numbers of your personal financial advisors as well as the location of relevant information and documents. If you haven't completed those forms, start them now.

You'll need copies of your marriage certificate and your spouse's Social Security card. Get at least a dozen copies of the death certificate. You'll need a number of copies for various reasons. A certified copy is one that has original markings such as a notary's stamp. You can obtain certified copies from the public health department in the county where the death occurred. Put each copy in a separate envelope so that you can simply address the envelope later, without having to read the death certificate over and over.

What would your financial situation be in the event you were widowed? This is a critical question, because once you know the answer, you can take the appropriate steps to strengthen your financial position. Complete Worksheet 17, "**Are You Prepared to Live Alone?**." When you have finished it, sit down and ask yourself these questions:

- What would my income be if my spouse died?
- What would my spouse's income be if I died?
- Is my income affected by the death of someone other than a spouse?

This simple exercise could save you from a financial crisis and ease your transition into a new life.

IS DIVORCE PART OF YOUR FUTURE?

Up to now, we've been talking about living alone as the result of death. But divorce is equally traumatic. Although no one goes into a marriage expecting it to end in divorce, many marriages do. The financial decisions couples make at divorce have long-term economic effects on the wife, the husband, and their children. Economic information and an understanding of your financial situation are critical as you make these decisions.

Like most states, Utah has adopted "no-fault" divorce. The courts are not interested in who is or is not at fault in the breakdown of the marriage. The goal of a divorce proceeding is to arrive at a "fair and equitable" settlement.

A "fair and equitable" settlement could mean dividing all assets and all debts equally (remember you divide debt as well as assets when you divorce). But what is "fair and equitable" depends on the situation. It may be fair and equitable for one spouse to get a larger share of the property if the other spouse has most of the income-earning ability. Some spouses may have been out of the labor force for some time, have most of the care responsibilities for the couple's dependent children, or only able to work at a minimum wage job.

It is most important that you not sign any property agreement that you do not understand or that you feel is unfair. If you do not understand what it means or if you feel its terms are unfair, consult your own attorney–not your spouse's attorney–before you sign.

Get referrals from friends or trusted members of your family before deciding on an attorney to represent your interests. Although divorce is a time of powerful emotions, avoid using your attorney as a therapist. Your money will be better spent if you consult with your attorney on legal issues only. If you feel counseling would be beneficial, consult a mental health professional.

Before you divorce, make a list of the property you own, its estimated value, and a list of debts. Property is real estate and personal property (the car, the furniture, bank accounts, stocks, bonds, pensions, and so forth). Plans are needed for the payment of family debts including amounts owed on a home, car payments, student loans, credit cards, unpaid bills and unpaid taxes.

Many couples have substantial sums of money in retirement accounts. Money accumulated in these accounts during the marriage are considered property acquired during the marriage and are property to be divided at divorce. A spouse who did not work outside the home during the marriage and has no retirement account in their own name is still entitled to a share in the future benefits of these plans.

There are many types of retirement accounts and employee pensions. A couple needs to list all of these accounts in the name of either spouse and gather as much information about the plan or account as possible. Valuing the plans is not difficult; in most cases in can be done by an actuary in a relatively short period of time. After the plan is valued, decisions need to be made about how these values will be allocated. In some cases, the court can order the plan's administrators to pay the ex-spouse his or her share of the account directly.

Spousal support, or alimony, are payments made after divorce by one spouse to the other. It is awarded by the court on the basis of need (of the recipient) and ability to pay (of the payor). Alimony is no longer awarded for life or until remarriage of the receiving spouse. It is awarded to help a dependent spouse complete an education or job training program. The amount of child support awarded is based on the number of children and the amount of the payor spouse's income. There is a schedule built into the divorce statutes which dictates the amount.

Divorce settlements have tax consequences. Your marital status as of December 31 determines your tax filing status for that year. If you are divorcing, filing a joint return and expect a refund, determine how the refund will be divided. If you are divorcing, filing a joint return, and you owe additional taxes, determine who will pay the tax. This is a debt you both owe. If you are divorced on December 31, you cannot file a joint return. You file either as a single person or head of household.

