

# Financial Impact Techniques Conference

## F.I.T.

## GETTING YOUR FINANCES IN SHAPE



**Saturday, July 8, 2006  
10:00am to 3:00pm**

Instructor

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# Financial Impact Techniques Conference (F.I.T.)

## *Getting your Finances in Shape*

(USA Today) These are tough economic times, especially for African-Americans, for whom the unemployment rate is more than 10%. Alarmingly, rather than belt-tightening, the response has been to spend more. In many poor neighborhoods, one is likely to notice satellite dishes and expensive new cars. According to Target Market, a company that tracks black consumer spending, blacks spend a significant amount of their income on depreciable products. In 2002, the year the economy nose-dived; we spent \$22.9 billion (\$22,900,000,000.00) on clothes, \$3.2 billion (\$3,000,000,000.00) on electronics and \$11.6 billion (\$11,000,000,000.00) on furniture to put into homes that, in many cases, were rented. Among our favorite purchases are cars and liquor. Blacks make up only 12% of the U.S. population yet account for 30% of the country's Scotch consumption. Detroit, 80% black, is the world's No.1 market for Cognac (Pass The Co-----). So impressed was Lincoln with the \$46.7 billion (\$46,000,000,000) that blacks spent on cars that the auto maker commissioned Sean "P. Diddy" Combs, the entertainment and fashion mogul, to design a limited-edition Navigator complete with six plasma screens, three DVD players and a Sony PlayStation2. The only area where blacks seem to be cutting back on spending is books; total purchases have gone from a high of \$356 million in 2000 to \$303 million in 2002. This short-sighted behavior, motivated by a desire for instant gratification and social acceptance, comes at the expense of our future. The National Urban League's "State of Black America 2004" report found that fewer than 50% of black families owned their homes compared with more than 70% of whites. According to published reports, the Ariel Mutual Funds/Charles Schwab 2003 Black Investor Survey found that when comparing households where blacks and whites had roughly the same household incomes, whites saved nearly 20% more each month for retirement, and 30% of African-Americans earning \$100,000 a year had less than \$5,000 in retirement savings. While 79% of whites invest in the stock market, only 61% of African-Americans do. Certainly, higher rates of unemployment, income disparity and credit discrimination are financial impediments to the economic vitality of blacks, but so are our consumer tastes. By finding the courage to change our spending habits, we might be surprised at how far the \$631 billion (\$631,000,000,000.00) we now earn might take us.

### **WHAT DOES THE BIBLE SAY ABOUT MANAGING YOUR FINANCES?**

**Question:** "What does the Bible say about managing your finances?"

**Answer:** That is a broad subject, but the Bible does have a lot to say about managing your finances. I will list a lot of references for you to look up for yourself, as well as quote at least one verse regarding each specific aspect of finances that I researched. Concerning borrowing, see: Proverbs 6:1-5; 20:16; 22:7, 26-27 ("The rich rules over the poor, and the borrower becomes the lender's slave...Do not be among those who give pledges, among those who become sureties for debts. If you have nothing with which to pay, why should he take your bed from under you?"). Concerning bribes, see: Proverbs 17:8; 18:16; 21:14; 28:21; 17:23 ("A wicked man receives a bribe from the bosom to pervert the ways of justice.") Concerning riches, see: Proverbs 10:15; 11:4; 18:11; 23:5; 28:20 "A faithful man will abound with blessings, but he who makes haste to be rich will not go unpunished."

Concerning the sluggard and finances, see: Proverbs 6:6-11 ("Go to the ant, O sluggard, observe her ways and be wise, which, having no chief, officer or ruler, prepares her food in the summer and gathers her provision in the harvest. How long will you lie down, O sluggard? When will you arise from your sleep? A little sleep, a little slumber, a little folding of the hands to rest - your poverty will come in like a vagabond and your need like an armed man."). Concerning the futility of riches, see: Ecclesiastes 5:8-6:12 (5:10 says, "He who loves money will not be satisfied with money, nor he who loves abundance with its income. This, too, is

vanity."). Also 1 Timothy 6:6-11. Concerning giving, see: Luke 6:38; 2 Corinthians 9:6-15 (verses 6-7, "Now this I say, he who sows sparingly will also reap sparingly, and he who sows bountifully will also reap bountifully. Each one must do just as he has purposed in his heart, not grudgingly or under compulsion, for God loves a cheerful giver").

Concerning stewardship, see: Luke 16:1-13 (verse 11, "Therefore if you have not been faithful in the use of unrighteous mammon, who will entrust the true riches to you?"). Also James 1:17. We are also responsible to provide for our own household. 1 Timothy 5:8 says, "But if anyone does not provide for his own, and especially for those of his household, he has denied the faith and is worse than an unbeliever." This is not an exhaustive list of references regarding finances... just a start. If you need financial help, you can inquire more through Christian Financial Concepts – <http://www.crown.org>

## MANAGING YOUR PERSONAL FINANCES

### Budgets are a necessary evil.

They're the only practical way to get a grip on your spending so you can make sure your money is being used the way you want it to be used.

