

# Managing YOUR MONEY

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*Leader's Guide*

# MoneyWI\$E

A CONSUMER ACTION AND CAPITAL ONE PARTNERSHIP

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## **Introduction**

This free guide can help you become a money management mentor. It is designed to be used with a brochure called “Manage Your Money Wisely.” Once you understand the basics of personal finance and budgeting, you’ll be ready to teach others about how money management techniques can make an important difference in one’s finances. These techniques, including creating a spending plan, balancing a checking account and using credit wisely, can stretch families’ incomes and help them plan for financial goals.

Created by the national non-profit organization Consumer Action in partnership with Capital One, this guide is part of the MoneyWi\$e series that includes pamphlets available in Chinese, English, Korean, Spanish and Vietnamese, a teaching plan with suggested topics for a two-part seminar, participants’ materials and class activities.

This guide contains suggestions to help people spend less and save more. A little information, a plan of action and a lot of persistence can help many people straighten out their finances and attain important financial goals. The work it takes to organize your income, savings, daily expenses and credit accounts takes time, but the rewards are great. You can live within your means, avoid excess debt, build a cushion of savings and look forward to a more secure retirement.

## Tracking Your Money

### How can I stop living paycheck-to-paycheck?

Planning how you spend your money can help you pay bills on time, make it through periods when you are not working, get the things you need for yourself and your family, teach your children lessons about handling money, have a sense of security about the future and feel more in charge of your life. A plan for spending and saving money is called a budget.

A budget can help you manage money wisely and stretch your current income. Budgets are not only for people with financial problems—budgeting can help anyone meet current needs and save for future goals. You can have a better lifestyle if you manage your money wisely.

### What's a good way to start a budget?

To create a budget, first look at how you spend your money. Try tracking your spending for a month by writing down every purchase you make and every bill you pay. Don't forget to add automatic payments or fees that come directly out of your bank account, and fixed expenses such as your rent, car payment or auto insurance. At the end of each week, break your spending list down into categories. Here are some suggestions to get you started:

- ◆ Housing (rent or mortgage payment, property taxes)
- ◆ Food (groceries, restaurants, sandwiches, coffee, sodas, snacks)
- ◆ Auto (car payment, gas, repairs, insurance, parking and the expenses of commuting by car)
- ◆ Home (cleaning supplies, maintenance)
- ◆ Clothing and personal grooming supplies
- ◆ Utilities (phone and cell phone service, long distance, electricity, oil or gas, water, Internet service)
- ◆ Student loan payments
- ◆ Insurance payments (premiums for life, health, homeowner's or renter's, and other types of insurance)
- ◆ Credit card payments (if you are carrying a balance)
- ◆ Entertainment (movies, books, magazines, toys, cable TV)
- ◆ Child care
- ◆ Child support or support to other dependent family members, such as family living in another country
- ◆ Medical bills
- ◆ Legal expenses (immigration or citizenship documentation, tax preparation, family law, child support)
- ◆ Savings (transfers to savings account, retirement fund or brokerage account)
- ◆ Vacations
- ◆ Income taxes you might owe in addition to the amount withheld from your paycheck

The next step is to record your monthly income from all sources and compare it to your expenses. Does your income cover all your expenses? Once you have an idea of where your money is going every month, you can begin to use the information to make decisions about how to spend your money wisely, and how much you can afford to spend in both essential and non-essential spending categories.

## **Banking**

### **Why should I have a checking account?**

Having a checking account at a bank or credit union can help you manage your money and keep it safe. When you have a checking account, you don't have to carry large amounts of cash around. Most businesses accept checks if you have a state ID or driver's license. Canceled checks are proof that you paid a bill. Money in your account is safe from fire, loss or theft. Each account is insured by the federal government for up to \$250,000. Checking accounts can cost money, but you are sure to find an account that is cheaper than using check-cashers and money orders.

### **How can I use a checking account to manage my money more effectively?**

Your checking account and checkbook register are important money management tools. If you pay your bills when you get your paycheck, you'll have a better idea where you stand until the next pay day.