Just a word about dividing debts. Regardless of what the divorce decree says, if you both owed a debt at the time of the divorce, you will both owe it after divorce. Even if the court assigns the debt to your ex-spouse, if your ex-spouse does not pay that debt, you are still liable for it.

Adapted from *Divorce After 50: Challenges and Choices*, available from the American Association of Retired Persons (AARP), and *Property Division and Spousal Support: An Oregon Guide,* developed by Alice M. Morrow, Oregon State University Extension Service, Corvallis.

ONCE AGAIN, FOR RICHER OR POORER

Just when you've said, "Never again!" love comes knocking at your door. You'd think that after having been through the financial ups and downs of marriage before, you'd have the hang of it. But a remarriage is different from a first marriage, and twice as complex.

When you remarry, you and your new spouse walk down the aisle with a train of family responsibilities greater than you did the first time you said “I do.” Sometimes you bring dependent children, sometimes adult children who still need support, and sometimes elderly parents. And both of you have developed money personalities and habits that can be quite different from each other’s. To top it off, you are probably bringing to the union a collection of assets, debts and “stuff”–which are not equal in value.

Still, these complicated money situations need not be a source of concern if you share financial information and talk through the financial issues you’ll be facing *before* you tie the knot. A prenuptial agreement may also help, especially if either or both of you have children you want to protect.

One reason couples shy away from talking about money before marriage is that people consider their ways of handling dollars and cents a deeply personal matter. They are embarrassed to inquire about how much their loved ones earn, own or owe. Sooner or later, however, partners need to be frank with each other about saving and spending patterns and avoiding some of the financial complications they may have experienced in a prior marriage.

Will you have “his” and “hers” bank accounts? Or will you have “his,” “hers,” and “ours?” Most remarrieds opt for a two-or three account system to help them manage their daily expenses. In a “his” and “hers” system, each of you maintains your own accounts and you jointly decide who’s going to pay for what. In the “his,” “hers,” and “ours” arrangement, couples pool their money in a joint account and withdraw what each needs individually for their own accounts. Others put all their income into their own accounts and then jointly determine how much (or what percentage) will be moved to a joint account.

Who will pay the bills and keep the records? Will either one of you discontinue working? What effect will an early retirement of one spouse have on the relationship and your financial situation? Do both of you have retirement funds, such as IRAs, annuities, and other retirement investments? If one person has a pension, will the other invest for retirement separately? Will you make each other the beneficiary of your pension, IRA, and other retirement funds or will these be reserved for other heirs?

Where will you live? If one of you stays put and the other moves in, will the newcomer assume some financial obligation for the home? Who would the owner want to receive this property on his or her death? What would happen to the property at divorce? If a home is sold, will the proceeds remain in the name of the owner or the couple? If a new home is purchased, who will own it?

Make a list of stocks, bonds, money market funds, mutual funds, annuities, checking and savings accounts, and money owed to either partner. What portion, if any, will be merged upon marriage and what will remain as sole ownership in each name? Who will manage these assets? What ought to happen to these assets at the death of one spouse or at divorce?

What personal property such as furniture, appliances, jewelry, china, and family heirlooms will be jointly owned? What items will be separately owned? Will some items be sold or given away after the marriage? Will the titles of cars, boats, and other vehicles be kept in separate names or reissued in joint tenancy? Who will pay the insurance?

If the previous marriage of one spouse ended in divorce, review the divorce decree. What financial obligations, if any, were made to the former spouse–including property settlements, spouse and/or child support payments, life insurance, health insurance and pensions? Are there benefits that will cease after remarriage?

If one partner is a widow or widower, review any changes remarriage may cause in your financial situation. Are there pension benefits that will cease after the remarriage?

Does either party have aging parents who are dependent now or may become so? Where will they live? Who will care for them? What financial help will be given?

Does either party have financial and/or parental responsibilities for minor children? If a child has special needs, what are they and how will they be handled?