### Creating a budget generally requires three steps.

1. Identify how you spend money now
2. Evaluate your current spending and set goals that take into account your financial objectives
3. Track your spending to make sure it stays within those guidelines.

### Use software to save grief.

If you use a personal-finance program such as Quicken or Microsoft Money, the built-in budget-making tools can create your budget for you.

### Don't drive yourself nuts.

One drawback of monitoring your spending by computer is that it encourages overzealous attention to detail. Once you determine which categories of spending can and should be cut (or expanded), concentrate on those categories and worry less about other aspects of your spending.

### Watch out for cash leakage.

If withdrawals from the ATM machine evaporate from your pocket without apparent explanation, it's time to keep better records. In general, if you find yourself returning to the ATM more than once a week or so, you need to examine where that cash is going.

### Spending beyond your limits is dangerous.

But if you do, you've got plenty of company. Government figures show that many households with total income of \$50,000 or less are spending more than they bring in. This doesn't make you an automatic candidate for bankruptcy -- but it's definitely a sign you need to make some serious spending cuts.

### Beware of luxuries dressed up as necessities.

If your income doesn't cover your costs, then some of your spending is probably for luxuries -- even if you've been considering them to be filling a real need. The most common spending problems are caused by a house that's too large, a car that's too luxurious, or a credit-card lifestyle that's too lavish for your income.

### Tithe yourself.

Aim to spend no more than 90 percent of your income. That way, you'll have the other 10 percent left to save for your big-picture items.

### Don't count on windfalls.

When projecting the amount of money you can live on, don't include dollars that you can't be sure you'll receive, such as year-end bonuses, tax refunds, or investment gains.

### Beware of spending creep.

As your annual income climbs from raises, promotions, and smart investing, don't start spending for luxuries until you're sure that you're staying ahead of inflation. It's better to use those income increases as an excuse to save more.

- Whatever your situation, here are some common ways that people can reduce monthly bills.

### Eliminate trivial but needless costs

Look first for small savings -- not because they'll end your budget problems, but simply because they're easy to find and take advantage of. For example, swear off that mid-afternoon Danish or expensive premium latte. Shop for clothes and household furnishings only during sales. Keep your house warmer in summer and cooler in winter. Take on chores that you usually pay someone else to perform, such as mowing the lawn or shoveling snow. Seemingly inconsequential savings do, in fact, add up.

### Reduce larger expenses

These recommendations are decidedly more painful. If you smoke, for instance, quit. Don't buy season tickets to anything. Trade in your luxury car or sport utility vehicle for something a lot cheaper to buy, fuel, and maintain (we said this was painful).

- On the assumption that those kinds of changes may be too wrenching, here are some other specific areas where many people can find savings:

### Refinance your mortgage

If new mortgages are costing at least two percentage points less than the rate you're paying, refinancing may save you significant dollars; check our refinancing calculator to be sure.

### Cut your taxes

Usually this means taking better advantage of itemized deductions, and it's a lot easier to do if you are either self-employed or have some income from work you do outside of a regular job. That opens up a range of new deductions -- from expenses for work-related items to a home office -- that are much harder to claim if you're an ordinary working stiff.

### On the investment side

You can save some money by selling, and then writing off, investments that have lost money. You can use such losses to offset any gains you may have in a given year. If your losses outweigh your gains, you can deduct as much as \$3,000 of investment losses from your ordinary income each year. Those with higher incomes may also be able to save some money by shifting money out of taxable bonds into tax-free municipal bonds.

### Appeal your home assessment

If you're a homeowner, you may even be able to cut your real estate taxes by challenging the value that the local assessor puts on your property. You have to have good evidence, of course. You should call the assessor's office first to make sure you understand the formula for determining the house's value (the assessment listed on tax bills is often only a fraction of the real value that determines your tax).

If recent home sales in your neighborhood lead you to believe that your house is worth less than its assessment and a qualified real estate agent writes an appraisal in support of your claim, then you can file a grievance with the assessor's office and possibly get your bill reduced. The cost: \$200 to \$300 for the written appraisal. If an attorney handles the appeal for you, he or she will typically charge 50 percent of the first year's tax savings.

The above suggestions won't work for everyone, and you may have considered them already. But since you alone are privy to the numbers in your budget, you alone know how radically you need to cut. If our suggestions don't appeal, find your own alternatives.

## HIDDEN COSTS (Learn the Facts)

### 1. House

#### Yield-spread premiums

Mortgage brokers, who help borrowers find lenders, promise to cut the up-front closing fees by folding them into the loan principal. In exchange, however, borrowers pay a higher interest rate than they would otherwise qualify for based on their credit ratings. The difference between these two rates results in a lender payment to a broker that is called a yield-spread premium or loan rebate. Such payments are not clearly disclosed to borrowers, and several lawsuits and congressional testimony have maintained that many such rebates are payments from banks to mortgage brokers to induce the buyer to take out a mortgage with a higher interest rate. Yield-spread premiums boost the cost of the mortgage and raise an otherwise low interest rate. Suppose you pay an interest rate that is 0.5 percentage points higher than the rate you actually qualify for on a \$100,000 mortgage, to avoid \$2,000 in up-front closing costs. Because of the higher interest rate, you'll pay \$11,520 more over the 30-year term of the loan.