Remember to:

- ◆ Balance (reconcile) your bank statement when you receive it. Most banks make it easy to balance your account—just follow the step-by-step instructions that come with the statement.
- ◆ Record in your checkbook and deduct every check you write, every ATM or debit card transaction and all bank fees.
- ◆ Subtract any automatic payments and deductions (such as savings transfers or bill payments) from your bank balance.

### **I forget to record checks in my check register—is there any way to record checks automatically?**

Some people find that using duplicate checks helps. When you write a check, a copy is created, and it remains in your checkbook after you remove the check. Duplicate checkbooks cost more, but they may help you avoid overdrawing your account and bouncing a check.

## **What is direct deposit?**

Direct deposit is the easiest way to receive your paycheck—it is deposited automatically into your checking account. Most employers offer this service. Check with your employer for how to enroll in direct deposit. Many banks and credit unions offer lower-cost or even free checking accounts if you use direct deposit.

If you receive government benefits, such as Social Security retirement or disability income, you can have your check deposited directly into your checking account by contacting the agency that sends the check.

- ◆ Social Security Administration: 800-772-1213
- ◆ Department of Veterans Affairs: 877-838-2778 or 800-827-1000
- ◆ Office of Personnel Management: 888-767-6738
- ◆ Railroad Retirement Board: 877-772-5772

Or, you can ask the financial institution where you bank for help.

Some banks and credit unions offer a special low-cost direct deposit account for people who receive government benefits, called an electronic transfer account (ETA). The maximum monthly fee for an ETA is \$3. The account must provide a minimum of four free cash withdrawals per month and require no minimum balance. For more information, visit the government's ETA website ([www.eta-find.gov](http://www.eta-find.gov)) or call 888-382-3311. Or ask for information at local financial institutions. Not everyone offers these accounts so you will have to shop around.

## **How do I get started banking online or via my mobile phone?**

Virtually all financial institutions offer online (Internet) and mobile banking. After you have opened an account, you can set it up for Internet access by visiting the financial institution's website and registering with a username and password. You can then download the financial institution's mobile app and log in from your mobile device.

You can use "online bill pay" from either your computer or your mobile device. Online bill pay allows you to pay your bills by entering the names of companies or individuals you owe money to, your account numbers and the amount you want to pay. You can set the service up to pay bills automatically each month or you can manually enter the payment dates and amounts each time the bills come due. The money applied to bill payments is deducted from your checking account on the day the bill is paid. There may be a fee for the service, but some banks waive the fee when you meet minimum balance or direct deposit requirements.

## **My bank charges \$20 for each bounced check—are all banks' overdraft fees so high?**

Fees charged to customers who bounce checks are very high at some banks, but fees vary from bank to bank. Fees for overdrawing checking accounts range from \$5 to \$30, depending on the financial institution. Merchants also charge fees of up to \$20 if your check is returned for “non-sufficient funds,” so bouncing a check can turn into a very expensive mistake. If you pay close attention to how much money is in your account and record all checks and debits as you make them, you can avoid bouncing checks.

## **Do banks offer any service to keep me from bouncing checks?**

Yes. Many banks and credit unions offer overdraft protection, a service that enables you to write checks for more money than you have in your account. If you overdraw your checking account, the bank will loan you money or transfer money from your savings account to cover the check. Some banks link your credit card account to overdraft protection—the overdraft amount is charged to your card. While overdraft protection is a convenient way to avoid costly bounced checks and returned check fees, the service is not free. There is usually a “transaction fee,” as well as interest if the money is a loan. Pay the balance off as soon as you can. If the money is taken from your savings account, transfer it back again when you get your next paycheck.

## **What is a credit union?**

A credit union is a type of financial institution that is like a bank, but it is a non-profit financial cooperative, meaning it is owned by its members and run for the benefit of the members. Banks are profit-making companies owned by their stockholders.

Credit unions bring together people who have a common bond, such as the area they live in, the place they work, their profession or a social organization that they belong to. In order to join a credit union, you must meet its membership requirements. The Credit Union National Association (CUNA) can help you find out if you are eligible to join a credit union. Call 800-358-5710 to find a credit union near you, or visit CUNA's online credit union locator ([www.asmarterchoice.org](http://www.asmarterchoice.org)).

