MONEY SKILLS FOR A LIFETIME

MONEY SKILLS

CREDIT CARDS

Credit cards offer many advantages. There is the convenience of being able to buy needed items now and the security of not having to carry cash. You also receive fraud protection and in some cases rewards for making purchases.

With these advantages also come responsibilities. You need to manage credit cards wisely by understanding all of the card's terms and conditions; stay on top of payments; and realize the true cost of purchases made with credit. Using a credit card is like taking out a loan. If you don't pay your card balance in full each month, you'll pay interest on that loan.

Choose Wisely
The best way to maximize the benefits of credit cards is to understand your financial lifestyle - your money needs and wants. Once you determine how you'll use a credit card, it's important to understand all of the card's features including:

- Annual Percentage Rates (APRs) and whether rates are fixed or variable
- Annual, late and over-limit fees
- Credit limit on account
- Grace periods before interest begins accruing
- Rewards including airline miles or cash back

Stay Alert
Some credit card issuers offer free, personalized and automatic alert messages to your phone and email to help you keep track of:

- Available credit
- Balances
- Payment due dates
- Payment histories
- Purchase activity

Understand Your Rights
Credit cardholders are entitled to protections:

- Zero liability means you are not responsible for fraudulent charges when you report them promptly.

- In some cases, you have the right to dispute purchases with merchants for unsatisfactory products or services.

Follow the 20-10 Rule
This general "rule of thumb" helps you understand how much credit you can afford. Credit cards are loans, so avoid borrowing more than 20 percent of your annual net income on all of your loans (not including a mortgage). And payments on those loans shouldn't exceed 10 percent of your monthly net income.

Credit Card Terminology

Understanding the language of credit cards will help you make informed decisions when choosing one. Below is a list of some of the most commonly used credit card terms.

Annual Fee
The once-a-year cost of owning a credit card. Some credit card providers offer cards with no annual fees. The annual fee is part of the total cost of credit.

Annual Percentage Rate (APR)
The yearly interest rate charged on outstanding credit card balances.

Balance
An amount of money. In personal banking, balance refers to the amount of money in a savings or checking account. In credit, balance refers to an amount of money owed.

Credit Bureau
A reporting agency that collects information on consumer credit usage. There are currently three main credit bureaus in the United States: Equifax, Experian, and Trans Union.

Credit Line
The maximum dollar amount that can be charged on a specific credit card account.

Credit Rating
A financial institution's evaluation of an individual's ability to manage debt. It is necessary to have a good credit rating if you intend to borrow money or have credit cards.

Grace Period
The time a borrower is allowed after a payment is due to make that payment without adding to the interest owed.

Introductory Rate
Credit card issuers may offer low introductory annual percentage rates as special promotions. Be sure to fully understand how long the introductory rate will last and what the standard rate will be.

Minimum Payment
The lowest amount of money that you are required to pay on your credit card statement each month in order to keep the account in good standing.

Overdraft Protection
A banking service that allows you to link your checking account to your credit card, thereby protecting you from overdraft penalties or bounced checks in the case of insufficient funds.

Credit Pros and Cons

As with anything there are advantages and disadvantages to using credit cards. Your informed use of credit cards begins with understanding these.

Advantages

Immediate Access: Need a new set of tires? Credit can help with an expensive, unexpected emergency and give you the flexibility to pay it over time.

Security: Lose cash, and it's gone. Lose a credit card, and it can be cancelled. Also, if you report a lost or stolen card promptly, you're protected against its unauthorized use.

Record Keeping: Your credit card statement is an itemized list of your monthly expenditures, which can be helpful when it comes to budgeting.

Convenience: Credit cards are accepted at more places than checks, and they're generally faster to use.

Bill Consolidation: Bills can be paid automatically via credit card, consolidating several payments into a single lump sum.

Rewards: Using a credit card with a rewards program may earn you benefits like free travel.

Disadvantages

The main disadvantage to credit card usage is its cost to you in interest and fees. Wise use of credit means understanding those costs and acting accordingly. Keep track of your spending to ensure that you can repay your credit card bill in full when it comes due each month.

The True Cost of Credit Card Purchases

If you don't pay off your credit card balance every month, the interest assessed on your account means you may be paying more than you expect. And if you spend beyond your means, the resulting interest and debt can become significant.

See how much extra you might pay on a $1,000 credit card purchase with varying interest rates:

Amount purchased	$1,000	$1,000	$1,000
Credit Card APR - The interest rate on the card	10%	15%	25%
Minimum Monthly Payment	$40	$40	$40
Number of Months to Pay Off	29 months	31 months	36 months
Total Finance Charges	$126	$207	$427
Total Cost	$1,126	$1,207	$1,427

The Credit CARD Act

The Credit Card Accountability Responsibility and Disclosure Act (CARD Act), which became law on May 22, 2009, affords consumers more detailed information and expanded options in the area of credit.

As a result of the Act, consumers are afforded:

- Safeguards against rate increases
- Improved billing practices
- New fee restrictions
- Increased disclosures
- New protections for consumers under 21

Safeguards Against Rate Increases

- Under the Credit CARD Act, rate increases are prohibited during the first year and promotional rates must last for six months or longer.
- The Act prohibits "double cycle billing," where credit card holders are charged interest on debt that is paid on time during a grace period, and "universal default," where a lender changes a loan from the normal to the default terms when the consumer defaults with another lender.
- After the first year, cardholders must be notified of significant changes to the terms of an account 45 days before the changes take effect. New rates may not go into effect for 14 days after the notice of change is mailed. The consumer will also be afforded the option to cancel the account and pay off the balance at the existing rate.

Improved Billing Practices

- The Credit CARD Act allows consumers 21 days to pay their monthly credit card bills (compared to the former minimum of 14 days).
- Payment due dates must fall on the same day of each month.
- Consumers must be allowed three weeks between the time a bill is mailed and the time it's due.
- Under the Act, credit card statements must appear in a specific font size for easier readability.

Fee Restrictions

- In almost all cases, consumers can't be charged for which method they use to pay their credit card bill (by check card, phone, mail etc.).
- The Credit CARD Act limits fees consumers can be charged for spending over their credit limits.
- There are new limits to the fees consumers can be charged on subprime cards.

Increased Disclosures

- Consumers must be provided with disclosures about how long it will take them to pay off a balance if only minimum payments are made.
- Credit card agreements must be available to consumers online.
- Under the Credit CARD Act, billing statements must include the payment due date, the minimum amount due, the ending balance and detailed information about late fees.

Protections for Consumers Under 21

- Under the Act, consumers under 21 will only be able to get a credit card with proof of their ability to make payments independently or the help of an adult co-signer.
- The Act restricts incentives given to students who sign up for credit cards.

To read the Credit CARD Act of 2009 in its entirety, click here.

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CREDIT HISTORY

To get a glimpse of your financial future, many businesses look at your financial past. This history is contained in your credit report. Your credit report determines everything from whether you qualify for a loan and the rate you'll pay on that loan, to renting an apartment and obtaining car insurance.

What Is a Credit History?
Your credit history is a financial profile. It lets lenders, landlords and employers know how you have managed money in the past and helps them decide whether or not to do business with you. This history is contained in a credit report that is kept on file by the three independent credit bureaus listed below. It may include such information as:

- How promptly you have paid off credit cards and loans
- How well you have handled paying other bills, such as rent and utilities
- Your total outstanding debts
- How much available credit you have on credit cards and home equity loans

Who Can See Your Credit Report?
Your credit report can and most likely will be reviewed by anyone planning to give you a loan or credit, such as banks and credit unions, credit card issuers, auto financing companies, and insurance companies. Your report also may be checked by landlords and potential employers. Some lenders may also use the details in your report to determine how much credit they are willing to offer you and at what rate. Anyone with a legitimate business need can access your credit report, though an employer (or prospective employer) typically requires your written consent to do so.

Beware of "Fast Fixes" For Accurate Credit Problems
If you've had any late payments, foreclosures, or repossessions, this information stays in your credit report for up to seven years. If you've filed for bankruptcy, this information can stay in your report for up to 10 years.

Some companies claim they can "fix" such problems for a fee. However, it is legally impossible to alter an accurate credit history.

Credit Bureau Contact Information
Once a year, it's a good idea to check your credit report for accuracy, and you can do so for free through the three major credit bureaus. Get your reports at www.annualcreditreport.com or by contacting the bureaus directly:

Equifax
Report Order: 1.800.685.1111
Fraud Hotline: 1.888.766.0008
www.equifax.com

Experian
Report Order: 1.888.397.3742
Fraud Hotline: 1.888.397.3742
www.experian.com

Trans Union
Report Order: 1.877.322.8228
Fraud Hotline: 1.800.680.7289
www.tuc.com

Credit Scores

When you apply for credit, lenders determine your credit risk by examining your credit scores. Each of the three main credit bureaus - Experian, TransUnion, and Equifax - keep credit information about you that is used to calculate your scores. Such information includes your payment history, the amount of money you owe, the length of your credit history, and the number of recently opened credit accounts.

Your scores guide lenders as to what your credit risk is. Scores range from 300 to 850. The higher your score, the lower your perceived risk to a lender.

The generally accepted definitions of scores are:

- Poor 300 to 599
- Fair 600 to 674
- Good 675 to 724
- Excellent 725 to 850

Keep Your Credit Score Strong

- Complete credit applications carefully and accurately.
- Use your credit cards responsibly and don't let them reach their limit or spend beyond your means.
- Attempt to pay your credit card balance in full each month, but at least make the minimum payment by the due date.
- Always pay bills on time.
- If you have problems paying your bills, contact your creditors. In many cases, they will work with you to figure out a payment plan.
- If you move, let your creditors know your new address as soon as possible to avoid losing bills or receiving them late.
- If your credit card is lost or stolen, report it immediately.
- Review your credit reports periodically for accuracy and report any errors immediately.
- Establish a consistent work history

Your Credit Report

Request Your Free Credit Report Once Every 12 Months
Consumers are entitled to a free copy of their credit report every 12 months from each of the three major credit bureaus: Equifax, Experian and TransUnion. Visit www.annualcreditreport.com to request your credit report online, by phone, or through the mail.

Review Your Credit Report
Over 13 million people a year find inaccuracies on their credit reports – incorrect late payments, accounts that should have been closed, other people's debt information and more. Report mistakes right away; errors could lower your credit score, costing you money.

You're the one who has to ensure your report is correct. If you find an issue:

- Check the last page of your report for instructions for claim disputes.
- Contact the credit bureau and report the error immediately.
- Put it in writing – if the issue remains unresolved, provide a letter of explanation and request that it become part of your report.

The Three C's of Credit

Your credit score is a measure of factors that may affect your ability to repay credit. It's a complex formula that takes into account how you've repaid previous loans, any outstanding debt, and your current salary.

A credit score is dynamic and can change positively or negatively depending upon how much debt you accrue and how you manage your bills. The factors that determine your credit score are called The Three C's of Credit - Character, Capital and Capacity.

Character: From your credit history, a lender may decide whether you possess the honesty and reliability to repay a debt. Considerations may include:

- Have you used credit before?
- Do you pay your bills on time?
- How long have you lived at your present address?
- How long have you been at your present job?