#### Hidden markups

Lenders typically arrange for various services provided by third parties, such as credit reports, property appraisals, and title searches. They often add their own markup to those costs. "The total dollar amount you pay is disclosed, but not the lender's underlying cost," says Keith Gumbinger, vice president at HSH Associates, a Pompton Plains, N.J., publisher that regularly surveys financial product fees, interest rates, and terms. Banks may also pile on nuisance fees that should already be covered in overhead, such as charges for fax machine use and document storage.

#### Unhelpful cost estimates

Shortly after you apply for a mortgage, the lender issues a "good-faith estimate" of closing costs. "But that GFE could grow by hundreds or thousands of dollars by the closing date, so what good is that?" says Brian Sullivan, a HUD spokesman.

#### How you can save

(a) Shop for mortgages at several local banks, your credit union if you belong to one, and online lenders serving your area, (b) Ask for the loan's contract interest rate; the annual percentage rate, which includes closing costs and expresses them as part of an overall interest rate; and a good-faith estimate of closing costs. The loan with the lowest calculated APR is the least costly option, (c) Pay closing costs up front instead of wrapping them into the mortgage, If you don't, you'll pay interest on that few thousand dollars for the life of the loan, (d) Think carefully about lowering the interest rate on your mortgage by paying discount points up front. You should generally avoid buying points if you expect to live in that house for less than six years. That's the average stay after which owners switch homesteads.

### 2. Car

#### Insurance

The next hidden cost is one that reflects directly on you and your family's driving history. Liability insurance is required to register a vehicle, while collision and comprehensive are mandatory with bank or dealer financing. See Shopping for Insurance for more details on auto insurance. Between \$50 and \$500 a month may need to be budgeted depending on your zip code, age, gender, marital status, your driving record and your family's (tickets & accidents), and finally the year, make, model, and type of vehicle you're insuring. Before you settle on a specific model check with your insurance agent to see how much you'll need to insure it.

### 3. Credit Cards

#### Average interest rates will climb

Today four out of every five cards has a variable rate, and those rates have been on the rise. Over the next year, credit-card issuers will continue passing along the Federal Reserve rate hikes and then some. The Fed raised short-term rates by two percentage points between February 2005 and January 2006. The average variable rate on credit cards during the same period rose nearly 3 percentage points, according to credit research site [CardWeb.com](http://CardWeb.com) from 12.84% to 15.75%. If your credit is good, you don't have to tolerate rising rates. Banks are still competing fiercely for the best customers. "If your credit score is 720 or above, you should be paying 10% or less," said Curtis Arnold of [CardRatings.com](http://CardRatings.com).

#### Low-rate offers will continue, but with more traps

Higher interest rates make those low- and zero-rate offers potentially more expensive for banks -- but that doesn't mean they'll go away. Instead, expect more fees and ways to trigger higher interest rates. One example: Chase recently removed the cap on balance transfer fees for some of its low-rate offers, Arnold said; previously, the fees had been limited to \$75. "It doesn't seem like a big deal when the balance transfer fee is 3%," Arnold said, "but if you transfer \$10,000, suddenly it's gone from \$75 to \$300."

#### Fees will grow

Average fees for late payments, over-limit purchases and other infractions have nearly doubled in the last decade as issuers relied increasingly on fee income for their profits, and that trend isn't about to abate. Arnold expects some issuers to boost their typical fee, currently around \$39, over the \$40 mark this year. At least one issuer has tried to channel consumer fury over ever-higher fees, but the result should make you pause. Citibank's Citi Simplicity Card promises no late fees if you use the card at least once a month, but Arnold points out late payments can trigger a super-high penalty rate of over 30%.

#### Late penalties

The instant you are late, card issuers typically impose a late fee of \$15 to \$39. If you're already close to your credit limit, a late fee can push you over the top — and then the bank may charge you a comparable over-the-limit fee. Your low interest rate may also get hiked up to as much as 24 percent if your payment is late. Credit-card companies set specific times for their deadlines, not only specific dates. So if you do wait until the last day to pay, your fate hangs in the balance of a mailman, or slow Internet service. Your best bet is to stay organized with your finances and pay beforehand, or call the company and arrange a deadline that's right for you, like the day after you receive a paycheck.

#### Getting charged — even though you paid on time

Many cardholder agreements allow the issuer to raise your interest rate if you pay any other creditor's bill late. Nearly 40 percent of card issuers say they regularly exercise these rights, according to the Institute for Consumer Financial Education, a San Diego nonprofit. No matter what, write your check for at least the minimum monthly payment due and mail it as soon as your credit-card bill arrives to avoid late penalties. Better yet, pay your bills online and set up an automatic payment to meet the minimum on your credit card each month.