## **Insurance**

**I am considering taking part in my employer's health insurance plan, but I'm tempted to use the money I would pay for premiums on other things. How would having health insurance benefit me?**

It might seem like you can't spare the money, but getting your own individual health insurance policy or paying medical bills without insurance costs a lot more than the premiums for group insurance offered by your employer. The cost of medical care has skyrocketed over the past decade. Even if you and other family members are healthy now, that could change tomorrow. You owe it to yourself and your family to think about how you would pay for care if one of you became seriously ill. More than 40 million people in the U.S. do not have any health coverage—if you have a health plan at work, you are fortunate. Get the information from your employer and read it carefully before making a decision on whether or not to enroll.

### **I don't get insurance through work—what are my options?**

The Affordable Care Act provides new coverage options for individuals and families, including those who don't get insurance through work. Beginning at the end of 2013, individuals and small businesses can buy affordable health benefit plans in a new insurance marketplace. In 2014, tax credits to help the middle class afford insurance become available for those with income between 100% and 400% of the poverty line who are not eligible for other affordable coverage. Learn more at [www.healthcare.gov/law](http://www.healthcare.gov/law).

### **Is it true that if I am sued and don't have enough insurance, I could lose my home, car and savings?**

Yes. It pays to make sure that you have enough auto and homeowners coverage to protect your home, car and savings (your assets). Many people are ruined financially because they are underinsured. Your state probably requires you to buy a minimum amount of auto insurance coverage—but the minimum in many states is too low to protect many people's assets. If you're a homeowner, you may be liable if guests or strangers are injured on your property. Homeowners insurance can protect you from such lawsuits, and from fire and other disasters that could destroy your home. Before buying insurance, figure out how much in assets you have to lose.

## **How can I save money on insurance premiums?**

There are several ways to save money on insurance—regardless of the type of coverage:

- ◆ Shop around with different companies. The Internet has revolutionized shopping for insurance by making it relatively easy to compare premiums on many types of policies.
- ◆ Companies often offer discounts on auto and homeowners insurance. You may qualify for a discount on auto insurance if you have a good driving record, insure more than one auto, take a driving course or have anti-lock brakes, air bags or an alarm system in your car. Some companies offer discounts to seniors. Discounts are also available on homeowners insurance—for instance, you might get a discount if you have not filed a claim for several years or if you have smoke alarms in your bedrooms.
- ◆ You can almost always save money on insurance if you opt for a higher deductible, which means you will have to pay the first \$250-\$1,000 out of your own pocket if you make a claim.

## **What are some good Internet resources to help me shop around for insurance?**

There are many sources of information about insurance online. You can comparison shop and even buy some types of policies on the Internet. Here are some helpful sites:

- ◆ Check out your state insurance department's website. Most of them are great sources of state-specific and general information on insurance.
- ◆ Insure.com ([www.insure.com](http://www.insure.com)) has a search function to help you find your state insurance department website. Insure.com also provides quotes for several types of insurance, including auto, life, health, home and more.
- ◆ Other Internet sites that help you compare insurance premiums include InsWeb ([www.insweb.com](http://www.insweb.com)), QuickQuote ([www.quickquote.com](http://www.quickquote.com)) and LowerRateQuotes.com ([www.lowerratequotes.com](http://www.lowerratequotes.com)).
- ◆ AARP ([www.aarp.org](http://www.aarp.org)) offers group health, life, auto, homeowner's and Medigap insurance to members (you must be at least 50 to join).

## Shop Around for Savings

### How can I get the most out of the money I have?

Become a smart shopper—do your homework before spending money. To compare prices, go comparison shopping by visiting or calling several stores or providers to get price quotes.

### How can I cut down on my grocery bill?

Try to follow these food shopping tips:

- ◆ Stick to a shopping list.
- ◆ Don't shop when you are hungry.
- ◆ Avoid prepared foods (you are paying more for packaging and convenience).
- ◆ Comparison shop by checking the unit price displayed on the item or shelf (the largest size package is often the best deal—but not always).
- ◆ Buy vegetables and fruits that are in season.
- ◆ Consider buying generic items or store brands, or buy items you use a lot of in bulk.