Capital: A lender will want to know if you have valuable assets such as real estate, personal property, investments, or savings with which to repay debt if income is unavailable.

Capacity: This refers to your ability to repay the debt. The lender will look to see if you have been working regularly in an occupation that is likely to provide enough income to support your credit use.

The following questions may help the lender determine this:

- What is your current salary?
- How many other loan payments do you have?
- What are your current living expenses?
- What are your current debts?
- How many dependents do you have?

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DEBT

If you're in debt, you're not alone. Consumer debt in America is extraordinarily high. Sometimes it's hard to know – or admit – if you have a problem with debt. It can be overwhelming to realize that you've gotten in over your head, and to worry that you won't be able to pay back what you owe. The key to getting out of your situation is to act now. Don't procrastinate. Taking charge of your finances and creating a plan for tackling your debt will cut down your anxiety and get you on the path toward a better financial future.

First, ask yourself whether debt has become a problem for you. Here are some circumstances that might indicate it has:

- Next month's bills arrive before last month's have been paid
- Your bills often include late fees
- You avoid opening bills when they arrive in the mail
- You procrastinate balancing checkbooks
- You bounce checks

Write it Out

Do you actually know how much debt you have? Many people don't. Start by making a list of everything you owe, whether it's a mortgage, a credit card balance, student loans or even money you borrowed from family or friends. Write down:

- The lender's name
- The amount you owe
- The term of the loan
- The interest rate and fees

Then total them up. Looking at the numbers can be worrisome, but this is a positive – and necessary – first step to tackling your debt.

The power of 50

Paying the minimum amount due on your credit cards is one of the fastest ways to fall further into debt, and it can keep you in debt for years or decades.

If you have a credit card with a $3,000 balance at an annual interest rate of 18%, and you pay only the 2% minimum monthly payment of $60 per month, it would take you 8 years to pay off your bill. Not only that, you will have paid $5,780 by the end of the 8 years – almost double the $3,000 you thought you were spending when you made the charges.

Paying just $50 above the minimum amount due each month will make an incredible difference in how quickly you can pay down what you owe. If you pay an additional $50 per month toward your $3,000 balance for a total payment of $110 a month, you could pay off the debt in 3 years instead of 8, and save yourself over $1,800 in interest. Imagine what you could do with $100 more per month.

Be realistic
Now that you have analyzed your debt situation, it's time to look at your monthly budget and set realistic goals. That trip you had planned for next summer, or the new car you were hoping to buy may not be in the cards right now given your new outlook on reducing your debt.

Don't get discouraged
Reducing debt is like losing weight. You're not going to lose 50 pounds in a month – you need realistic goals in reasonable timeframes, and debt works the same way. For most people, it takes years to become debt-free. This doesn't mean you have to stop enjoying your life. It's just a reminder to live within your means and be diligent about adjusting any spending habits that have contributed to the situation you are in today. Dedicating yourself to paying off what you owe and becoming debt-free will be worth the wait, with the payoff being a brighter financial future.

Debt Load

Are you out of your debt comfort zone? Does it seem as though you're paying too much to bill collectors and not enough for savings and the things you enjoy in life? If so, it's a good idea to figure out just how much debt you have and compare that to how much you earn. This will give you clear understanding of your financial health.

Debt Load
The first step is to calculate your debt load. This is the sum total of all the money you owe:

- Mortgage
- Student Loans
- Credit Cards
- Even loans from friends and family.

Debt/Income Ratio
Once you have your debt load figured out, you'll want to know just how big of a burden it is. You can do this the way banks and creditors do, by calculating your debt/income ratio - the amount you owe compared to the amount you earn. It's easy:

1. Calculate all your monthly debt payments - including credit cards, mortgage and child support. (If you don't have fixed monthly payments, you can estimate your monthly payments at 4 percent of the total amount you owe.)
2. Take your gross annual wages and divide them by 12. That's your monthly income.
3. Take your monthly payments total and divide it by your monthly income.
4. Move the decimal point two digits to the right to make it a percentage. That's your debt/income ratio.

Here's an example. Let's say your monthly income is $2,000 and your monthly payments on your debt load totals $500. If you divide 500 by 2,000 you get .25. Move the decimal point two places to the right and you get 25% as your debt/income ratio.

How much is too much?
Only you can know for sure how much debt is too much. If you're feeling a financial squeeze every month because of credit card bills, you don't need anyone to tell you you're out of your debt comfort zone - you know.

But as a general rule of thumb, a debt/income ratio of 10 % or less is outstanding. If it's between 10 - 20 %, your credit is good, and you can probably borrow more.

But once you hit 20 % or above, it's time to take a serious look at your debt load. Creditors will be less likely to give a loan to someone with such a high debt/income ratio, and those that do will probably charge higher interest.

Worse, if you have a debt/income ratio above 20 %, chances are you'll feel a strain on your budget.

The 28/36 Rule
Another helpful guide is one mortgage lenders use: the "28/36 rule." It stipulates that your debt shouldn't exceed 28% of your gross monthly income, while your total debt service - including your house payments and utilities - shouldn't be more than 36 percent.

Mortgage companies will also compare debt load to annual income. They'll typically loan up to three times what a person makes in a year. So if a home buyer earns $30,000, they might qualify for a $90,000 mortgage.

Getting Out of Debt

Frequent calls from bill collectors is one sure sign that you have debt problem. If this is the case, it's time to get proactive. Talk to your creditors as soon as possible. You might be incurring additional charges while you wait. Or they might be willing to change your interest rate and save you money.

Here are some tips for talking with creditors:

- Be cooperative, not angry.
- Be prepared with a list of how much you owe.
- Have all your financial records together and with you.
- Listen. The bill collector might have ideas that will help you.
- If you are having trouble with a particular bill collector, ask if you can speak with a different person.

Your Rights
Creditors do not have the right to harass you. The Fair Debt Collection Practices Act is a federal law that protects you. It forbids collectors from:

- The use of threat of violence or other criminal means to harm a person, their reputation or property
- The use of obscene or abusive language
- Repeated calls with intent to annoy or harass
- False affiliation with the government, including the use of a badge or uniform
- Threat of arrest
- Communication at unusual or inconvenient places and times
- Communication with third parties without debtor consent

Bankruptcy
Bankruptcy is a way to eliminate debts or repay them under court protection and supervision. Child support payments, alimony, fines, taxes, and some student loan obligations are typically not eliminated.

Bankruptcy was created to give a hopeless debtor a fresh start and should always be considered a last resort. A bankruptcy will stay on your credit report for up to 10 years, possibly affecting your ability buy or rent a home and will likely result in higher interest rates on future loans.

Types of Bankruptcy
There are many different types of bankruptcy, but the most common are Chapter 7 and Chapter 13.

In a Chapter 7, or "straight bankruptcy," you agree to turn over all of your non-exempt assets to a Chapter 7 trustee. The trustee then sells your assets and distributes the money to your creditors.

Chapter 13, or "reorganization," allows you to keep your property, such as a mortgaged house or car. It includes a plan based on disposable income to pay creditors over three to five years with a single monthly payment.

Consumer Financial Protection Bureau
The Consumer Financial Protection Bureau (CFPB) receives and processes complaints about unfair treatment of consumers by creditors and debt collections. For more information about the CFPB and how to file a complaint click this link.

The CFPB also provides a series of sample letters for consumers to use when responding to creditors.

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IDENTITY THEFT

When your private financial information gets into the wrong hands, the consequences can be devastating. Yet there are many ways you can help protect yourself on a daily basis, from taking precautions while online to checking your credit report periodically.

If you should fall victim to identity theft, it is important that you act quickly. Contacting the correct agencies and filing the necessary reports will go a long way toward minimizing any damage to your financial wellbeing.

Who to Contact

Credit Bureaus: Immediately contact the fraud departments of each of the credit bureaus listed below. Alert them that you are a victim of identity theft, and request that a fraud alert be placed in your file. You can also request a security freeze, preventing credit issuers from obtaining access to your credit files without your permission. This prevents thieves from opening up new credit cards in your name.

Law Enforcement: Report identity theft to your local police department. If the crime occurred somewhere other than where you live, you may wish to report it to law enforcement there as well. The police will create an "identity theft report" and you can request a copy.

Federal Trade Commission (FTC): The FTC does not investigate identity theft cases, but they can share information that you give them, such as the identity theft report number, with investigators nationwide. For more information about fighting back against identity theft, visit the FTC's Identity Theft website.

The Federal Trade Commission's Identity Theft Hotline is 877-IDTHEFT (877-438-4338)

Credit Bureau Contact Information Equifax
Order Credit Report: 1.800.685.1111
Fraud Hotline: 1.888.766.0008
www.equifax.com

Experian
Report Order: 1.888.397.3742
Fraud Hotline: 1.888.397.3742
www.experian.com

Trans Union
Report Order: 1.877.322.8228
Fraud Hotline: 1.800.680.7289
www.tuc.com

Protect Yourself Against Identity Theft

There are some simple steps you can take to reduce or minimize the risk of becoming a victim of identity theft.

Practice Safe Internet Use
Delete spam emails that ask for personal information, and keep your anti-virus and anti-spyware software up-to-date. Shop online only with secure web pages (check the bottom of your browser for an image of a lock or look for "https" in the address bar). Never send credit card numbers, social security numbers and other personal information via email.

Destroy Private Records
Tear up or shred credit card statements; ATM, credit, or debit card receipts; bank deposit receipts; loan solicitations; and other documents that contain private financial information.

Secure Your Mail
Empty your mailbox quickly and get a mailbox lock. When mailing bill payments and checks, consider dropping them off at the post office or a secure mailbox.

Be Careful With Your Social Security Number
Your social security number is a major target for identity thieves because it can give them access to your credit report and bank accounts. Never carry your card with you. Instead, memorize your number and keep the card in a secure place at home or in a safe deposit box. Never write or print your social security number on checks.

Check Your Credit Report
At least once a year, obtain and review your credit report for suspicious activity. You can request a free copy of your report at www.annualcreditreport.com or by contacting any one of the three major credit reporting agencies.

Beware of Scams
Always be on the defensive with your private information. Never give out personal information to telemarketers or respond to emails from someone claiming to represent your bank, credit card issuer, a government agency, a charity, or other organization. If you think the request is legitimate, contact the company directly to confirm their claims.

Credit, Debit and Fraud Protection

Consumers often ask whether debit or credit cards provide greater consumer protection against fraud. The question itself indicates a few key preconceived notions about fraud as it relates to personal finance; as a consumer, it's important to know that:

1. You aren't liable for unauthorized purchases. All major credit and debit card issuers provide $0 liability guarantees for unauthorized charges.

2. Fraud isn't all that prevalent. Of all the purchases made with credit cards and debit cards, only around 0.05% are affected by fraud.

Yet it's understandable that consumers are concerned about the security of their hard-earned money, and many may still want to know: will using either a credit card or a debit card make dealing with fraud easier?