### Getting charged when you never even charged

Influenced by the high currency conversion rates, some cardholders decide not to bring their plastic on vacation with them. This is not a bad idea, but if you're abroad for a long period of time, or even if you're at home and haven't used the card in a while, yet another fee can be dropped on you. The cost is around \$15 at most institutions for customers who haven't swiped their cards in six months, though charges can be incurred at shorter intervals as well. Be aware of such practices, and use your card for a small purchase just to prolong the fee payment, if need be. *Are credit cards a necessary evil?* If you're feeling overwhelmed and somewhat disgusted by the many ways a card issuer can collect from its customers, consider whether having a card is worth the time and expense.

### High-speed Internet connection

You sign a contract for a proposed amount, and all of a sudden your bill jumps 10 percent. Verizon calls the additional charge a Supplier Federal Universal Service Fund (FUSF) Recovery Fee. Other telecommunications companies call it other names, such as FUSF Pass-Through Fee or Federal Programs Cost Recovery Fee. Federal regulations require the big telecommunications suppliers to contribute funds to the Federal Universal Service Fund to defray costs of increasing Internet access at libraries and other public places and of advancing online availability to low-income and rural Internet users. The amount is set quarterly by the Federal Communications Commission. By law, those suppliers are allowed to pass along the charges to service providers, such as Verizon Online and other DSL companies. Many of those broadband providers are now charging their customers the fees as separate line items in their bills. Customers often mistake them for "some sort of federal tax," as one online complaint put it. They're not. And the feds do not require DSL providers to charge their customers the fee as they do taxes.

### Is the bill from your cellphone starting to swell?

Since January 2002, wireless providers have charged their customers nearly \$1 billion in additional fees, purportedly to pay for federally mandated programs like phone number portability and emergency 911 locator services for cell phones. That's according to the Center for Public Integrity, which is tracking the trend. Wireless carriers had pocketed \$629 million by October 2003, when the center first documented the trend, the Center for Public Integrity said. Since then, monthly charges have increased, the center said, for a total of \$937 million collected by April 2004. As a whole, carriers are now charging their users \$94 million a month, the center said. Consumers have limited leeway to avoid these charges. By the time they discover the fees, they're usually locked into a one- to two-year contract and can't escape without paying an early termination fee of \$150 to \$200. This month, the cost of T-Mobile's wireless text-messaging service increased to 10 cents per message. It used to be a nickel.

### Tax filing fees

Providers of online and software tax preparation and filing services, such as TurboTax and TaxCut, charge a fee to individuals who use their software and then elect to file their tax returns electronically. These e-file fees are typically \$15 to \$30 to file a federal and state tax return, though many taxpayers can use these programs and e-file their tax returns for free using the IRS Free File program, which is designed to be available to about 70 percent of all taxpayers. To add insult to injury, at least one provider, TurboTax, will also ask the taxpayer if they want to have e-file fees deducted from the refund — and if this option is selected, it charges a fee of approximately \$15 to do so. Yes, that's right — they charge a fee to have their fee deducted from your refund. It's a fee on a fee!

## State Returned Check Fee Chart\*

The State Returned Check Fee Chart (“Chart”) is a reference guide for TeleCheck and TRS Recovery Services, Inc. point of sale merchants. Because we are charging your consumers the fee amount listed on this Chart, you are required, under the terms and conditions of your service agreement, to periodically verify that your decals and ECA receipts, if applicable, reflect the current fee amounts. The amounts listed on the Chart for each state are subject to change. Please contact Merchant Services if you have further questions.

AL \$30 ●	AK \$30	AZ \$25	AR \$25	CA \$25	CO \$20 ●	CT \$20 ■	DE \$40	DC \$25	FL \$25 ● <i>f</i>	GA \$30 ^	GU \$20	HI \$20 ■	ID \$20 ■	IL \$25 ●	IN \$20 ■	IA \$30	KS \$30
KY \$25	LA \$25 ^	ME \$25	MD \$35	MA \$25	MI \$25	MN \$30 ● <i>œ</i>	MS \$40	MO \$25	MT \$30	NE \$35	NH \$25	NJ \$30	NM \$30	NY \$20 ■	NV \$25	NC \$25	ND \$25
OH \$30 ^^	OK \$25	OR \$25	PA \$30	PR \$10	RI \$25	SC \$30	SD \$30	TN \$30 ■	TX \$30 †~	UT \$20 ■	VA \$35	VI \$35	VT \$25 ‡	WA \$30 ●◇	WV \$25	WI \$25 ●	WY \$30

\* A Returned Check Fee may be assessed as shown in this Chart or the maximum amount permitted by law. Returned Checks, along with the returned check fee may be drafted or electronically presented to the consumer’s bank.

● Check writer is also responsible for all other costs of collection.

† Other costs of collection may be charged.

■ Merchant assess this Returned Check Fee.

^ Amount stated or 5% of the face amount of the check, whichever is greater.