### How do I find the best deal on banking services?

Compare the cost of accounts or services you might use. You can be charged in different ways for a checking account—by monthly fees, for each check you write, for using a teller instead of an ATM, and/or for transactions at an ATM.

There are ways to get a free account. Some banks and credit unions offer free accounts if you have your paycheck or government check deposited directly into the account. And some offer free accounts to seniors, and free or low-cost “lifeline” accounts to others who qualify. Ask your employer’s bank if it offers free accounts to the company’s employees. If you always keep a lot of money in the account, you may be able to avoid a monthly fee.

## Increase Your Income

**I always get a big refund after filing my income tax return, but I'd rather have that money in my paycheck. How can I adjust the amount of taxes withheld from my pay?**

You can adjust your withholding at any time by filling out a new W-4 form. Your employer has these forms, which have step-by-step instructions for adjusting your withholding. It's very helpful to have a copy of last year's tax return and end-of-year W-2 earnings summary on hand when you do this.

Withholding too much from your paycheck is like giving the government an interest-free loan. Instead, you could be getting more in each paycheck. However, make sure you don't start withholding too little. To be safe, make sure that the current year's withholding is at least equal to the taxes you owed last year, or you could be subject to a tax penalty for under-withholding.

**I heard about a program that allows you to get more back in your paycheck if you have a family. What program is this?**

This is a federal income tax program for low- and moderate-income working households called the advance Earned Income Tax Credit (advance EITC). EITC income guidelines are changed each year to keep pace with inflation. For example, to qualify in the 2012 tax year (2013 filing year), your salary can't be more than \$35,920 for a single parent with one qualifying child, or \$42,130 for couples with one child. Higher limits apply for parents with more than one child. See the EITC Web page ([www.irs.gov/eitc](http://www.irs.gov/eitc)).

The maximum credit for the 2012 tax year is \$5,891, depending on the number of qualifying children you have. The maximum credit for filers without children is \$475. When you file your taxes, you will get the balance of any money due to you that you haven't received in your paychecks.

Children being claimed for the EITC must be under 19, or, if they are full-time students, under 24. You must provide Social Security numbers for all children when you file your tax return. The child you claim must be your son, daughter, adopted child, stepchild, foster child or grandchild, or your brother, sister, half brother, half sister, stepbrother, stepsister, niece or nephew.

The IRS offers a special website, EITC Central ([www.eitc.irs.gov/central/main/](http://www.eitc.irs.gov/central/main/)), with resources to help you learn more about the EITC.

**My family often expresses envy of people who spend a lot on new cars, jewelry and electronic gadgets. How can I get my family to buy into spending less and saving more?**

“Keeping up with the Joneses” is an attitude that keeps many people in debt. A well-known book about millionaires showed that many people who have accumulated wealth take a cautious approach to spending money. For instance, buying used items, from cars to appliances to clothing, can save you a lot. Two- and three-year-old used cars often sell for three-quarters or less of what they sold for when new. You don’t have to accept just any used car, you can decide which year and model you want by browsing auto reliability statistics online or in *Consumer Reports* magazine, available at most public libraries or at [www.consumerreports.org](http://www.consumerreports.org). When buying clothing, consider quality consignment shops for expensive items such as career and outerwear. Consignment shops, unlike thrift shops, are very choosy about the clothing they accept for resale.

**I’d like to get a better job, but where do I start?**

Start your search for a better job by creating or updating your resume. A resume is a summary of your qualifications and experience. List your skills, personal qualifications and work experience. Visit your local library and ask the librarian for help in finding books and magazines on resume writing, educational resources and opportunities in your preferred field. You can also find help online. Do an Internet search for “How to write a resume” or other “key words” that will narrow the search results.

Jot down some ideas for your ideal job. Find out if there is a local career counseling organization that can help you get started. Scan the classified section of your newspaper every day to see what jobs are available. If you have access to the Internet, visit job-listing sites and research local companies that you’d like to work for. Call their human resources departments and ask about openings. Also check out new job opportunities with your current employer. And tell friends, family and others about your search—many people find a job through personal referrals.