Credit or debit?
Credit cards make breaches of financial security slightly easier to address. With a credit card, a consumer has at least 21 days from the time a statement is available to pay the amount due. That's plenty of time to notice unauthorized charges, notify your issuer of the issue, and have them removed from your bill. With a debit card, on the other hand, a thief could clear out your bank account before you notice. Although you will recover all of your money, finding your bank account empty can be quite a shock.

What about cash?
The real difference in financial security comes when you compare both credit cards and debit cards to cash. If a thief gets ahold of your cash, there's really nothing you can do, save filing a report with the police. Cash doesn't come with a $0 liability guarantee, after all.

What about prepaid cards?
Let's cover all the bases. In terms of liability, prepaid cards are similar to debit cards. The primary difference is that instead of being linked to a bank account, a prepaid card is linked to a reloadable prepaid account.

How to protect yourself
There are a few steps you can take to further insulate yourself from financial intruders, no matter how you choose to go about spending your money. It's always a good practice to:

- **Check your credit reports for inaccuracies.** You are entitled to one free copy of your TransUnion, Equifax and Experian credit reports every 12 months. It's a good idea to request your report from one of these agencies every four months to stay on top of changes.
- **Keep your Social Security Number (SSN) private.** Make sure to give out your SSN only to reputable companies after you have contacted them, not after they have contacted you.
- **Shred financial documents.** Dumpsters are a main source of information for identity thieves.
- Make arrangements for your mail while on vacation. Mail overflowing from a mailbox is a sign of opportunity for both identity and property thieves.
- **Use secure passwords.** Avoid opening up your financial world to anyone who knows your pet's name or your birthday, and make sure to change your passwords regularly.
- **Verify web security.** Only provide personal financial information on "https" websites.

Credit cards and debit cards have far greater purchasing power than the cash you carry in your wallet, yet they also offer considerably lower liability than other forms of payment. However, fraud can lead to considerable hassle and financial troubles, so make sure you continue to take steps to safeguard your personal finances.

Tips For Travelers

Whether you're traveling for business or pleasure, be on the alert for opportunities that identity thieves may try to take advantage of:

- **Receipts** – Do not leave credit card receipts on the table at restaurants; sign them and hand them directly back to the server. Keep your copy of all receipts.
- **Wallets** – Stolen wallets frequently lead to identity theft, so instead of carrying your wallet in your pocket or having it easily accessible in your bag, use travel pouches that are worn inside your shirt.
- **Checks** – Leave checkbooks at home in a locked safe or drawer. Checking account takeover is one of the hardest types of financial fraud to clear up.
- **Camera phones** – That tourist with a camera phone may actually be taking a shot of your credit card or driver's license. Keep important personal information out of view from others.
- **Mail** – Put your mail on postal hold whenever you travel, and arrange for mail to only be picked up by you at the post office when you return.
- **Hotels** – Lock up all valuables in room or hotel safes while you are out, including laptops, passports and other documents that contain your personal identifying information. Do not leave these items with a hotel doorman to transport or hold—carry them yourself.
- **Airplanes** – Do not put any items that contain your social security number, card numbers, or financial institution account numbers in checked luggage. Always carry that with you.

Consumer Privacy

Why is privacy an important issue in the information age? Financial companies share information for many reasons: to offer you more services, to introduce new products and to profit from the information they have about you. In fact, you've probably been receiving privacy notices from banks and other financial companies. These notices explain 1) What personal financial information the company collects; 2) Whether the company intends to share your personal financial information with other companies; 3) What you can do if the company intends to share your personal financial information, to limit to some of that sharing; and 4) How the company protects your personal financial information.

Why is information privacy a sensitive issue?

- Information is a very valuable resource!
- Access to information in our society today offers many benefits to consumers, but also poses a potential threat to our privacy.

What types of information is available?

- Demographic information (U.S. Census)
- Telephone directories
- Birth, marriage, and divorce records
- Voter registration records
- Campaign contributions
- Driver's licenses/vehicle registrations
- Licenses and permits (hunting, fishing, etc.)
- Legal information (judgments, bankruptcies, real estate titles, etc.)

Private Databases for legitimate purposes only:

- Employment information
- Credit reports
- Tax information (IRS/state tax boards)
- Criminal records
- Social service records (welfare, Medicaid, etc.)
- School records
- Medical records
- Amending/correcting records

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SAVING

Savings can help you achieve any financial goal. Whether it's a comfortable retirement, a down payment for a house, or a new car or stereo, you can get there by setting money aside. And best of all, you can have what you want without getting bogged down in debt.

Yet if you're like most people, you don't save as much as you'd like to. Or you don't save at all. Americans spend more than we earn. Consider that the national personal savings rate has dipped to the lowest point since the Great Depression. Today's high energy, home and food prices may make saving seem less possible than ever.

But the time is now. And with a little forethought and effort, saving money is not only possible, it's easy.

Make Saving a Priority
You'll be more likely to save money if you make it a priority. Sit down and figure out what you'd like to save money for – retirement, a house, car, college, dream vacation –and how much it will cost. Then make your plan:

- Set a timeline for when you'd like to reach your goal.
- Set a schedule by dividing the total goal amount by the number of weeks, months or pay periods between now and your goal date.
- Be vigilant by treating your savings contribution just like any other must-pay expense, such as rent or groceries.

Find Money to Save
While it may seem difficult sometimes just to make ends meet, chances are you have extra money you didn't even know about. Here are some ways to find it:

- Keep track of everything you spend for a week. You might be surprised what you're buying, and what you can do without.
- Make purchases with cash. This can help you stick to a budget and avoid impulse purchases. Simply decide ahead of time how much you want to spend and then set aside that amount in cash before you go shopping.
- Lower your bills. Many creditors will give borrowers a lower interest rate if they're asked. Also, conserving electricity and gas can make a big difference.
- Rank your nonessential expenses. Keep the ones you like the best and cut the items on the bottom of the list.
- Pack a lunch. Or cook more dinners at home. Eating out at restaurants can eat up a lot of money that could be saved.

Pay Yourself First
You're probably inclined to pay everyone else first – whether it's your landlord or your grocer or the electric company. But it's vital to start paying yourself first by saving money. Once you've

made a contribution to your financial longevity and well-being, then you can divide up your money to cover everything else. Don’t worry. You'll more than likely have plenty left over to cover everything you need.

In fact, most banks make this easier. You can have them automatically transfer funds from your checking account to your savings account, money market, mutual fund and other accounts. You might also check with your employer. Companies will often deduct savings from paychecks if asked.

How Savings Works

When setting up a savings plan, it’s a good idea to think about more than just how much money you’ll need in the future. You should also be looking at ways your money can earn more money for you.

Fortunately, this is a lot easier than it sounds. In fact, just about the only way you can keep from earning more money with your savings is to put it under your bed or in a safe. If you take your money to a bank you can guarantee that over time you’ll make more money, and you won’t have to do a bit of work for it.

That’s because banks offer interest. In exchange for opening an account and giving the bank your money, the bank agrees to increase your money by a certain percentage every year.

For instance, if you were to take $100 and put it in an account that offers 6% interest, by the end of the year the bank will have given you six dollars. So, without doing anything, your savings has grown to $106.

Best of all, it’s risk free. The federal government guarantees your deposits. Even if the bank goes bankrupt, you’ll get your money back.

Compound Interest
At first, interest might not seem like a lot of money. But it grows over time. And it can add up very quickly – thanks to a powerful moneymaking tool known as compound interest.

Put simply, this is interest earned on interest.

Let's look again at that $100 in an account earning 6% interest. The $106 you have after the first year would earn 6% again the next year -- $6.36, or a 36 cent increase. After you add that to the total, you would have $112.36. And that new total will then earn 6% the following year -- $6.74, another increase.

As long as you leave the money in there, it will keep earning more. If you left that same $100 in a 6% interest account for 40 years, you’d have $1,028, and your annual interest earnings would be more than $50 per year.

The Rule of 72
One simple way to see the power of compound interest is through the "rule of 72." It's a formula for figuring out how quickly your money will double if left alone in an interest bearing account.

All you have to do is divide 72 by the interest rate. So if your rate is 6%, divide 72 by 6. At that rate, it will take 12 years to double your money.

Big Money
Still not impressed? Sure, 12 years is a long time to double your money. But that's only if you put your money in once and leave it. If you keep contributing, your money will really grow.

Consider that 6% account one more time. If you were to put in another $100 each year for 40 years, you'd wind up with $17,433 and you'd be earning more than $1,000 in interest.

It really pays to start saving early and regularly.

Read the Fine Print
Just as banks give, they can take away. If you're not careful, penalties and fees can cut into your interest. Sometimes they even eat into your actual savings. So it's important to read the fine print when you open an account so you can know where the potential pitfalls might lie.

Watch out for:

- Fees, charges, and penalties. These are usually based on minimum balance requirements, but they can also be attached to transactions such as ATM withdrawals and online transfers.
- Interest thresholds. Some accounts require minimum balances before they even begin paying interest.
- Variable interest rates. Some accounts – most often money-market accounts – will pay different interest rates for different size balances, with higher balances earning higher rates.

Saving Options

Not all savings accounts are the same. Different banks offer different interest rates. And individual banks typically offer a number of savings accounts options to choose from.

Before opening a savings account it's a good idea to figure out how you'll be using it. Ask yourself:

- How long you'll be keeping your money in the account.
- How often you'll want to withdraw money.
- How much money you'll keep in the account.

All of these factors can have an impact on how much interest you can earn. A simple rule to keep in mind is that time is money. The longer you're willing to leave your money alone in an account the higher interest you're likely to earn. Similarly, banks tend to offer higher interest if you're willing to keep a minimum balance. These can range from $100 to thousands of dollars.

Types of savings accounts
While there are many different savings options available, they all fall into four main categories.

- **Basic bank savings accounts** offer the lowest interest rates, usually about 2%. They have few restrictions on access to your money, and they tend not to require minimum balances.
- **High yield savings accounts** are like basic accounts, but they have more restrictions on how often withdrawals can be made and typically require a minimum balance. These accounts may offer 3 or 4% interest.
- **Money market accounts** are like high-yield accounts, but they're tied to federal market indicators, such as the prime interest rate.
- **Online savings accounts** are a lot like basic bank accounts, but they offer higher interest rates because they operate online and don't have the overhead that standard banks have.
- **Credit Unions.** These are like banks, but they're owned by their customers. They tend to offer higher interest on savings.

CDs
If you don't mind leaving your money alone for a longer period of time – from several months to several years – consider taking out a certificate of deposit, or CD. These often offer the highest interest of any savings option a bank allows.

Unlike regular bank accounts, you can't withdraw your money whenever you want – not without paying a steep penalty. But they come with no risk and no fees.

There are several kinds of CDs:

- **Stock-indexed CDs** are based on the stock market.
- **Callable CDs** have higher rates and are long-term, as long as 10-15 years. However, the bank may "call" the account if interest rates drop.
- **Global CDs** are tied to currency rates.

Keep an eye out for promotional CDs. Banks sometimes offer these as a way to lure new customers with high interest rates.