Do beneficiaries on life insurance policies need to be changed? Do your combined employee-group insurance and personal plans provide adequately for your long-term needs? Do you need to purchase additional life insurance to protect each other? How do you and your partner wish to provide for each other in the event of death?

Even if you and your new partner do not enter into a formal premarital agreement, it is important that your financial life begin a climate of openness and honesty. Talking about money in advance may not seem very romantic, but it can be the best gift you ever give each other.

Adapted from *Premarital Agreements,* developed by Alice Mills Morrow and Marsha Goetting, Oregon State University Extension Service, Corvallis and *Money Advice for a Successful Remarriage,* written by Patricia Schiff Estess.

Living Will

On this ________________day of ___________________________, 19______________________,

1. I,____ , being of sound mind, hereby willfully and voluntarily make known my desire that my life not be artificially prolonged by life-sustaining procedures except as I may otherwise provide in this directive. I understand that the term "life-sustaining procedure," as defined by law, i) means any medical procedure or intervention which, when applied to a person who has a terminal condition would, in the judgment of the attending physician, serve only to prolong the dying process, ii) does not mean medication, sustenance, or medical procedures for providing comfort care or for alleviating pain, unless I so specify below.

2. I declare that if at any time I should have an injury, disease or illness, which is certified in writing to be a terminal condition or persistent vegetative state by two physicians who have personally examined me, and in the opinion of those physicians the application of life-sustaining procedures would serve only to unnaturally prolong the moment of my death and to unnaturally postpone or prolong the dying process, I direct that these procedures be withheld or withdrawn and my death be permitted to occur naturally.

3. I expressly intend this directive to be a final expression of my legal right to refuse medical or surgical treatment and to accept the consequences from this refusal, which shall remain in effect notwithstanding my future inability to give current medical directions to treating physicians and other providers of medical services.

4. I understand that the term "life-sustaining procedure" includes artificial nutrition and hydration and any other procedures that I specify below to be considered life-sustaining but does not include the administration of medication or the performance of any medical procedure which is intended to provide comfort care or to alleviate pain: ____

____

____

____

____

5. I reserve the right to give current medical directions to physicians and other providers of medical services so long as I am able, even though these directions may conflict with the above-written
directive that life-sustaining procedures be withheld or withdrawn.

6. I understand the full import of this directive and declare that I am emotionally and mentally competent to make this directive.

____
Declarant Signature

____
City/County/State of Residence

—*continued*—

We, the witnesses, certify that each of us is 18 years of age or older and each personally witnessed the declarant sign or direct the signing of this directive; that we are acquainted with the declarant and believe him/her to be of sound mind; that the declarant's desires are as expressed above; that neither of us is a person who signed the above directive on behalf of the declarant; that we are not related to the declarant by blood or marriage nor are we entitled to any portion of declarant's estate according to the laws of intestate succession of this state or under any Will or Codicil of declarant; that we are not directly financially responsible for declarant's medical care; and that we are not agents of any health care facility in which the declarant may be a patient at the time of signing this directive.

Witness #1	**Witness #2**
______________________	______________________
Signature	Signature
______________________	______________________
Name (please print)	Name (please print)
______________________	______________________
Address	Address
______________________	______________________
City/State/Zip Code	City/State/Zip Code

(Pursuant to Utah Code Ann. 75-2-1104)

Special Power of Attorney

Appointment of an agent for all medical treatment decisions *(not* just in case of a terminal illness) when I am unable to speak for myself.

I,____, residing at
____
on this day of_____________________________________, 19______, being of sound mind, willfully and voluntarily appoint____
residing at____,
as my agent and attorney-in-fact, without substitution, with lawful authority to execute a Medical Treatment Plan on my behalf pursuant to Utah Code Ann. 75-2-1105, governing the care and treatment to be administered to or withheld from me at any time after I incur an injury, disease or illness which renders me unable to give current medical directions to attending physicians and other providers of medical services.

I have carefully selected this agent with confidence in the belief that this person's familiarity with my desires, beliefs and attitudes will result in directions to attending physicians and providers of health care which would probably be the same as I would give, were I able to do so.