# E

## EARNING EXTRA MONEY

### Earning Extra Money

#### What are some ideas for earning extra money?

- ◆ Find a part-time or weekend job. Many businesses hire extra people during the holiday season.
- ◆ Rent out an extra room.
- ◆ Start a home-based business that does not require a high initial cash outlay, such as a handy-person service, baby- or pet-sitting, bookkeeping, cooking, tutoring or sewing.
- ◆ Hold a garage sale to sell household items and clothing you no longer need.

#### I saw an ad for home-based employment opportunities—should I call about it?

Do not call—work-at-home offers are almost always scams. Such ads are a way for unscrupulous individuals to sell you something useless, such as a “work kit” or a book on ideas for working at home. If you are asked to purchase materials or products up front, that’s a sign of fraud.

#### I’m broke now and can’t make it until I’m able to earn some extra money. What can I do?

If you don’t have money for groceries and other necessities today, and you wouldn’t be able to earn extra money quickly enough to cover your and your family’s immediate needs, a social service agency or program may be able to help you. You may have to meet certain income limits or other criteria to qualify for some types of aid.

Read Consumer Action’s “Financial Empowerment Resource Sheet” ([http://www.consumer-action.org/english/articles/financial\\_empowerment\\_resource\\_sheet](http://www.consumer-action.org/english/articles/financial_empowerment_resource_sheet)) to learn about resources that could help you get through hard times.

## Save More of Your Money

### How can I control what I spend?

The goal of any money management program is to identify and plan for the things you need while carefully evaluating and planning what you are able to spare for the things you want. In any budget, there should be some money for entertainment or for a special treat. If your budget is too strict, you may become resentful and not stick to it.

Stop to think about what you spend regularly on little things—they really add up. For instance, if you buy a \$3 cappuccino or latte coffee drink on your way to work every day, you're spending almost \$800 per year! Instead, you could make coffee at home or limit your purchases to once or twice a week.

One place not to scrimp is in your savings. Plan to save some money every month. This can help you get through emergencies and to save enough for big-ticket items, like a new appliance, that you might ordinarily borrow money to buy.

Pay your bills on time to avoid late fees. Don't carry large amounts of cash, which encourages spending. Try to limit your use of credit cards because when you use a credit card you may be tempted to buy things you don't need.

### What are some ways to reduce expenses?

There are many ways to reduce your spending. Here are just a few ideas:

- ◆ Avoid the cost of movie rentals by borrowing DVDs of movies and favorite series from your public library.
- ◆ Shift your cell phone service to a slightly different plan, or switch to prepaid service.
- ◆ Cancel paid cable TV and watch favorite shows for free online, via Hulu, for example.
- ◆ Brown-bag your lunch and drink the coffee at home or work.

Read blogs that feature frugal living ideas to find out how to save on everything from dining and cleaning to entertaining and transportation. Do an online search for “frugal blog.”

# R

## LOWERING YOUR RATES

### Lowering Your Interest Rates

#### Why should I try to find a lower interest rate on money I borrow?

Even a slightly lower rate can make a big difference in the amount of interest you will pay over the course of the repayment period. It will also allow you to pay off the balance of your loan or credit line more quickly if you continue to make your old payment at the lower rate (more money will go toward principal rather than interest). Many credit card companies only require you to make a “minimum payment” of as little as 2% of the outstanding balance each month—but making only the minimum payment is a big mistake. This chart shows the vast difference in the time it would take to pay off a \$2,500 balance, depending on interest rate and monthly payment amount:

APR	Monthly Payment	Time to Pay Off
20%	\$100	2 years, 9 months
20%	\$75	4 years, 1 month
20%	\$50 (2% minimum payment)	8 years, 10 months
14%	\$100	2 years, 6 months
14%	\$75	3 years, 6 months
14%	\$50 (2% minimum payment)	6 years, 2 months

#### How can I get a lower credit card interest rate?

First, call your credit card issuer and ask if you can have a lower rate. The company might lower your rate if you have always made on-time payments. If your current company won’t cut your rate, consider getting another company’s card.

If you have a balance on your current card, ask new companies if you can transfer the balance. Watch out for balance transfer fees—some banks allow free balance transfers, while other banks charge from 2% to 3% of the amount being transferred.