MONEY SKILLS

BUDGETING

A budget is a plan for your future income and expenditures that you can use as a guideline for spending and saving. Although many Americans already use a budget to plan their spending, the majority of Americans also routinely spend more than they can afford. The key to spending within your means is to know your expenses and to spend less than you make. A good monthly budget can help ensure you pay your bills on time, have funds to cover unexpected emergencies, and reach your financial goals.

Most of the information you need is already at your fingertips. To create or rework your budget, follow the simple steps outlined below to get a clear picture of your monthly finances. You can also use our free online budgeting calculators below to budget for certain specific purchases or events.

1. Add Up Your Income
To set a monthly budget, you first need to determine how much income you have. Using the worksheet at the bottom of this page, write a dollar figure next to each relevant income source. Make sure you include all sources of income such as salaries, interest, pension and any other income–including a spouse's income if you're married.

If you get a salary, be sure to use your take-home pay rather than your gross pay. Taxes are usually taken out automatically, but if they're not, remember to include them as another expense. If you receive money from somewhere not listed, enter the source along with the amount under "other income."

2. Estimate Expenses
The best way to do this is to keep track of how much you spend for one month. The worksheet below divides spending into fixed and flexible expenses. Fixed expenses are those that generally do not change from month to month, such as rent and insurance payments. Flexible expenses are those that do change from month to month, such as food or entertainment. If some of your expenses for one or more categories change significantly each month, take a three-month average for your total.

3. Figure Out The Difference
Once you've totaled up your monthly income and your monthly expenses, subtract the expense total from the income total to get the difference. A positive number indicates that you're spending less than you earn--congratulations. A negative number indicates that your expenses are greater than your income. This means you will need to trim your expenses in order to begin living within your means.

Well done–you've created a budget. The next step is to track your budget over time to make sure you're sticking to it. If you find you aren't able to follow your budget successfully, it may mean that your plan isn't flexible enough. It can take revisiting your budget a few times to find the balance that works for you.

Live Within Your Means

If you are like many Americans, you may find that you are spending more than you're saving and steadily going deeper into debt as a result. This is an easy and common pattern to fall into, and one that requires some planning and discipline to reverse.

The first step is creating a budget. As unpleasant as this may sound, creating a budget is nothing more than examining your income and expenditures in order to determine exactly how much money you have coming in and where you’re spending that money.

Once you've got a clear understanding of your current budget, your challenge is to find places where you can spend less (or earn more) in order to achieve your financial goals. Here are some steps you can take toward that end:

1. Question Your Needs And Wants
What do you want? What do you really need? Evaluate your current financial situation. Take a look at the big picture. Make two lists – one for needs and one for wants. As you make the list, ask yourself:

- Why do I want it?
- How would things be different if I had it?
- What other things would change if I had it? (for better or worse)
- Which things are truly important to me?
- Does this match my values?

2. Set Guidelines
We all have different budgets based on our needs and wants. But the Building a Budget chart on the next page shows some guidelines on how much should go toward different expenses. You may need to make adjustments for a daily latte fix or visits to family, but remember to subtract amounts from other areas if you do.

3. Track, Trim And Target
Once you start tracking, you may be surprised to find you spend hundreds of dollars a month on eating out or other flexible expenses. Some of these are easily trimmed. Cutting back is usually a better place to start than completely cutting out. Be realistic. It will help you to be better prepared for unexpected costs.

The SMART Way to Trim Expenses
In finding ways to trim flexible expenses, it helps to have a goal to save toward each month. Setting such a goal needs to be SMART:

SPECIFIC Smart goals are specific enough to suggest action. Example: Save enough to visit Rome for your wedding anniversary. Not just "save money."

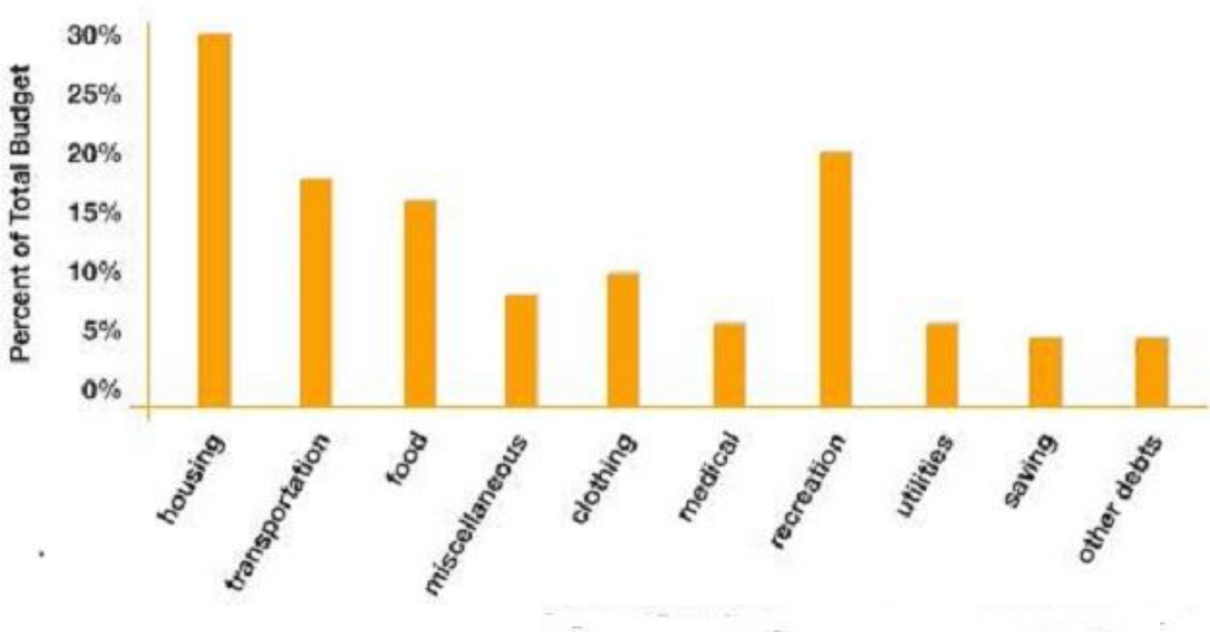
MEASURABLE You need to know when you achieved your goal or how close you are. Example: A trip to Italy costs $2,000, and you have $800 saved.

ATTAINABLE The steps toward reaching your goal need to be reasonable and possible. Example: I know I can save enough money each week to purchase that trip to Italy.

RELEVANT The goal needs to make sense. You don't want to work toward a goal that doesn't fit your need. Example: We would like to stay in four-star hotels in celebration of our anniversary.

TIME-RELATED Set a definite target date. Example: I want to go to Italy by next summer.

This chart shows some rough guidelines on how much of your income should go toward different expenses. If you live in an area where transportation is higher than normal or rents/mortgage are higher, you may need to make adjustments. Also, if you would like to add a section for gifts, or something else, then you'll need to subtract from another area.



Budgeting: Back-to-School

Ah, back-to-school time: the smell of newly sharpened pencils, fresh crayons and flowing cash. If that third one's got you down, take a look at these tips for creating – and sticking to – a back-to-school budget. While families spend on what they need, parents must also work with their children to determine what they really don't need.

Start early, and take time to get ready. It doesn't take much to turn the school's supply list into a full-on shopping list. But you can do better than that.

Before you buy even one notebook, estimate how much you can afford to spend overall and what the costs are likely to be. Don't leave anything out! It's better to know ahead of time if things will be tight. (Keep reading for a bunch of creative ways to handle a shortage.)

Give some thought to what you'll do with any extra money in the budget. Will the kids get something special from their mile-long wishlists? Or will the surplus be added back into the household budget?

Think ahead to find the best deals. Be on the lookout for the big back-to-school sales and go early. Even the big stores can sell out at the last minute.

Get the kids involved. And not just with the shopping. Have them join in as you prepare; they'll learn great lessons about budgeting, finding a good deal, and the difference between wants and needs.

Younger children can help cut coupons (with safety scissors, of course). And older kids can compare costs and tally them up. You might even put them in charge of looking for deals to stay under budget. Use back-to-school shopping as an opportunity to lay the foundation for helping your children develop sound money management habits early. Before you shop, review these tips:

- Set a realistic back-to-school budget before you go shopping.
- Have your kids prepare a budget with you.
- Take a printout of your estimated budget with you when shopping and have your child enter in all of the actual expenses.
- Encourage children to follow the budget. Stress that getting a more expensive item might mean sacrificing something else.
- Encourage kids to consider ways to cut costs and manage cash flow, like clipping coupons, looking for sales or buying supplies each semester.
- Teach your kids to comparison shop to avoid impulse buying or paying for overpriced items.
- Differentiate between "needs" and "wants." Encourage children to contribute their own money to fill the gap between what they "need" and what they "want."
- Tell kids that if they come in under budget, you will split the savings with them.
- Continue the budgeting lesson by starting kids with an ongoing monthly budget.

Be willing to compromise on a few things. Sure, kids will want to have the same cool stuff their friends do. If your budget has the room, you can help them learn to prioritize.

Talk to them about how choosing a more expensive item means they'll have to go cheap on another item, and give them a chance to think their choices through. If they have money of their own, you might ask them to help fund that special lunchbox or name-brand backpack.

Get creative to slash the shopping bill. There's a good chance school clothes will take up the biggest chunk of your back-to-school budget. But who says they have to be brand new? Trade clothes and books with other families, or hit the thrift stores and garage sales. If school uniforms are required, check whether the school has a trading or discount program.

Buying online? Play it smart! Order together with enough friends to get free shipping. Or buy bulk packs of supplies to share. You might also find a steal on eBay or Craigslist.

Shop the sales. It seems that sales for back-to-school gets earlier and earlier. Before you recycle those weekly newspaper ads, scan them for retailer's sales on clothing and school supplies. Watch for coupons online, postcards and in the mail, and in-store promotions to look for deals. Some items are worth scooping up on the spot, while you might wait for end-of-season sales to replenish your kids' closet and bookshelves. For big ticket items like electronics for your older kids, do your homework on price comparisons before giving in and buying the coolest new laptop for your teen.

Learn from the experience. Make your savvy back-to-school approach an annual tradition. Keep track of this year's expenses to help figure out the budget next year. Keep notes about what you discover, like where the best thrift stores are and when the store shelves start to empty. They'll come in handy a year from now. And if your kids' cost-savings decisions help you come out ahead, use it as a teachable moment to talk to them about what to do with the money that was saved.

Practice these smart shopping habits each year, and by the time the kids graduate, you'll have saved a bundle. And they'll be much more prepared for the real world.

Holiday Budgeting

It's the time of year for gift giving, entertaining, holiday parties, and for many–overspending and financial stress. This year, enjoy the season without letting holiday spending get the better of you; the tips and tools below will help. Setting a realistic holiday budget and making sure to stick to it is the first step to enjoying a more affordable and less stressful season. Here are a few ways to handle gift giving and celebrations without breaking the bank:

1. Set Your Budget
The best place to start making a holiday budget is to look at your spending during last year's holiday season. In what areas did you spend more than planned? Next, make a list of the holiday purchases and events you plan to spend money on this year. Consider all of your major spending categories: gifts, entertaining, meals, and travel–then estimate how much you can afford to spend in each category. Knowing your spending goals long beforehand will help you stay on track financially as the season heats up.