^^Amount stated or 10% of the face amount of the check, whichever is greater.

*f* Checks from (1) \$0.01—\$50.00=\$25.00 fee, (2) \$50.01—\$300.00=\$30.00 fee, (3) \$300.01 and over = the greater of \$40.00 fee or 5% of the face amount of the check.

*œ*Civil penalties may be imposed for nonpayment.

‡ Merchant must post second decal stating, “By submitting a check, you expressly authorize this merchant to obtain a report of your check writing history from TeleCheck to prevent fraud, and for other authentication purposes.”

◇ This amount is assessed as a Handling Fee for returned checks.

~Texas ID numbers must be manually entered. Do not swipe the magnetic stripe on a Texas ID

## WHEN TWO FINANCES BECOME ONE

In 1999, both parents were employed in 64.1 percent of married-couple families with children younger than 18, according to the U.S. Department of Labor. Single-income families are in the minority, yet these families are performing financial miracles raising their children in our nation's current economy. Most single-income families decided that one parent – not always the mother – should leave the workforce once their first child is born.

### Joint Accounts

Maintaining joint or separate bank accounts is really a matter of personal preference. One is not more beneficial or economical over the other. "It seems the most common method is now to open a joint account for common goals and bills and for each individual also to have a separate account for their spending," says O'Neill. "Joint accounts ensure that the bills and savings goals are met.

### Preparing for Baby

Now that you have things settled between the two of you, having a baby will force you to re-evaluate all the financial decisions you initially made. But like everything else, you can begin this early on in life. "By starting with a timeline of your big life goals, you should have begun to think of children before they come along," says Knuckey. "Basically you are going from two mouths to feed and two incomes to at least three mouths to feed and maybe only one income, so money will be tighter." It costs an average of \$167,000 to raise a child to age 18, and then there is college savings, so you will need to find other areas to trim back, she suggests. "The key is to refuse to run up extra debt," she says.

### Boomerang Kids

During tough economic times, adult children head for home. Census figures show that 56 percent of men and 43 percent of women ages 18 to 24 today live with one or both parents. Some never left, while an estimated 65 percent of recent college graduates have moved back in with their parents. ("Returning to the Nest," *The Baltimore Sun*, February 29, 2004 web page: [www.theeagle.com/business/technology/022904returnnest.htm](http://www.theeagle.com/business/technology/022904returnnest.htm); "Boomerang Kids Keep Coming Home," *CBS Evening News*, January 9, 2004 web page: [www.cbsnews.com/stories/2004/01/08/eveningnews/main/592186.shtml](http://www.cbsnews.com/stories/2004/01/08/eveningnews/main/592186.shtml))

The reasons are many, the first being economics. According to the Bureau of Labor Statistics, 10.9% of 20-to-24-year-olds were unemployed in September 2003 vs. 6.7% in September, 2000. The jobless rate for 25-to-34-year-olds had also risen to 6.3% from 3.7% over the period. That sent a lot of young folks back home. Plus, there is the matter of debt, especially college loans. For as many as 40 percent of recent grads, it made smart economic sense to move back in with their parents – where life is comfortable and rent is either low or nonexistent – while they get their finances in order. Then, of course, some return for personal reasons, to recover from a divorce or an illness, or just because they cannot afford their parents' lifestyle living on their own. ("Mom and Dad, I'm Home - Again," *Business Week* online, November 3, 2003 web page: [www.businessweek.com/magazine/content/03\\_44/b3856124.htm](http://www.businessweek.com/magazine/content/03_44/b3856124.htm).)

## Success Factors

Studies show that the return to the nest works best when several factors are present:

- The boomerang kid **pays rent or contributes to the household** in a tangible way. (About half make a payment of rent.)
- The boomerang kid **gets along with mom**. (The relationship with the father seems to be less of a factor.)
- The return is **temporary** and a **one-time** event. (Children who repeatedly boomerang find that relations with parents worsen each time.)
- The parents are in a **long-term marriage**.
- The return is a safety net while the boomerang kid makes a **transition, based on a clear-cut need**.
- The boomerang kid is cheerful and **good company**. (Mothers, especially, like the company of the young person and see it as a benefit of the return to the nest.)("Boomerang Kids," by Mary Bold, Center for Parent Education, University of North Texas (2001). Web page: [www.unt.edu/cpe/module1/blk5boom.htm](http://www.unt.edu/cpe/module1/blk5boom.htm).)

## How To Make It Work

Most researchers agree that you as a parent can take steps to create a win-win situation:

1. **Set house rules**. Put them in writing. Make it a contract. Remember, it's still your house.
2. **Set a departure date**, whether it be three weeks or three months.
3. **Insist on responsibilities**, which may include paying rent and/or payment in kind, such as taking on household chores – doing laundry, making dinner two nights a week, buying groceries. This can often be negotiated. One method is to ask the returning child what he or she believes would be reasonable rent. (This is also the area, when not clearly laid out that can result in the most misunderstandings, as adult children return to old habits of expecting to be taken care of.)
4. **Help them restructure debts**, rather than simply bail them out. Then teach them how to avoid new debt. One option is to match debt-reduction payments, with the understanding that they put away credit cards and live within their means.
5. **Do not sacrifice your own financial future**. Decide how much you want and can afford to help. Children tend to think their parents are wealthy, while some parents provide more financial support than they can afford. Remember that your children have decades to build their financial security, while you may be only a few years away from your retirement date. Ironically, if you are not careful, you could end up depending on your children for help in your old age.