This power of attorney shall become effective and remain in effect from the time my attending physician certifies that I have incurred a physical or mental condition rendering me unable to give current directions to attending physicians and other providers of health care as to my care and treatment.

____
Principal's signature

____
Address

____
City/State

—continued

STATE OF UTAH)
: SS.
COUNTY OF__________________________)

On the_____________day of________________________________, 19________________ , personally appeared before me____ who proved to me his/her identity through documentary evidence in the form of _____________________ ____to be the person whose name is signed on the foregoing power of attorney, and who duly acknowledged to me that he/she has read and fully understands the foregoing power of attorney, executed the same of his/her own volition and for the purposes set forth, and that he/she was acting under no constraint or undue influence whatsoever.

____
NOTARY PUBLIC
STATE OF UTAH

My Commission expires:

Date:________ /_________ /___________

(Pursuant to Utah Code Ann. 75-2-1106)

WORKSHEET 16: ARE YOU READY TO LIVE ALONE?

What would my annual income be if my spouse died? Add up your:

1. Survivor's benefits:
   Pension and retirement income $ ______________
   Social Security ______________
2. Personal earnings ______________
3. Income from other sources, excluding assets ______________

4. **Subtotal** $ ______________

2. How much income could you get from your assets?

   1. Add up your savings and investments, excluding your reserve fund. $ ______________
   2. Life insurance proceeds (check your policy for the death benefit) ______________
   3. Total assets: $ ________

   4. Enter an interest rate that your money could earn (e.g., .05) ____________

   5. **Subtotal - multiply 2c by 2d:** x ___________

   Example: A lump sum of $75,000 earning five percent could provide $3,750.00 per year ($50,000 by .05), leaving the principal untouched.

3. TOTAL ANNUAL INCOME – add lines 1d and 2 e: $ ____________

4. TOTAL ANNUAL EXPENSES. Estimate your expenses for one year ____________

5. ADDITION INCOME NEEDED – subtract line 3 from line 4: $ ____________

6. What would my spouse's income be if I died? $ ____________

7. Is there someone other than a spouse whose income would be affected if I died?

8. Is my income affected by the death of someone other than a spouse?

RESOURCE LIST

BOOKS:

Bamford, J., Berg, S.Z., Blyskal, J., & Card, C. (2000). The Consumer Reports money book. Consumer Reports Books.

Beardstown Ladies (1994). The Beardstown Ladies' common-sense investment guide. New York: Hyperion.

Berg, A.G. (1993). Financial planning for couples. New York: Newmarket Press.

Card, E.W., & Kelly, C.W. (1998). New families new finances: Money skills for today's nontraditional families. New York: John Wiley & Sons.

Detweiler, G., Eisenson, M., Castleman, N. (1999). Slash your debt: Save money and secure your future. Washington, DC: Financial Literacy Center.

Engel, M.L. (1992). Divorce decisions workbook: A planning and action guide to the practical side of divorce. New York: McGraw-Hill.

Garman, E.T., & Forgue, R.E. (2000). Personal finance (6th ed.). Boston: Houghton Mifflin.

O'Hara, T.E., & Janke, K.S., Sr. (1996). Starting and running a profitable investment club. New York: Random House.

O'Neill, B. (1999). Investing on a shoestring. Chicago: Dearborn Financial Publishing.

Silver, D. (1998). Baby boomer retirement. Los Angeles: Adams-Hall Publishing.

Stein, M.K. (1998). The prosperous retirement: Guide to the new reality. Boulder, CO: EMSTCO Press.

Thomsett, M.C. (1992). Your home mortgage. New York: John Wiley & Sons.

Tyson, E. (1996). Personal finance for dummies. Foster City, CA: IDG Books.

Quinn, J.B. (1997). Making the most of your money. New York: Simon & Schuster.