2. Get Creative
One great way to save money and wow friends and families is to get creative. Store-bought gifts are great, but homemade gift are often more meaningful and most recipients truly appreciate your time and effort. Ideas for creative gift projects are plentiful online. Sites like this one should give you a few ideas to start with.

If you like the idea of a personal touch and affordability but don't have the time or skill to make gifts yourself, the ultimate marketplace for homemade gifts is Etsy, where you can find crafty items from over 200,000 sellers.

3. Join Together
Instead of excessively spending on each other this year, join together with family members to help those who may be less fortunate.

4. Travel Wisely
If you plan on traveling, take some time to determine how much it will cost.

5. Entertain for Less
Holidays are a wonderful time to entertain, but a little planning and budgeting can help you avoid financial headaches.

Budgeting: Summer Travel

Tips for Saving on Travel

1. Be realistic about what you can afford. Hey, we all want an amazing, no-holds-barred vacation, but choosing a trip you can't afford will likely add more stress to your life. After all, what's the point of taking time to relax if you'll be paying for it for several months to come?

2. Shop around. There are a wealth of sites that make it easy to compare fares from a variety of airlines, hotels and rental car companies, some of the most popular being Expedia.com and Travelocity.com. It's a savvy traveler's world—take advantage.

3. Protect yourself. When ordering tickets, make sure the sites you are using are legitimate. Once on your trip, safeguard your identity by keeping your passport, driver's license and credit cards in a safe place away from view. Also make sure to make photocopies in case of theft.

4**. Expect the unexpected.** Credit cards get lost. Flights get delayed. Storms arrive unexpectedly. Keep unknowns in mind when planning your trip, and set aside an extra 10 to 15% of your travel budget for emergencies or surprises.

5. Take advantage of technology. These days, few travelers leave home without their smartphones and iPads. Apps like Hotel Tonight and iFly Pro allow you to digitally book hotels, check in for flights and organize itineraries.

6. Consider alternative lodging. Companies like Airbnb, a service that allows you to rent unoccupied living space in other people’s homes, are increasingly popular – and in many cases, cheaper.

Financial Tips for Travel Abroad

Overseas travel is an expensive proposition and difficult for many families to afford. Still, there are ways to lessen the financial burden of an international trip so you can see the world without breaking the bank. Here are a few:

Get the best exchange rate. There are essentially three ways to exchange currency: converting cash at a bank before your trip, using a currency exchange service like the ones found in airports, or simply using a credit card, in which case your money is converted automatically upon making a purchase. So, which is the best option?

According to an exchange rate study conducted by Card Hub, international travelers can save up to 15% by using a credit card. More specifically, major worldwide credit networks automatically provide the best exchange rates possible–currently 14.7% better than the currency exchange companies that operate out of airports and 7.9% better than the average major bank. Yet you can't just open a major credit card account and expect those savings.

Get a no-foreign-fee credit card.
Over 90% of all credit card issuers charge foreign usage fees, which inflate the cost of any transaction processed outside the United States. No foreign transaction fee credit cards don't have these fees, however, making them perfectly suited for overseas spending. In order to use one of these cards to your full advantage, you should adhere to the following guidelines:

- Get your card before booking flights, hotels and activities. Foreign fees apply to purchases made through foreign-based companies whether you are outside of the U.S. or not. Make sure your credit card issuer does not charge these types of international fees before booking your trip to avoid surprises on your statement.
- Use a worldwide payment network. Your payment network dictates the number of merchant locations and countries in which you can use your credit card. Given that most payment networks do not provide worldwide coverage, you should check to see how much coverage your credit card affords.

Consider cash and debit cards.
Though the majority of your purchases abroad should be made with a credit card, you'll need some cash for cab fare and the few stores that inevitably don't accept plastic. Opening a low-foreign-fee debit card and making ATM withdrawals during your trip is the least expensive way to access cash, as the low exchange rate that applies to credit cards also applies to debit card transactions. If you'd rather not worry about finding an ATM as soon as you arrive in a foreign country, convert a small amount of cash at a local bank before you leave. In doing so, keep in mind the following tips:

- Compare bank exchange rates. Currently, an 11.9% disparity exists between the exchange rates offered by the best and worst banks for currency conversion.
- Watch out for fees. Some banks might charge shipping or processing fees, so make sure to inquire about extra charges before agreeing to a conversion.
- Convert just the right amount. Convert enough cash to comfortably cover your initial expenses but not more than you feel comfortable carrying with you.

Consider these final tips.
Regardless of which debit or credit card you use while traveling overseas, it's important to:

- Call your issuer before leaving. Make sure to notify your bank of the exact countries and territories where you'll be traveling. If you don't, your cards may be suspended for suspicion of fraud.
- Avoid dynamic currency conversion. Merchants may offer to convert the price of a purchase from the local currency into U.S. dollars. While in most cases, this may be meant to help customers who aren't familiar with the exchange rate, some merchants offer dynamic currency conversion in order to apply an unfavorable exchange rate to a transaction and increase their profits. Luckily, avoiding this money-waster is as simple as declining any merchant overtures and making sure to only sign bills or receipts expressed in the local coin. And if you want to quickly translate a price into U.S. dollars, why not use your cell phone or any other device with a calculator?

Overseas travel is expensive, but it doesn't have to be unaffordable. As long as you make sure to carry a credit card without foreign fees, get the best possible exchange rate when converting cash, and avoid costly merchant tricks, a post-trip look at your bank account shouldn't result in any surprises.

MONEY SKILLS

BANKING

Choosing the right bank is an important step. As with any financial decision, it's important to figure out what you want and need beforehand. There are countless banks to consider—some nationwide and some local—and there are also credit unions, which some people opt to use instead of or in addition to banks for their savings and credit needs.

Here are a few things to consider before you open a checking account:

- **Location.** Does the financial institution have branches in the areas where you work and live?
- **Availability of ATMs.** The ATMs owned by your bank won't charge you to withdraw cash, but other banks' ATMs will. Does the financial institution have machines in locations that are convenient for you?
- **Hours.** Do you work during the day? Perhaps you need a financial institution with extended hours'some are even open on Sundays.
- **Customer service.** Do their customer service offerings fit your needs?
- **Online banking.** The Internet has made it very convenient to keep track of your finances online. Find out if the institution you're considering provides online access to your account.
- **Credit unions are an option.** Credit unions differ from banks in several ways. They're designed to serve a particular group or neighborhood, and users are members rather than customers.

Opening a Checking Account
Once you've decided on a specific bank or credit union, you'll want to open a checking account. A good checking account is an essential tool for building solid personal finances. It makes managing your money easier, and over time it will save you money.

- **Convenience.** With a checking account, you can pay bills without heading to the post office or elsewhere to buy a money order or cashier's check—both of which cost money. And you can cash your paychecks without paying fees to a check-cashing company.
- **Keep good records.** With a checking account, you have an official record of every purchase you make with the account, as well as money you receive and deposit. This can come in handy when crafting a budget, preparing for taxes or as proof of payment. Each month you'll get a statement tallying every purchase you've made.

Choosing the Right Account

Most banks and credit unions offer a variety of checking account options. Some are free and others carry a monthly fee. Often the free checking requires that a minimum balance be maintained.

Pay particularly close attention to the additional fees that a bank may charge. The charges are generally small—from 10 cents to several dollars, but they add up. Here are some of the most common fees:

- **Check Fees.** Banks sometimes charge a small fee for each check you write. Some accounts will allow a certain amount for free each month, and then charge for any above that amount.
- **Balance Inquiry Fees.** Some institutions charge you to find out how much money you have in your account.
- **ATM Fees.** If you withdraw cash from an ATM owned by a bank other than your own, your bank could charge you (for a withdrawal outside the system) while the other bank charges you for not being one of their customers.
- **Overdraft Fees.** These are fees banks charge customers who withdraw money from an ATM or make a debit card purchase that exceeds the balance in their account. Under a new law that took effect July 1, 2010, consumers must opt for this service to be charged overdraft fees.

Checking accounts can also earn you money. Some offer interest, just like savings accounts. These can be particularly beneficial if you plan on maintaining a large balance.

How do Banks and Credit Unions Differ?
At one time, credit unions specialized primarily in low-interest loans and savings accounts, but not other services. But most have increased their range of services offered, with many now offering checking accounts, credit cards, student loans and mortgages. Some people opt to maintain savings accounts with credit unions, since they tend to offer higher interest rates, and a checking account with a traditional bank to ensure they have greater accessibility to ATMs and more. Deciding which type of institution will work best for you is a personal choice. Here are some of the main differences:

Banks:

- Generally run by a group of investors with capital
- For profit
- Federally insured by the Federal Deposit Insurance Corporation (FDIC)
- May offer greater accessibility and a wider range of services

Credit Unions:

- Democratically controlled by members
- Not for profit
- Insured by the National Credit Union Administration
- May offer lower-cost services and higher interest rates on savings

Balancing your Checkbook

The best way to avoid fees and penalties on your checking account is by making sure that you correctly balance it each month. A balanced account means simply that the tally of deposits and purchases you've made matches up with your monthly statement. It sounds challenging, but it’s really easy.

- **Step 1:** Get a copy of your monthly bank statement. These should be mailed to you each month, but if you misplace one you can ask for another (usually for a fee) or get a copy online (usually for free).
- **Step 2:** Compare your statement to your checkbook register. Throughout the month, you should have been recording every deposit and purchase or withdrawal. If you see any charges or deposits on your statement that aren’t in your register, add them.
- **Step 3:** Record any fees or balance adjustments that may appear in your statement.
- **Step 4:** Subtract from your register’s balance any checks you have written but that have not yet cleared the banking system.
- **Step 5:** Check and see if the total matches your statement. If it does, your account is balanced. If not, go back through your register and see if you’ve missed anything or if you’ve made a mistake with your math.

Computer Assistance
An even easier way to balance your checking account is to use financial management software, such as Quicken. You can record your purchases into the program as you make them. Then, when your bank statement arrives, you can run a program that will walk you through the process of balancing your account. All you have to do is click your mouse. The computer does the math for you.

Bounced checks
Everybody makes mistakes from time to time. When you make mistakes on your checking account register it can result in overdrafts, also known as bounced checks. This is when you write a check for which you lack the money in your account to cover.

Overdraft fees on bounced checks can be very costly, with most banks charging $25 to $35 for each one. It’s not unusual for someone to miscalculate and bounce a number of checks in a row. Note that the new law limiting the overdraft fees customers can be charged applies only to ATM withdrawals and debit card purchases, and not to checks.

Fortunately, there are some remedies when this happens.

- **Overdraft protection.** Most banks will offer a line of credit that will kick in when you make a charge that exceeds your balance. These are like credit card charges, with interest, so be sure to pay them off as soon as you can.
- **Negotiate.** Sometimes a bank will waive an overdraft fee when asked. They usually do so only if the overdraft was a rare occurrence. In other words, if you have a habit of bouncing checks, they’re not likely to cut you a break.