## INVESTMENTS AND RETIREMENTS

The latest census figures indicate that only one in every ten Americans today is financially prepared to retire when they reach age 65. Here are a few other facts on retirement gathered from a variety of sources.

- Forty-seven percent of U.S. households are not covered by either a defined benefit or defined contribution plan (The WEFA Group). Twenty-five percent of employees who qualify for 401(k) plans do not contribute to them (an estimate from Buck Consultants).
  - At the end of WWII, there were 42 workers paying into Social Security for each person receiving benefits. Today, barely three people contribute for each recipient. Projections are that by 2030, when most baby boomers will have retired, just two working people will contribute for each person receiving benefits (Social Security Administration, Trust Funds Report, 1992).
  - Social Security benefits will replace only 16% of the income of married couples earning \$50,000 to \$100,000 and only 9.5% of the income of married couples earning \$100,000 and only 9.5% of the income of married couples earning \$100,000-plus (Office of Research and Economic Analysis, Pension and Welfare Administration).
  - Sixty-nine percent of American adults aged 25 to 44 expect to retire in the "traditional" sense of spending retirement in leisure. But reality hits home as they near retirement-63% of 45- to 54-year-olds expect a retirement of leisure, and only 49% of those 55 or older say the same (Aetna Life Insurance and Annuity Co.).
  - Working people tend to think their retirement lifestyle will be better than their current lifestyle, but retirees report their standard of living has declined. Example: Twenty-six percent of workers say they are "just making ends meet," but only 16% think they will live this way in retirement. Of retirees, 20% are "just making ends meet," while 16% describe their pre-retirement lifestyle this way (Employee Benefit Research Institute).
  - A Baby Boom Retirement Savings Index, published each year by Merrill Lynch, shows that as of November '94, baby boomers were saving only 38.2% of what they will need to maintain growth-adjusted living standards in retirement. The index is basically unchanged in the three years the index has been published (Merrill Lynch Strategic Planning).
- Stocks
  - Bonds
  - Mutual Funds---NO LOAD, FRONT END LOAD

### Money Purchase Pension Plans

Money Purchase Pension Plan allows your company to make annual contributions that are not tied to profits. In many ways it operates like a profit sharing plan except you are required to contribute the same percentage of employees' salaries each year. For added flexibility, offering both a profit sharing and money purchase pension plan gives you the ability to boost contributions when you want.

## Why Provide a Money Purchase Pension Plan?

### *(Tax-Deductible Contributions)*

All contributions to a Money Purchase Pension Plan (up to the allowable limit) are deductible for federal and, in most cases, state income tax purposes. This favorable tax treatment may provide a reduction in your company's current taxes. If you are self-employed, contributions are deductible on your personal tax return.

### *(Tax-Deferred Growth)*

All contributions to your Money Purchase Pension Plan account compound tax-deferred until withdrawn at retirement. Your investment can accumulate more quickly than in a non tax-deferred investment vehicle.

### *(Generous Contribution Limits)*

You may be able to contribute as much as 25% of compensation or up to \$44,000, whichever is less, to a Money Purchase Pension Plan account.

### *(An Attractive Employee Benefit)*

Small business owners may set up a Money Purchase Pension Plan as a way to compete with larger businesses for quality employees. This popular and highly visible employee benefit can help you attract and retain the employees you need to succeed in today's competitive business environment. Unlike large company plans, a Money Purchase Pension Plan is easy to establish and maintain.

## 401(k) Retirement Plans

A 401(k) plan is a low-cost means of providing visible and appreciated retirement benefits to your employees. It is one of the least restrictive retirement investment programs for companies today. The 401(k) plan provides a number of advantages to both employers and employees including:

### *(Pre-tax investments)*

A 401(k) plan presents a wonderful opportunity for your employees to actively participate in investing for their retirement on a pre-tax basis. Providing a company-sponsored 401(k) allows your employees' money to grow and compound tax-deferred until withdrawn, typically at retirement.

### *(Flexibility)*

A 401(k) plan offers your employees a great deal of flexibility and choice - including whether or not to defer, how much to defer, where to invest, and when to change the deferral amount of investments. A 401(k) plan can provide benefits to meet very different employee objectives, and as an employee's circumstances change, different choices can be made to adjust.

### *(Employee incentive)*

The 401(k) can help you address your employees' pressures for additional cash compensation without significant added cost. Providing a company matching contribution may help increase employee participation in your 401(k), and encourage pre-tax employee investments.