MAGAZINES:

Consumer Reports
P.O. Box 53017
Boulder, CO 80321-3017
www.consumerreports.com

Kiplinger's Personal Finance Magazine
P.O. Box 3293
Harlan, Ia 51593-2473
www.kiplinger.com

Money
P.O. Box 61790
Tampa, FL 33661-1790
www.money.com

Mutual Funds
2200 SW 10th Street
Deerfield Beach, FL 33442-9948
www.mfmag.com

Smart Money
P.O. Box 7536
Red Oak, IA 51591-2536
www.smartmoney.com

NON-PROFIT ORGANIZATIONS:

American Association of Retired Persons (AARP)
601 E Street, NW
Washington, DC 20049
www.aarp.org

American Savings Education Council (ASEC)
2121 K Street, NW
Suite 600
Washington, DC 20037-1896
www.asec.org

Consumer Federation of America
1424 16th Street, NW
Suite 604
Washington, DC 20036
www.consumerfed.org

Employee Benefit Research Institute (EBRI)
2121 K Street, NW
Suite 600
Washington, DC 20037-1896
www.ebri.org

National Association of Securities Dealers
1735 K Street, NW
Washington, DC 20006
1-800-289-9999 (Consumer Hotline)
www.nasdr.com

North American Securities Administrators Association (NASAA)
10 G Street, NE
Washington, DC 20001
1-888-846-2722
www.nasaa.org

WEBSITES:

Fraud Prevention
Better Business Bureau (BBB) Online
www.bbbonline.org

Internet Fraud Watch
www.fraud.org

U.S. Securities and Exchange Commission
www.sec.gov

General Personal Finance Information
American Express
www.americanexpress.com/advisors

DRIP Central
www.dripcentral.com

FinanCenter (financial calculators)
www.financenter.com

Financial Literacy Center
www.hitflc.com

Insurance News Network
www.insure.com

Intuit, Inc.
www.intuit.com

Money Magazine Roth IRA Calculator
www.money.com/rothira

Microsoft Money Insider
www.moneyinsider.msn.com

Quicken Financial Network
www.qfn.com

Roth IRA Website
www.rothira.com

USA Today Money Section
www.usatoday.com/money/mfront.htm

Government Agencies

Consumer Information Center
www.pueblo.gsa.gov

Federal Trade Commission
www.ftc.gov

Internal Revenue Service (IRS)
www.irs.ustreas.gov/prod/index.html

National Summit on Retirement Savings
www.saversummit.org

Social Security
www.ssa.gov

U.S. Bureau of the Treasury
www.publicdebt.treas.gov

Investment Information

Alliance for Investor Education
www.investoreducation.org

Bond Investment Websites
www.investinginbonds.com and
www.bondsonline.com

CBS Marketwatch
www.cbs.marketwatch.com

Morningstar
www.morningstar.com

Motley Fool
www.fool.com

Mutual Fund Education Alliance
www.mfea.com

National Association of Real Estate Trusts (REITs)
www.nareit.com

Yahoo Finance
http://finance.yahoo.com

DISCLAIMER

The resources listed above are not endorsed or warrantied in any way by Utah State University Extension. As with all information received from any source, financial resources should be used with caution. Mention of a proprietary product or commercial firm does not constitute an endorsement by Utah State University Extension and does not imply approval to the exclusion of other suitable products or firms.

GLOSSARY

Asset: Any thing that has value to a company or individual. You can sell it, you can borrow against it, you can cash it in. Individual assets include homes, savings accounts, stocks, bonds, and mutual funds.

Annual Percentage Rate (APR): The relative cost of credit on a yearly basis expressed as a percentage rate.

Average Daily Balance: The sum of the outstanding balances owed each day on a credit card during a billing period divided by the number of days in the period.

Bank Card: A national credit card (Visa, MasterCard, Discover) issued by a financial institution.

Beneficiary: Person designated to receive the death benefit of a retirement fund, insurance policy or trust when the insured dies. There can be one or more beneficiaries.

Blue-chip Stock: Stock of a company that has a good reputation, that is dominant in its industry, that has a long history of good earnings and consistent dividends, that grows about the same rate as the economy.

Capital Gain: The profit from the sale of an asset, such as securities or a home.