Online Banking

The Internet has made banking a lot easier. Just about every bank allows you to check your account and make transactions online. In fact, if you want, you can do away with ever having to go to a bank again.

Automate Your Finances

Online banking allows you to automate a lot of your financial transactions. Here are some possibilities:

- **Automatic Deposit.** You can have your paycheck automatically deposited into your account. Ask your employer if this service is available where you work. It's a good idea, because you won't have to wait in line at the bank every time you get paid.
- **Automatic Bill Pay.** You can have your bank make automatic contributions to certain bills if you wish. Also, your bill collectors likely offer the service. Many prefer this method and will sometimes offer a cost break if you choose to use it. This can be a great convenience, but be careful. If your cash flow is sporadic, an automatic payment could kick in when you don't have enough funds, causing you to be penalized. Note that the new law limiting overdraft fees customers can be charged applies only to ATM withdrawals and debit card purchases, and not to automatic payments.
- **Automatic Transfer.** If you're trying to maintain a savings regimen, consider having a certain amount of your paycheck or checking account balance transferred into savings or an investment fund. It's easy to set up either online or at your local branch.
- **Automate Your Records.** Many online banking services are compatible with financial management software. You can have your account records imported regularly, and make balancing your checkbook quick and easy.
- **Bank From Anywhere.** With online banking, you can pay your bills and manage your accounts while at home in your pajamas. Or you can do it from anywhere in the world. Wherever you have an Internet connection, you have the ability to work with your money.

Virtual Banks

Some banks operate entirely online. They offer the same services as the bank in your neighborhood. But they don't have expenses such as keeping a bunch of branches open and fully staffed. That can translate into real savings – and even earnings – for you.

Without the costs of overhead, online banks can offer higher interest on savings and checking accounts. They also tend to offer lower fees and fewer restrictions on minimum balances and withdrawals.

One major downside of virtual banks is that they don’t own their own ATMs. So if you need cash while you're on the run, you'll likely have to pay a fee to use some other bank's machine.

Debit Cards

In recent years debit cards have risen in popularity, often replacing payment by cash and check. A debit card is unlike a credit card in that it is tied directly to a checking account. When you make a purchase with a credit card, you are taking out a loan of money from the card issuer, whereas a debit card purchase withdraws money from the account to which it is tied.

Because your debit card is tied to your bank account, there are specific considerations and precautions to keep in mind when you use them.

Stay in Check
Always know your current bank account balance and available funds. And don't forget about checks that haven't cleared your account.

Consider opening an online banking account that allows you to manage debit card purchases, checks and bill paying all at once. You'll have a one-stop shop for managing all the ins and outs on your account.

Know Your Limits
Many debit cards have daily spending and cash withdrawal limits. These limits are meant to protect you in case your card is stolen. But remember, your card might be declined if you exceed your limits even if you have enough money in the bank. Know your limits and contact your lender if you need to raise or lower amounts.

Also remember to track your spending. When you write checks or make automatic payments that exceed your account balance, you may be subject to "overdraft fees." Under a new law that took effect July 1, 2010, you cannot be charged overdraft protection fees on ATM withdrawals or debit card purchases unless you opt in for the service. Although opting in means your institution will cover your check or debit transaction so it doesn't bounce, this protection usually comes with a price tag. You may be charged a fee for each purchase that uses overdraft, as well as an additional fee for being overdrawn. Balance your account regularly to avoid added fees.

Stop Surcharges
Many banks charge a fee if you use another institution's ATM with your debit card, and they usually charge non-account holders to use their ATMs. Instead of paying extra, choose a bank or credit union with ATMs convenient to where you live and work or use your debit card to get cash back when making purchases.

Be Secure
For maximum security, take advantage of free alerts for your debit card. Some financial institutions offer automatic account alerts by phone and email.

Receive Customized Alerts When:

- ATM withdrawals or any debit card activity exceeds your set dollar limits
- Your online ID or passwords change
- Large transactions are made

Keep a Secret
Your debit card will require a Personal Identification Number (PIN) for security. Choose a unique number. Avoid obvious choices like your address, phone number or birth date.

Always keep your PIN private. Memorize it. Don't write it down anywhere. And never tell it to anyone. If you feel your PIN has been compromised or someone may have identified it, change your number immediately by contacting your financial institution.

Hit the Road, Plan Ahead
Like credit cards, debit cards are accepted at millions of locations worldwide. Remember for your protection, usage across state and international lines can cause a fraud or security alert with your financial institution if it's different than normal spending patterns. If possible, let your bank know your travel plans in advance.

Know When They Hold Them
In some cases, a transaction that is not yet complete will require that a certain amount of money in your account be held, or earmarked, for that transaction. When you check into a hotel, for instance, your card is authorized and funds covering the length of your stay are held. But the money isn't deducted from your account until the final cost, which may include room service charges or phone calls, is known. This protects you and the hotel owner by ensuring that the correct amount of money is available when the transaction is completed.

Debit Cards — The Extra Protections
Did you know that many of the same features and protections offered by credit cards are also offered with debit cards?

- **Zero Liability:** This generally means you're not liable for unauthorized purchases made on your debit cards as long as you notify your financial institution immediately. Check with your financial institution to make sure Zero Liability applies to your card.
- **Funds And Fraud:** Federal law mandates that financial institutions replace funds for losses resulting from fraudulent card use within ten business days of notification. However, in many cases, you'll have access to funds within five business days of notification– sometimes sooner.
- **The Right To Dispute:** You may have dispute resolution options should an issue arise with a debit card purchase. This often applies to signed purchases only. Check with your card issuer, and save all of your receipts.

Prepaid Cards

What is a Prepaid Card?
Like debit and credit cards, prepaid cards allow you to make purchases without cash or checks. Unlike credit cards, you cannot take on debt with a prepaid card, and unlike debit cards, prepaid cards are not linked to a bank account. A prepaid card has a zero balance until you add money to it.

How Prepaid Cards Work
When you make a purchase with a prepaid card, the amount is subtracted from the balance of the card. Once the balance reaches zero, the card is empty. It can then be discarded, unless it is a reloadable card, in which case you can add funds and continue using it.

With Prepaid Cards You Can:

- Make purchases in person, online, or by phone
- Give gifts to friends and family
- Withdraw cash from an ATM or bank
- Receive wages or funds by direct deposit to the card
- Pay bills

Kinds of Prepaid Cards

Reloadable cards. A reloadable prepaid card is one that lets you add funds after your initial purchase. Teen cards, Travel cards, and Payroll cards are often reloadable.

Gift cards. These non-reloadable prepaid cards can be given as gifts and used until the balance is zero.

Teen cards. Parents can teach teens financial responsibility while monitoring their spending with teen cards.

Travel cards. Travel cards are a safe alternative to cash and travelers checks. Some cards offer lost luggage reimbursement, emergency card replacement, and zero liability for lost or stolen cards.

Payroll cards. A payroll card is an alternative to traditional payroll methods in which an employee's income is credited directly to his or her card.

MONEY SKILLS

SAVING FOR COLLEGE

A college education is the ticket to the middle class in the United States. But it's an expensive ticket, and the cost rises every year.

The overall annual cost for a college education ranges from about $7,000 for community college to $35,000 for a private school, according to US News & World Report.

Start Early
Those are some scary numbers. But if you have the benefit of time, they're not as bad as they seem. Here are some steps you can start taking today:

- Go over your monthly finances and find a little extra money you can put away. Even $50 or $100 can make a big difference.
- Make a commitment to devote at least that amount each month, and to add to it as your income increases.
- Shop around for the best interest return you can get for your money.

High Return
Because the cost of college is rising faster than inflation, it's smart to invest your savings to get a higher interest rate than a typical bank can offer. Consider putting your money into:

- Stocks
- Mutual funds
- Bonds

Help Paying for College
One important thing to keep in mind is that you won't necessarily have to come up with the entire cost of college. All higher education institutions offer financial aid in the form of grants and loans. These are most often funded by the federal government. But there are also often aid offerings from the state and from the school itself. Be sure to look into all the options available.

529 College Savings Plans

College education is so important that the government helps folks save for it. A 529 plan is an investment for a child's education that is put aside in a mutual fund and grows in the account free of federal income tax. The money is withdrawn from the plan when the beneficiary is ready for college and used to pay tuition and other school related costs.

There are two kinds of 529 plans:

- **Savings plan.** This works like an IRA or 401(k) retirement account. You can invest in your choice of mutual fund without worry of being penalized for taxes when you cash it in to pay for school.
- **Prepaid plans.** Offered by public universities, these allow you to make contributions toward tuition and fees at those schools over time. They can also be converted for use at schools in other states and private colleges. Some private schools also offer 529 plans.

The quality of these plans varies from state to state. Fortunately, you are free to invest in any state's plan, no matter where you live. And if you move to a new state, you can continue investing in the same plan.

Financial Aid Availability
A 529 account does not affect the beneficiary's eligibility for financial aid. It remains an asset of the account holder and not the beneficiary. These accounts do have strict limitations on what they can be used for, including tuition, fees, books and equipment required for class. The money may be used for room and board only if the beneficiary attends school at least half the time and the amount is dictated by what the educational institution uses to compute the cost of attendance.

An investor can start a 529 account for any child, related or unrelated. The investor can change the beneficiary at any time. So if you start a 529 for one of your children who later decides not to attend college, you can designate that money to be used by any other college-bound child.

Be aware that when you contribute to a 529 plan, there may be gift tax consequences if the contribution exceeds $13,000 per person per year.

Coverdell Education Savings Accounts
You can contribute up to $2,000 a year to a Coverdell education savings account for your child, as long as your income is under $190,000. Each child can receive a contribution of only $2,000 a year. So if Grandma puts in $2,000 this year, you won't be able to contribute until next year. These accounts can be opened with any financial institution and invested in anything from savings accounts to mutual funds.

Applying for Financial Aid

Though the cost of a college education may seem out of reach, many can and do afford it with help from the government. Depending on your household income level, you may qualify for a package of grants and loans to help cover the expenses of a college degree.

In order to receive financial aid for college, you have to apply each year. You can apply online at www.FAFSA.ed.gov, and the free application works for virtually all two- and four-year colleges, universities and career schools in the country.

Not everyone who applies receives aid. Grants and loan packages are awarded according to income level and the cost of the school you're applying to. But you can get a pretty good idea ahead of time how much you might be eligible for by using the federal government's eligibility calculator. [http://www.fafsa4caster.ed.gov]. This can also make it easier when it comes time to actually apply.

After You Apply
Soon after applying online, you will receive a Student Aid Report (SAR). It will have all the information you submitted when you applied. Look it over carefully. If there are any mistakes, you'll be able to reopen your application and amend it.

You will also receive an Expected Family Contribution (EFC). This will be in the upper right hand corner of your SAR. This is the amount the government believes your household should be able to pay for education. Your school will use this number to figure out how much aid you will receive. For instance, if your EFC is $5,000 and the school costs $10,000 per year, you would be eligible for $5,000 in aid.