### *(Company control)*

As an employer, you can establish a vesting schedule and limit eligibility for your 401(k) plan.

## 403(b) Plans

A 403(b) plan is a special tax-advantaged retirement plan designed exclusively for employees of the following types of organizations:

- 'Hospitals and health care organizations
- 'Charitable foundations
- 'Scientific and research organizations
- 'Churches and other religious organizations
- 'Educational institutions

There are two general types of 403(b) plans:

- (1) tax sheltered annuities (TSAs) issued by an insurer, and
- (2) custodial accounts, invested exclusively in mutual funds.

Either type of 403(b) plan allows participants to make pretax contributions to a separate retirement annuity or custodial account set up in their individual names. Earnings in these accounts grow tax-deferred.

## Social Security

Set up under President Roosevelt in 1935: Average life span in 1942 less than 65 years. Initially only men received social security. Designed to be temporary. Scheduled to run out.

Those who are seeking immediate, drastic change should recognize that even the Social Security trustees appointed by the president agree that Social Security with no changes could pay full benefits until 2042, even under pessimistic assumptions about economic growth. They should recognize that the Congressional Budget Office says that Social Security with no changes could pay full benefits until 2052. They should recognize that even then benefits would be cut only about 25 percent if there were no changes, not nearly as drastically as most private account proposals would cut them. The lies and half-truths from the proponents of privatization must stop.

James Roosevelt Jr. is a lawyer and former associate commissioner of Social Security.

Social Security reaches almost every family, and at some point will touch the lives of nearly all Americans. Social Security helps not only older Americans, but also workers who become disabled, and families in which a spouse or parent dies. Today, more than 156 million people work and pay Social Security taxes and more than 47 million people receive monthly Social Security benefits. Most of our beneficiaries are retirees and their families—about 32 million people.

But Social Security was never meant to be the only source of income for people when they retire. Social Security replaces about 40 percent of an average wage earner's income after retiring, and most financial advisors say retirees will need about 70–80 percent of their work income to live comfortably in retirement.

## Full retirement age

If you were born before 1938, you were eligible for your full Social Security benefit on your 65th birthday. In 2003, the age at which full benefits are payable began to increase gradually. The following chart will guide you in determining your full retirement age. When you start receiving Social Security retirement or disability benefits, other family members also may be eligible for payments. For example, benefits can be paid to your husband or wife:

1. If he or she is age 62 or older
1. At any age if he or she is caring for your child (the child must be younger than 16 or disabled and receiving Social Security benefits on your record)

Benefits also can be paid to your unmarried children if they are:

1. Younger than 18
2. Between 18 and 19 years old, but in elementary or secondary school as full-time students
3. Age 18 or older and severely disabled (the disability must have started before age 22).

If you become the parent of a child (including an adopted child) after you begin receiving benefits, let us know about the child, so we can decide if the child is eligible for benefits.

**How much can family members get?** Each family member may be eligible for a monthly benefit that is up to half of your retirement or disability benefit amount. However, there is a limit to the total amount of money that can be paid to your family. The limit varies, but is generally equal to about 150 to 180 percent of your retirement benefit.

**If you are divorced.** If you are divorced, your ex-spouse may qualify for benefits on your earnings. In some situations, he or she may get benefits even if you are not receiving them. To qualify, a divorced spouse must:

- \$50 invested at age 14 on a monthly basis until retirement age of 65 = \$1,468,160
- \$50 invested at age 45 on a monthly basis until retirement age of 65 = \$18,428

	<b>ROTH</b>	<b>TRADITIONAL</b>
<b>Eligibility*</b>	Any age with compensation (subject to income limits); also non-working spouses. <sup>1</sup>	Under age 70½ with compensation <sup>1</sup>
	Single filers income up to \$95,000 (for full contribution)	No income limits <sup>2</sup>
	Joint filers income up to \$150,000 (for full contribution)	
	<u>See partial contribution limits</u>	
<b>Maximum Annual Contribution</b>	\$4,000 or 100% of compensation. <sup>3</sup> Individuals age 50 or older (in the calendar year for which they make the contribution) can contribute an additional "catch-up" contribution. The limit for catch-up contributions is \$500 for 2005 and \$1,000 for 2006.	
<b>Contribution Deductibility</b>	Contributions are not tax-deductible	Contributions may be tax-deductible <sup>4</sup>
<b>Federal Tax Advantages</b>	Federal tax-free growth	Federal tax-deferred growth
<b>Withdrawals</b>	Can withdraw contributions anytime without penalty or tax <sup>5</sup>	May withdraw after age 59½ without penalty

## HOW TO BECOME DEBT FREE

**Step No. 1: Make a list of what you owe.** This first step may be the hardest part of dealing with your debt. Put all your bills in a pile. Then list your debts in order, starting with the largest balance first. Next to the amount, list the minimum monthly payment, and the interest rate you're paying on that card. Now you know where you stand.