Capital Gains Tax: Tax is levied on the difference between the cost of an asset and the sale price when the asset is sold for more than the purchase price.

Capital Loss: The loss incurred when an asset is sold for less than the purchase price.

Cash Flow Statement: A list of income and expenses for the past year.

Certificates of Deposit (CDs): A form of savings account that pays a specified amount of interest depending on the amount of money invested and the length of time it is deposited.

Community Property: Property and debts acquired by a married person in certain states–California, Louisiana, Arizona, Nevada, Texas, Washington, Idaho, New Mexico.

Common Stock: A share of stock represents a fractional ownership of a corporation. Shareholders elect the board of directors, thereby indirectly controlling the management of the company. If a company dissolves, common stockholders have the last claim on assets, after bond holders, other creditors, and preferred stockholders.

Compound Interest: Interest that is paid on principal plus previously reinvested interest.

Cost-of-living Rider: A rider that automatically increases a life insurance benefit in relation to increases in the Consumer Price Index (CPI). Companies usually set limits on the amount a policyholder's coverage can increase.

Credit Bureau: An agency that provides lenders with financial information on potential borrowers, compiling data primarily from various merchants, utility companies, banks, court records, and creditors.

Credit History: A continuing record of a borrower's debt commitments and how they have been paid.

Decreasing Term Insurance: Term insurance whose face amount declines annually while premiums remain constant.

Deductible: Initial dollar amount you pay before insurance benefits begin.

Diversify: Spread risk by investing in a wide variety of stocks, industries and/or types of securities.

Dividend: The earnings on stocks and mutual funds received by shareholders, either in cash or stock.

Dollar Cost Averaging: Investing a constant amount in a security or fund at regular intervals, regardless of fluctuations in market price. Over time, this method will result in savings because more shares will be bought when the price dips and fewer shares will be bought when the price rises. The result is that the average cost per share to the investor will be lower than the average cost of the security during that period.

Durable Power of Attorney: A document by which you appoint a legal representative to manage your affairs if you are unable to do so.

Equity: The same as *net worth*. The difference between assets and liabilities.

Effective Annual Yield: The rate per year at which money earns interest after compounding.

Estate: Everything you own.

Face Value: The amount shown on the bond certificate.

FDIC (Federal Deposit Insurance Corporation): A federal agency that insures accounts at banks and saving and loan associations; credit unions have their own federal insurance plans; see NCUA below.

Fee-only Planner: A financial planner who receives payments from client fees only.

Financial Planner: A person trained to analyze your entire financial situation and help you achieve goals in cash management, investing, insurance, estate planning, retirement planning, and tax sheltering.

Grace Period: The time period beyond the due date during which any new credit card purchases will avoid finance charges should the previous current balance be paid in full.

Guaranteed Renewable: An insurance policy that the company cannot cancel as long as you continue to pay the premiums.

Health Care Power of Attorney: A durable power of attorney that appoints an agent to make your health care decisions in case you are incapacitated.

Health Maintenance Organization (HMO): A health plan that provides a broad range of health care services to members on a prepaid basis.

Home Equity: The value of your home, including money spent improving it, minus the mortgage balance.

Home Equity Loan: A loan secured by your home equity as collateral. The lender is entitled to payments until the loan is repaid. If the borrower does not make those payments, the lender may foreclose and seize the equity in the home as satisfaction of the debt. Home equity lines of credit are also secured by a home's equity, but here the lender will allow a homeowner to borrow up to a certain percentage of the home's current market value through a line of credit. The homeowner is charged interest only on the balance actually drawn. In contrast a loan is subject to interest on the full amount, even if it is not needed at the time the loan is granted.

Individual Retirement Account (IRA): A tax-sheltered account of long-term savings and investments.

Inflation: An overall rise in the cost of living.

Joint Ownership with Rights of Survivorship (JTORS): Property held by more than one person, in equal shares, with rights of survivorship.

Letter of Last Instructions: A signed letter that provides a detailed inventory of assets and liabilities, describes personal preferences about transfers of many odd pieces of personal property and contains funeral and burial instructions.