Other Sources of Federal Student Aid
In addition to standard federal grants and loans, you might qualify for other forms of assistance. Some examples of students who could be eligible for more federal aid:

- Veterans and their dependents
- Some students in medical training
- Students interested in doing public service in exchange for aid

Other Sources of Aid
The federal government isn't the only place to find help. States and even counties and cities often open grant and scholarship programs. Civic groups, such as local chambers of commerce, do as well. Check with the financial aid office at the school the student plans to attend. Also check the student's high school counselor's office for aid sources.

Financial Aid Grants

The best form of financial aid for college is the grant. This is money that, unlike a loan, you never have to pay back.

Federal Pell Grant
The most common federal grant for higher education is the Pell Grant. It's available only to undergraduate students who haven't earned a degree. In order to get one, a family must demonstrate financial need, based on their income and assets, and on the cost of the school to be attended.

There's a limited amount of Pell Grant money available to each borrower. For the 2011–2012 award year, the maximum award is $5,550. This figure changes from year to year, based on government funding for the program.

If you are awarded a Pell Grant, it will be applied to your school bill or you will be given a check, at least twice each school year.

Federal Supplemental Educational Opportunity Grant
If your financial need is particularly high, you might qualify for an additional grant, the Federal Supplemental Educational Opportunity Grant (FSEOG). These are given to supplement Pell Grants given to recipients with the lowest expected family income.

These grants range from $100 to $4,000 a year. Like Pell Grants, they're credited to your account or paid to you directly.

Academic Competitiveness Grant
The Academic Competitiveness Grant was made available to first-year college students for the first time for the 2006-2007 school year. It provides $750 for the first year of study and $1,300 for the second year. It's available to Pell Grant recipients who have completed a qualifying academic program in high school. Check with your high school's counseling office to find out if they offer one.

TEACH Grant
If a student is interested in teaching as a career after college, a TEACH Grant could be the right way to go. A recipient must agree to work as a full-time teacher at a school that serves low-income students for at least four years. You also have to score high on a college admissions test or maintain a grade point average of at least 3.25.

Work-Study
Another non-loan way to cover the cost of college is work-study. Here the recipient works a part-time job in exchange for college expenses. The work is paid by the hour. The employer, typically the school, must allow for a flexible schedule so as not to interfere with school responsibilities. The program encourages community service work and work related to the recipient's course of study.

Student Loans

The most common form of financial aid for college is the student loan. Because they're backed by the federal government, they're generally easy to get. This is a good thing, because without them many would not be able to attend college.

But if a borrower isn't careful, the years after graduation could be burdened by unnecessary debt. Student loans can add up very quickly. And they all have to be paid back.

Stafford Loans
The primary student loan available to students and families by the federal government is the Stafford Loan. It comes in two forms:

- Federal Family Education Loans - These are by private lenders.
- Federal Direct Student Loans - These are provided by the government directly to students and their parents.

Stafford Loans are either subsidized, meaning that the government pays the interest on them while the student attends school, or unsubsidized. Subsidized loans are advantageous because the student doesn't have to worry about making payments on them until six months after graduation, when a good paying job is more likely. Eligibility for subsidized loans depends on income level and school costs.

Government loans carry maximum limits, which vary according to the area of study, year in college or whether or not the borrower is still a legal dependent of the parents. The loan limits range from $5,500 for certain dependent undergraduate students to $40,500 for certain medical students. Current interest rates range from 3.4% to 6.8%.

Perkins Loans

For students with high financial need, the government provides Perkins Loans to supplement Stafford Loans. These are subsidized loans, so they don't have to be paid back until nine months after graduation, as long as the student is enrolled in at least a half-time schedule.

As with Stafford Loans, Perkins Loans have maximum limits. Undergraduates may take out up to $4,000 per year, while students in graduate school may receive up to $6,000. The interest rate is currently just 5%.

PLUS Loans

If Stafford and Perkins loans aren't enough, the student's parents may take out an additional loan known as the PLUS Loan. The student must be a legal dependent, and the parents are required to pass a credit check.

PLUS Loans are designed to supplement other grants and loans, so their amounts are determined by subtracting the borrower's total financial aid package from the total cost of school. So if school costs $10,000 per year and the student is receiving $8,000 from other sources, the maximum PLUS Loan would be $2,000.

Interest on PLUS Loans is generally higher, currently at about 8%. They are also not subsidized, so they begin accumulating interest right after the funds are disbursed. The borrower can wait until after graduation to begin repayment, but he or she will have to repay the accumulated interest as well. Under some circumstances, however, such as extreme financial hardship due to disability, the loans can be deferred, during which time interest would not be added.

MONEY SKILLS

BUYING A CAR

Buying a car is like jumping into a lake. Without some planning and research into what you might encounter, you could be in too deep before you know it. But if you take the car buying process one step at a time and put some time into researching your purchase and your finances before you stop on the lot, the process is likely to go a lot more smoothly.

What Can You Afford?
Before you begin shopping for a car, it's important to take a look at your budget and figure out how much you can afford to spend on a vehicle, without strapping yourself or cutting into your savings. Can you afford $200 a month for your new vehicle? What about $300? That number will be the total amount that you can pay for the car itself and operating expenses, like gas and maintenance.

Operating expenses can be about one third to one half of the monthly cost of a new car. So take the amount you've decided you can spend on your car each month and multiply it by .66. That is the most you should consider spending on monthly payments for the vehicle to be able to afford operating expenses as well.

The Down Payment
You're also going to need a big chunk of change for a down payment. How much? The bigger the better. To get a loan for a car, and often for a lease, you'll probably need to make a down payment of around 10% of the total price of the vehicle. The larger your down payment, the smaller your monthly payment will be and the less you will pay in total for the car in the long run. But make sure you don't cripple yourself or deplete your savings account with too large a down payment. Find a comfortable balance.

Auto Financing

Just because you've figured out what you can afford, it doesn't mean lenders will agree. That's where your credit report comes in. Lenders decide how large a loan you qualify for strictly by looking at your credit report. It's nothing personal. They don't care what you look like, what you think about the status of your personal finances or how nice you are to small animals. They only care about the numbers that appear on your credit report.

The credit report will tell them your credit worthiness (How well have you paid past debts?), financial means (Do you have sufficient income to repay a loan?) and debt load (Do you have too much debt to be able to take on more?).

Pre-Approved Financing
Many lenders will pre-approve a certain loan amount based on your income and credit history. You'll know exactly how much car you can afford and be able to leverage your financing deal against financing offered by the dealership.

Financing Options

- **Dealer Financing** The big advantage of dealer financing is convenience. You buy and finance the car all at once. But if the dealer is just reselling a bank loan to make a profit, the rates won't be the best. Occasionally dealers offer special rates to get rid of overstock, especially at the end of a model year. So make sure you ask them about financing and compare their offer to your prearranged financing.
- **Banks** You can usually get a lower interest rate at a bank than a dealership, especially if you are an existing bank customer. They'll probably require a 10-20% down payment to cover the depreciation of the car in case you default on your loan and they need to repossess your car. Smaller banks offer personal relationships, which are important, but may not be able to compete with rates of bigger banks.
- **Credit Unions** Credit unions have lower overhead costs than banks which allows them to offer lower financing. Sometimes it can be a full percentage point lower.
- **Home Equity Loans** You need to own a home to get a home equity loan. You use your home as collateral for the loan - which is a little bit scary. If you can't pay the loan, they can take your house. But if you're sure you can afford it, a home equity loan is a great way to go because not only can you get a lower interest rate, your interest is tax deductible!
- **The Internet** As with everything else these days, you can shop for car loans on the Internet. You miss out on any kind of personal relationship, but you can get quick approval and very competitive pricing.
- **Trade-In** Your old vehicle is basically a very large coupon that you can trade for a discount when you buy a new vehicle. If it's worth enough, you may be able to use it as a down payment. Trade-ins are a convenient way to use the car you already own to help purchase a new one.

Negative Equity
The value of a new car drops dramatically as soon as you drive it off the lot. That's because it then becomes a used car. It doesn't matter that you only used it for five minutes - it's still used and is worth much less because of that fact.

This depreciation is an important concept to understand when dealing with financing because while the value of your car drops immediately, your loan principal drops more gradually. So if you try to sell the car too soon, you may end up owing more on it than you can sell it for. That's called negative equity.

You can avoid getting into negative equity situations by following these simple rules:

1. Keep your car until it is paid off completely. Obviously, no matter how much your car depreciates, you won't have negative equity if you don't owe anything.
2. Don't buy a car that is too expensive. If you struggle too much to make the payments, you may decide to sell the car earlier than is financially prudent.
3. Don't drag out your payments. You might get a slightly better interest rate and your monthly payment will be smaller. But it will staple you to that car for the financing term. Five years later you'll still be paying for a car that may no longer fit your needs.

4. Make the biggest down payment you can. This will help offset the effect of depreciation and start giving you some positive equity.

Buying a Used Car

Some people seem to get a new car every year or so. What happens to all the ones they've gotten rid of after just a year? People buy them and sometimes get great deals.

A large part of a car's depreciation happens as soon as you drive it off the lot. So the main advantage of buying used is that you're buying after this huge drop in price. That makes a used car less of a long-term investment.

Shopping for a Used Car
Used car salesmen have one of the worst reputations of any profession. While most will not live down to this reputation, some will. You've heard the term "too good to be true." It applies double to used cars. That motto will help you avoid some of the car sharks.

Shopping for a used car can be much harder than shopping for a new one. They're like snowflakes. Each one is unique. That makes comparison shopping more of an art than a science. And dealers have a little bit of an advantage since you can't just leave and buy the exact same car at another dealership.

There are three main sources of used cars:

Used Car Dealer Dealers often offer you a warranty on a used car - which is comforting when a previous owner may have used it to haul chickens down an uneven gravel road every day for the past three years. But you probably won't get as good a price as you will if you buy from the Average Joe/Jane.

Average Joe/Jane A little negotiation can really drop the price to something that's fair to both of you. But you won't get a warranty. And to look at five cars, you're most likely going to have to visit five different people.

Public Auctions You can get some incredible deals at public auctions. There is no dealer to haggle with and only other potential buyers will increase the price. The downside to these auctions is that you usually can't test drive the car and it is extremely rare to get a warranty on an auctioned car.

Research is Important
The point of buying a used car is to save money. But if you don't research the car you buy, it could end up costing you more than a new car! First, look up the Kelly Blue Book value of the car so you know what price range to start in. Then get the history of the car. Ask the seller what it was used for. If it has been used just for driving on relaxing tours of the countryside several times a year, no problem. But if it was used as an off-road race vehicle, you might want to reconsider.

Get the VHR (Vehicle History Report) using the Vehicle Identification Number. It will cost about $10-$15, but this report will let you know if the car has been in any major accidents that may have weakened the frame.

When it comes time for the test drive, be relentless and thorough. Ask the seller about any strange noise the car makes. Anything. It might just be an odd quirk. But it could be a telltale sign of a much larger problem. Use everything in the car. Press every button. Open every window. Open and close every door. Once you are sure there is nothing wrong with the car, get a professional mechanic to do the same. Subtract any small thing wrong with the car from the price you are willing to pay for the vehicle. Realistically, you'll end up paying that money back to get it fixed.