**Step No. 2: Prioritize your repayments.** If you have one or two small balances, you might want to apply extra money to pay them off, while continuing to pay the minimums on the cards with larger balances. Or you might want to pay off the card with the highest interest rate first. When you've paid off the smaller balances, attack the larger ones. Here's a trick that can save you years of interest charges. Simply double the minimum monthly payment -- and don't charge another penny. That should get you out of debt in less than three years.

**Step No. 3: Eliminate credit cards and don't roll over balances.** When you pay off a card, notify the company that you want to close the account. Don't just stick the card back in your wallet where it will tempt you again.

And don't roll balances from card to card. This is a tempting way to make yourself believe that you're doing something about your debt problem, if only by lowering the interest rate you're paying. Switching from card to card has drawbacks. Every time you get a new card, you're generating an outstanding open credit line that will appear on your credit report. Other lenders may be unwilling to let you keep rolling balances. And when those tempting introductory rates expire, you could be stuck with huge balances on high rate cards.

**Step No. 4: Get a copy of your credit report and credit score -- and study both carefully.** Your credit report is simply a compilation of your bill-paying history. Don't hide from the truth. There may be some errors on your credit report that you'll want to correct by contacting merchants. And if you do make progress toward paying down your balances, you'll want to make sure they're correctly reported.

You're entitled to a free copy of your credit report if you've been turned down for a loan or a credit card. And there are many Web sites that offer a report for under \$10 -- or even for free, if you sign up for a credit monitoring service that you might not need. Your credit score is a different, more complex evaluation of your creditworthiness. Your credit score doesn't just report your payment history; it uses a formula that assigns a weigh to factors such as bill repayment habits, percent of available credit used, and even your employment history. This credit score is used in almost every mortgage decision, and may be used in one form or another when pricing life or homeowner's insurance or car loans.

The most frequently used version of the credit score is the FICO score created by Fair Isaac & Co., the company that pioneered the concept of scoring. A FICO score ranges between 300 and 850. About 39% of the population scores above 750 -- and a score below that level is a warning signal.

Some aspects of your credit report are beyond your immediate control. They're calculations based on the length of time you've had the same accounts open. But other factors in your credit score that weigh heavily are your timely bill-paying habits and the percentage of your credit limit that you are using on each card. You can get a copy of your Equifax credit report and your FICO score at [myFICO.com](http://myFICO.com) or you can The cost is \$12.95 -- and it includes online access so you can track any changes in your credit report.

And by 2005 you should be able to get credit reports for free. The Fair and Accurate Credit Transactions Act, signed into law by Congress in Dec. 2003, gives every American the right to a free credit report every year from each of the three major credit bureaus: Equifax, Experian and TransUnion. But it will take a while for the government to write the exact regulations for the freebies and more months for the companies to comply.

**Step No. 5: Make a spending plan.** Now's the time to change your free-spending ways. To do that, track the money that's coming in and going out. Fortunately, there are easy ways to do that. One thing worth spending money on is personal finance software such as Microsoft Money and Quicken. Both programs let you track all your check writing by category and make monthly comparisons of your actual spending to the amount you've budgeted.

Use a debit card instead of your credit card. Then, when you download your bank transactions into your Quicken or Money program, all of your debit transactions will be included, and can be easily categorized. (If you're not paying bills online, you'll need to keep the receipts and enter them into your checkbook and your budget plan.) Your bank ATM card is a debit card if it carries the Visa or MasterCard logo. You won't earn points for your purchases, but you won't run up bills that have to be paid at the end of the month. You can only use the card if you have money in your account!

**Step No. 6: Be careful about the equity in your home.** In the past few years, Americans have withdrawn billions of dollars worth of equity in their homes. The ads and commercials are tempting, because the rates on home equity loans are typically lower than the rates charged on outstanding credit card balances. And the interest on a home equity loan may be deductible.

But there are dangers in home equity loans. Frequently, the money is used to pay down credit cards, which are then charged up again. The banking industry has a term for it: reloading.

Be very careful about digging into this last reserve. Yes, home values have been rising 5% to 6% a year in recent years, according to data from the National Association of Realtors. But there's no guarantee that home prices will continue to rise at the current pace. And if you have future problems that require cash, you'll have no place to turn. Instead, you're putting your house on the line.

**Step No. 7: Get help.** Sometimes credit problems are easily attacked once you've faced up to them. But for some people, the problem of overspending is a psychological one. Spending can become a habit that's as difficult to kick as alcohol, drugs or gambling. And then there are those who are over their head in debt because of circumstances they truly could not avoid: medical bills or divorce or loss of a job.

In those cases, it's wise to seek help from professionals. The only problem is that there are so many advertisements for "credit counseling" that you can't be sure whether they're rip-offs. I'd suggest you stick with one of the national, non-profit credit counseling services such as Consumer Credit Counseling Services.

Many people are afraid that just one visit will be reported to the credit bureaus and make their problems even worse. That's not the case. You can talk with a credit counselor on a private basis. Only if you enter their debt repayment program, where they contact your creditors and arrange for lower payments or interest rates, does this relationship appear on your credit report.