# F

# FRAUD

## Fraud

### There is a lot of fraud out there. How can I avoid getting ripped off?

Con artists invent new scams as fast as law enforcement authorities can shut them down. You can avoid becoming a victim by remembering this advice: If it sounds too good to be true, it probably is. Other tips for avoiding fraud:

- ◆ Don't be pressured into buying anything. Take time to understand the purchase, consider if you really need it and talk to knowledgeable family members or friends about it.
- ◆ Before signing any purchase agreement or contract, read the fine print.
- ◆ Never sign your name on a blank piece of paper or on a contract that has blank spaces above the signature. Con artists could use your signature to rip you off.
- ◆ Never give your checking account or credit card numbers to someone who calls you on the phone, because they could use this information to steal money from your bank account or make unauthorized charges on your card.
- ◆ Guard all personal information (such as your Social Security number) and bank account and credit card numbers. Tear up credit card offers, paycheck stubs, receipts and cancelled checks before you throw them away. Some fraud artists go into garbage cans to steal discarded papers that contain sensitive personal and financial information and use it to set up credit in other people's names.

## Setting Financial Goals

### Why is it important to have financial goals?

Setting financial goals is a way to plan for the future. By planning for things you want to accomplish, you have a better chance of having enough money when the time comes.

Long-term goals are things you want to accomplish in five or more years. For instance, long-term goals for many people include getting a better-paying job or a promotion, owning a home, starting a family and saving money for their children's college education and weddings. Short-term goals are things you'd like to do today, next week or over the next couple of years. For many people, short-term goals include finishing their education, getting a new job, planning a wedding, buying a car or taking a vacation.

### Is there a difference in the way I should handle money I am saving for short- and long-term goals?

Many financial planners say that short-term money should be kept in a savings account, where there is little risk of losing it and where it is easily available. You may want to invest the money you are saving for long-term goals in stocks, bonds or mutual funds. To find out more about these options, do some research online at financial education websites that do not sell investments, or talk to an investment advisor. Talk to several advisors before making a decision on how to invest your money—that way you will get several opinions and reduce the chances of an advisor selling you an investment that is not right for you.



## INVESTMENTS

### Saving and Investing

#### What is a savings account?

Savings accounts are designed to keep your money safe (they are insured by the federal government up to \$250,000) and to help it grow (banks pay you a small amount of interest on your balance). You can make deposits into your savings account just as you do with a checking account. When you withdraw funds, you can use a withdrawal form that you fill out and give to the teller, or you can use your ATM card to withdraw cash at an ATM machine. The machine will ask you if you want to withdraw the cash from your checking or savings account before the transaction is carried out. If you use online banking, you can also make an electronic transfer from your savings to your checking account.

#### What is interest?

Interest is the cost of using money. When you deposit money into a savings account, the bank pays you interest. When you carry a balance on your credit card, you pay the credit card company interest. Interest is usually expressed as an annual percentage rate (APR)—the amount your money would earn if left on deposit for one year, or the amount you would pay on a loan or other credit over the course of a year.

Your savings will grow faster if you earn interest *and* add to your account on a regular basis. With \$1,000 on deposit for five years at an interest rate of 1.00%, you would earn about \$50 in interest. But if you added \$50 each month, you would have more than \$4,000 at the end of five years. Search for the best interest rates on savings accounts, including money market deposit accounts (MMDAs), at Bankrate.com ([www.bankrate.com](http://www.bankrate.com)).

#### What is an investment?

An investment is the use of money to create more money. Investments include stocks, bonds, mutual funds and annuities, a form of investment sold by insurance companies. The money you have to invest is sometimes called capital. All investments carry risk—you could lose some or all of the money you invest.

## **My savings account earns just 1% interest annually—isn't there a better way to make my money grow?**

Some of your savings should always be available for emergencies. It's best to keep this money liquid. This means you can get your money quickly and easily when you need it. Savings accounts are insured by the federal government and are considered very safe places to keep your money. Interest rates among banks can vary somewhat. But, since all savings accounts tend to pay relatively low interest rates, it may be even more important to your bottom line to shop around for an account with low fees (monthly account maintenance or transaction fees).