Liability: Any money that you owe others.

Living Will: A legal document that expresses your wishes regarding prolonging your life by artificial, extraordinary, or heroic measures when death is inevitable.

Load: The sales commission you pay when you buy a loaded mutual fund. It may be upfront (front load) or when the shares are sold (back load).

Managed Care Health Plan: A health plan that pays or reimburses for health care expenditures but also have significant control over the conditions under which health care can be obtained.

Medicare: A program administered by the Social Security Administration that provides payment for hospital and medical expenses of persons over age 65.

Money Market Mutual Funds: Similar to money market savings accounts except they are mutual funds sold on a per share basis ($1 per share). Money market mutual funds do not carry FDIC insurance.

NCUA (National Credit Union Administration): The agency that insures accounts at federally chartered credit unions. See FDIC above.

Net Asset Value (NAV): The current market value of one share in a mutual fund.

Net Income: Profit after taxes

Net Worth: All assets minus all liabilities.

No-load Mutual Funds: Mutual funds that do not charge sales commissions.

Nonprobate Property: Assets not controlled by a will but transferred to survivors by contract or law.

Portability: A retirement plan contract clause that permits workers to maintain and transfer accumulated pension benefits to another pension plan if they change jobs.

Portfolio: The securities held by an individual investor, institutional investor, or investment club.

Pre-existing Condition: A medical condition or symptoms that were known to the participant or diagnosed within a specified time period before the effective date of a health plan.

Preferred Stock: Stock with claims to dividends and assets that take precedence over those of common stock (see above).

Prenuptial Agreement: A contract specifying what (if any) share of each person's asset the other will be entitled to during marriage or in the case of divorce.
Price-earnings Ratio: Price of a share of stock divided by the company's earnings per share.

Principal: The amount of money on which interest is calculated.

Probate: A court-supervised procedure for validating a will (if there is one), paying debts, and distributing the property of a deceased person.

Renewable Term Insurance: Term life insurance–usually for a period of one to five years–that guarantees the policyholder, without presenting evidence of insurability, the right to continue the coverage for successive, equal time periods. Companies allow renewals until age 65 or 70.

Rollover: A transfer of retirement money from one plan to another.

Secured Credit Card: A bank credit card offered to people with a poor or nonexistent credit rating who must put an amount on deposit to serve as collateral for a credit limit equal to that amount.

Securities: Investment instruments, including stocks and bonds.

Simple Interest: Interest paid on principal only (see compound interest above).

SIPC (Securities Investor Protection Corporation): The agency that insures accounts at brokerage firms.

Sole Ownership: Property held by one person.

Stock Split: When a company issues a number of shares for each share of stock outstanding. Example: a 3-for-2 split means hareholders receive three shares for every two they own; so a shareholder who owns 10 shares trading at $3 a share before a 3-for-2 split will own 15 shares trading at $2 a share after the split. The purpose is to broaden ownership and make the stock price more attractive.

Tax-deferred: Investment earnings that are not taxed until you withdraw them or cash in the investment.

Tax-exempt: Investment earnings that are excluded from your taxable income.

Tenancy in Common: Real estate held by more than one person, in equal or unequal shares, without rights of survivorship.

Term Life Insurance: Insurance that provides only a death benefit.

Total Assets: Current assets plus net property, plant, and equipment.
Total Liabilities: Current liabilities plus long-term debt.

Trust: A three-party arrangement by which the "grantor" transfers property to a "trustee" who holds and manages the property for a "beneficiary." Trusts can be revocable (can be changed) or irrevocable (cannot be changed).

Umbrella Liability Insurance: A personal catastrophe liability policy that covers both general and automobile liability protection.

Variable Annuity: An annuity that allows the purchaser to choose how the money is invested. As a result, the payments to the purchaser vary according to the success of the investments.

Whole Life Insurance or Cash Value Life Insurance: Insurance that includes a death benefit and a savings plan.

Yield: The annual dividend per share divided by price of the stock.