Besides savings accounts, other options for liquid funds include money market funds—but these are not insured by the government. There is always the chance you could lose some or all of your original investment. Money market funds may pay more than double or triple the interest paid on savings accounts.

Certificates of deposit (CDs) are government-insured instruments and pay higher interest rates than savings accounts. But you may have to leave your money for a year or longer to get the best CD rates. If you take your money out early, you may have to pay a penalty as well as lose interest.

You also can invest in mutual funds, stocks or bonds. While the value of these investments goes up and down, people *generally* make some money in the long term (five years or longer). But if you have to sell investments in a hurry because of an emergency or an unforeseen expense, you could get less than you paid for them.

## **I am interested in investing in a mutual fund, but the minimum deposit is \$2,500—more than I have available to invest. Is there any way around the minimum deposit?**

Yes. Many mutual fund companies waive the minimum deposit requirement if you agree to have an amount (as little as \$50) automatically transferred from your checking account each month. You can use this method to buy shares in the mutual fund of your choice.

You also can set up an individual retirement account (IRA) in this way. A traditional IRA can help your retirement savings grow faster because no tax is due on the earnings until you begin to withdraw the money. Plus, your contributions may be tax deductible. You are permitted, but not required, to make withdrawals at age 59½. At age 70½ you must begin to take minimum withdrawals from your traditional IRA. For current information about traditional and Roth IRAs, see Internal Revenue Service (IRS) Publication 590 ([www.irs.gov](http://www.irs.gov)).

# C

# CREDIT

## Credit

### What is credit?

Credit is the ability to borrow money or to purchase an item and pay for it over time. Credit cards are one form of credit. You can pay off your entire balance on a credit card every month or carry a balance. If you carry a balance, you will be charged interest by the credit card company.

### What are the advantages to using credit?

Credit makes many purchases possible that might otherwise be beyond reach. Few people have the money to buy a house or a car or even a washing machine outright. Having access to credit can be a form of insurance—ensuring that you can make a purchase when you don't have the cash—and credit can help you pay for big items and deal with unforeseen shortfalls and emergencies.

### How can I use my credit card to help me budget?

As a budgeting tool, many people use a single credit card to make all or most of their monthly purchases because they like to pay one bill at the end of the month and to have one summary of their expenses. Some people use their credit cards for all monthly purchases (groceries, gas, commuting, clothes, medications, utilities, etc.) because they want to take advantage of cash rebates or airline miles rewards. If you are disciplined in using your credit card and know that you can pay off the balance every month, this might work for you. The danger is that you won't be able to pay the bill in full and then you'll have a large balance on the card, which would begin to accrue interest and become more difficult to pay off.

### What is a credit history?

To obtain credit, you must have a positive credit history, or credit record. This means that you have borrowed money in the past and paid it back as agreed, or that you have not been late making credit card payments. Your credit history is kept by credit reporting bureaus, which give information about how you use credit to your current and potential creditors. The three largest credit reporting bureaus are Experian, Equifax and TransUnion.

### How can I get a copy of my credit report?

Each year, you may request a free copy of your credit report from all three credit bureaus. You can ask for all three reports at one time or you can stagger your requests throughout the year.

To request your free reports, visit AnnualCreditReport.com ([www.annualcreditreport.com](http://www.annualcreditreport.com)) or call 877-322-8228. To order your report by mail, go to the website and print out the order form, and mail it to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

The credit reporting bureaus also must give you a free copy of your credit report if you are in any of these situations: You have been turned down for a loan or a credit card, a job, insurance or a rental house or apartment in the past 60 days based on the information in a credit report; you are on welfare and you are job hunting; or you are a victim of fraud or identity theft.

### **What are the pros and cons of taking a cash advance on my credit card when I'm low on funds?**

Credit card cash advances may be helpful when you need cash in an emergency or when you are traveling. But they are an expensive way to borrow money, especially on a frequent basis.

Cash advances usually are subject to transaction fees and a higher interest rate. The interest is very costly if you don't pay off at least a large chunk of the debt each month. Also, the interest on cash advances begins accruing immediately—there is no grace period.

### **I don't have a good credit record, but I notice lots of ads offering credit to people like me. Are there any kinds of credit I should avoid?**

There are some lenders who are criticized for taking advantage of people with poor credit histories. Credit cards and loans offered by these companies often turn out to be bad deals, with interest rates well above 20% and high late payment penalties that can drastically increase the amount you owe if you miss just one payment. Always shop around and compare interest rates and terms on several cards—this should tip you off to obvious rip-offs. These are some types of credit to avoid:

- ◆ Payday lenders make short-term loans or cash advances secured by post-dated personal checks or your next direct deposited benefits check or paycheck. The price of such loans is very high—annual interest rates can work out to more than 250%.
- ◆ Rent-to-own stores rent furniture and electronics for a low weekly rate. If you make all the required payments, you'll eventually own the item. But by that time, you'll often have paid up to 10 times the true cash value of the merchandise.
- ◆ Pawn shops will loan you money if you leave personal property (jewelry, electronics, cameras) as security. Pawn shops usually loan you less than half an item's resale value and charge very high interest rates, storage costs

and insurance fees until you repay the loan. If you do not repay the loan, the pawnshop can sell your things.

- ◆ Car title loans require you to sign over the title to your auto as security for a loan representing only a fraction of its value. Interest payments, storage costs and insurance fees add up and make it hard to repay the debt. If you fail to repay the costs, the company can repossess and then sell your car.
- ◆ High-cost home equity loans put your home in jeopardy. Many reputable lenders allow you to borrow money against your home's value—but scam artists often make loans they know you can't repay just so they can take your home.

## Debt

### How do I know when I have too much debt?

You may have too much debt if you have to borrow to pay current bills, are frequently late paying your bills, or bill collectors are calling your home.

### What can I do to get out from under my credit card debt?

First, stop using credit cards. Put them away or cut them up before you get further in debt. Contact your creditors to delay or reduce payments. Come up with a realistic payment plan—figure out how much you can afford to pay every month and try to stick to it.

### I'm making payments on several credit cards and not reducing my debts on these cards. How can I get out of credit card debt as fast as possible?

If you have cards with outstanding balances, consider putting them away until you have paid them off. If you have a credit card without a balance, use it only when you are sure you can pay the balance in full each month. When trying to reduce credit card balances, pay as much as you can each month—don't just send the minimum the card issuer requires. Paying a few dollars more each month shortens the life of the loan—often significantly—and ends up costing a lot less in interest.

### I'd like to consolidate all my debts into one loan—where would I find such a loan?

Debt consolidation loans—at least reputable ones with affordable interest rates—are difficult, if not impossible, to find. Many companies that advertise debt consolidation are really offering very high-cost loans or even just trying to sell expensive information packages with useless tips on reducing debt.

Qualified borrowers who own their own home might consider a home equity loan as a debt consolidation tool. However, home equity loans,

even reputable ones with fair interest rates, are secured by your home. If you fail to make the payments, you could lose your property. Always shop around with several lenders. Compare the terms offered by banks and credit unions. Make sure that you will be able to comfortably meet the payments you will be required to make—especially if your home is to serve as collateral for the loan.

### **I can't stop spending money, even when I don't have enough—is there anywhere I can go for help with this problem?**

You might consider joining, or starting, a local Debtors Anonymous group, which follows the same organizational principles as Alcoholics Anonymous (AA). To find out more about the organization, visit the Debtors Anonymous website ([www.debtorsanonymous.org](http://www.debtorsanonymous.org)).

### **What is credit counseling?**

Credit counseling organizations work with people who are in debt or having money troubles to set up budgets and bill-paying plans. The counselor can contact your lenders to work out a plan for you to repay your bills, often at reduced interest rates. There will most likely be a small fee for this service.

When you are looking for a credit counselor, beware of companies that offer quick and easy solutions to your debt problems. There is no easy or quick fix to controlling debt.

The National Foundation for Credit Counseling, an association of hundreds of local credit counseling offices, can help you find a counseling service near you. Call (800) 388-2227 or visit the NFCC's website ([www.nfcc.org](http://www.nfcc.org)).

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