Buy or Lease

Here's another choice for you. Do you want to buy or lease a vehicle? There are pros and cons to both.

What is Leasing?
When you lease a new car, you're paying to use the car during its first few years. Here's how it works. You go to the dealership to lease a car. The dealership actually sells the car to a leasing agency (sometimes owned by the dealership). This part is transparent to you. You put some money down on a lease, just like a down payment.

Your monthly payment is determined by the total price of the vehicle minus your down payment, minus what they expect to be able to sell the car for at the end of your lease. That number is than divided by the number of months in the term of the lease. Then they add a finance charge and a profit margin. That sounds complicated, but in the end, you're paying for the depreciation of the vehicle while you use it. The lease is actually a loan for the amount of the depreciation.

Benefits of Leasing
A lease will offer you a lower monthly payment compared to buying a vehicle. Plus, a much smaller down payment or trade-in is required.

If you like to get a new car every few years, a lease is probably a good option for you. If you buy a car and sell it every few years, you'll end up with loads of negative equity - that's bad.

At the end of a lease you have the option of giving the car back or buying it as a used car. If you plan on buying it at the end of the lease, it may be a better idea to just buy it new to start with. If you lease and then buy, the cost of the lease combined with the purchase price of the used car is often much more than the new price of the car. If it weren't, the leasing agency wouldn't make any money.

Disadvantages of Leasing
Since you are paying the difference between the new price and the used price of the vehicle, you will be charged extra at the end of the lease for anything that decreases the resale value of the

car. You will have to pay to fix any abnormal wear and tear on the car including scratches and dings. You will also have to pay if your mileage surpasses the limit you have agreed to in your lease contract. At 10 to 15 cents per mile, that can become a major cost. If you've customized the vehicle in any way, even if it seems like added value to you, you will probably have to pay extra at the end of the lease.

You're also locked into the lease for the specified term. If you decide you want to break a three-year lease after two years, you'll have to pay the remainder of the lease PLUS any termination fees in the contract.

These are just some of the stipulations set forth in the lease contract. So make sure you read your lease contract in full before signing it.

Also, make sure your contract specifies a closed-end lease. A closed-end lease is standard and sets a specific amount for a depreciation cost for you to pay. In an open-end lease, the leasing company estimates the depreciation cost and you pay any difference at the end of the lease. This can be a very costly mistake.

Choosing a Car

Choosing a car is a little bit like dating. There are so many different cars out there. What do you need in a car? What do you prefer in a car? Is there that special connection when you're driving it?

But unlike dating (or just like dating, depending on your outlook), you can settle for a vehicle that fits your needs right now, even if you can't see yourself in it long term. And as long as you're smart about the financing, it's easy enough to trade it in for a newer model when it no longer suits your needs.

Make an inventory of your needs:

- **What will you use the car for most?** If you're just driving back and forth to work, all you need is a dependable car with good gas mileage. If you have to haul around kids, you need it to be roomy. If you entertain clients, it needs to have some style and class. You get the idea.
- **Where do you live?** You may need four-wheel drive or front-wheel drive. It needs to be able to withstand some major wear and tear if you live on a bumpy gravel road.
- **Do you drive in stop-and-go traffic often?** That may make an automatic transmission a necessity.

Comparing Vehicles
Now that you have a list of your needs, it's time for more research. There is an awful lot of research, isn't there? There are thousands of models to choose from. But your needs should help narrow them down fairly quickly.

Auto magazines are a great place to get less biased information about particular models and the advantages/disadvantages associated with them. Consumer Reports is a very thorough publication with a reputation for bias-free reporting.

Dealerships are often the worst place to get information. They have a lot of material, but it is very heavily biased and you may have to endure a strong sales pitch just to get simple information. If you visit the dealership when they are closed, you can look at the cars and read the information on the vehicles without worrying about the salespeople. You can also get a lot of information from the manufacturer's Web site and literature, but stick to the facts they provide since much of the material will be heavily biased.

Great sources of information are your friends and family or even strangers. Find others who have owned the model you are interested in. Ask about their experience with it.

Take special care in buying a first-year model, meaning the first year a manufacturer produces a certain model of car. The first year is a time to iron out the kinks and you may become an unwilling guinea pig and have unforeseen problems that the manufacturer will correct for the next year's model.

The Test Drive
You've compared numbers and features. You've checked into the gas mileage. Now it's time to put away all the theory and speculation and get to the point of choosing a car - how it drives.

You have to be able to focus when test-driving a car. If you go to a dealership to test-drive cars, make sure the salesperson gives you some space to make your decision. As a matter of fact, tell the sales team you have no intention of buying on that day. They should leave you alone long enough to test-drive without distraction. If they don't, be sure to avoid them when you're going to actually buy a car. If they get too pushy, go to another dealership for your test drives.

If you're not comfortable with visiting dealerships just for a test drive, try renting the cars you are interested in. It may cost you $100 to try out your top favorites, but you're paying for the freedom of driving a whole day without listening to any sales pitches.

Compare the Dealerships
Shopping for a dealership is just as important as the other comparisons you have been doing. It can help you save a lot of money AND ensure that you have some customer support while you're still under warranty.

All dealerships pay the same price for the cars in the beginning. But don't let them fool you. Dealerships with better CSI ratings (Customer Satisfaction Index ratings) often get better bonuses that allow them to offer you a better price.

Getting a Good Deal

If you think of the negotiating process of buying a car as a dance, you'll find it a lot more tolerable and you might possibly enjoy it. It's just two people suggesting and redirecting. And remember - you have the advantage. You have a long line of salespeople who would like to dance with you. If one isn't a good dance partner and isn't working with you to nail down a price, feel free to say, "Good night," and find yourself another dance partner.

Another good attitude adjustment before you start: dealerships try to average a specific amount of profit on each car they sell. People who pay too much allow there to be people who pay too little. With some preparation and education, you can be one of the latter.

Dealers will pressure you to make all your decisions in a single day. They've been doing this for a long time. They have all the scenarios mapped out. So when they react, they're acting with experience. For you, it's probably unfamiliar territory so that when you react, you may be acting with emotion. Dealers and salespeople know how to use that to their advantage. So slow the process down, sleep on decisions overnight and it could save you quite a bit of money.

Also, the more proactive you are and the more you take control, the better the result. Educate yourself. Understand how the car business works. Know what price the dealer paid for the car and have some alternate financing options.

Some strong negotiation moves and redirects can help you come out ahead:

- **Keep a neutral outward attitude.** Don't sell yourself. If you give the impression that you could take it or leave it, a salesperson will work harder and be willing to give more to sell you.
- **Avoid financing questions.** Even if you don't have the money, tell them you're paying cash. They won't hold you to it. But it will force them to concentrate on the current price negotiation and not see a long-term strategy to inch up their profits.
- **Be prepared to haggle back and forth for a while.** The salesperson might try to tire you out with a prolonged negotiation session. Don't give in. Stay strong and save money. Keep in mind an extra hour of persistence could save you a few hundred dollars.
- **Watch for the good cop, bad cop move.** The salesperson will tell you that he or she really wants to give you the price you're asking for, but he or she will have to ask the manager. You may feel like the salesperson is on your team at that point. Just remember who signs their checks. It's you versus them.
- **Ask to see the invoice.** If they are dead-set against showing you the invoice, there's a reason why. They're probably offering you a bad deal.
- **Shop for a car later in the month.** There are a lot of bonus and rebate programs that are based on monthly sales quotas. If a salesperson or dealership is short of meeting goals at the end of the month, you might find more willingness to sell the car cheaper in order to get the extra sale.

There are some no-haggle dealerships, such as Saturn dealers. If you are really opposed to the negotiation dance, head there. The dealership is still making the same average profit on each car but there's no way for them (or you) to use bad negotiators to an advantage.

Let's Talk Price
Before you talk price, there are some terms you should know:

- **Invoice Price** This is the wholesale price the dealer paid the manufacturer before any rebates or incentives. Do some research on this number. If you can find out what the dealer paid for the car, you'll know what the profit is on each car. Then you're ready to strike a compromise between letting the dealer make a living and getting a good deal for yourself. The Internet is a great source for this information. Use it to decide on a number you're willing to pay. Print out the invoice price when you find it and bring it with you to the dealership for back-up.
- **MSRP - Manufacturer's Suggested Retail Price** Also called the "sticker price," this is the number on the car window. Don't pay this! It's just a starting point for negotiations. If the model you're interested in is in high demand, you probably won't get much lower than this number.
- **Dealer Incentives** Manufacturers sometimes give dealers extra money, bonuses and rebates for selling overstocked and undersold cars. Find out if the car you're interested in buying has any dealer incentives attached to it. Then subtract that amount from the price you're willing to pay.
- **Holdback** The manufacturer often gives money to the dealership to help reduce operating overhead expenses - the cost of running the dealership. It's often 2% to 3% of the sticker price. This information may not be very helpful in the negotiations, but if it comes up, you'll know what it is.
- **Sales Tax** The sales tax is the same tax that's charged on everything from candy bars to umbrellas. However, don't try to go to a different county to avoid a higher sales tax. They charge it based on the county you live in, not where you buy the car. This cost, of course, is non-negotiable.

Beware Of The Add-On
The dealer will probably offer all kinds of add-ons after you've negotiated the price. The dealer makes extra money on almost every single one of them. You may find add-ons are included as if you have no other choice. You do. Feel free to refuse them. It will help if you know what these add-ons really are:

- **Destination Charges** Some manufacturers charge separately for shipping the vehicle to the dealer. You can't get around this. But check the sticker to make sure it wasn't already included in the price.
- **Licensing and Registration Fees** These are necessary, but call your state's Department of Motor Vehicles to make sure the dealer hasn't padded this price.
- **Extended Warranties** These are also called service contracts. Just buy a car with a good service history and an extended warranty should be unnecessary.
- **Dealer Prep** Part of a dealer's job is to get the car ready for you and it's one of the things the dealer gets paid for. Don't pay this twice.
- **Credit Insurance** This insurance will pay off your car loan should you die while leasing it. As long as you have life insurance, this also is unnecessary.

There are many other fees that may be added. Ask directly what each one is for. If it seems unnecessary, it probably is and you should refuse to pay it.

MONEY SKILLS

WELCOME TO THE WORK FORCE

It’s time to roll up your sleeves and put that lifetime of education to work for you. Finding the right job isn’t easy—it takes motivation to go after the industry or company you want, effort to ace the application and interview process and a bit of luck to land the job. Read on for tips, advice and tools that will help ensure a successful search.

Resources

Your school career center is an excellent place to start when looking for work. As a resource provided to students, the point of a career center is to find jobs that relate to specific fields of study. Check in with a career counselor for advice on resume building or to sign up for on-campus interviews. Recruiters often come to schools and universities looking for future prospects. It's a great way to get your foot in the door of an otherwise out-of-reach company.

Headhunters and employment services can also be a good source for job leads. One of the major benefits of working with placement agencies is that they already have established relationships within the industries they service and know exactly who to put you in front of. The downside is that some may charge you a fee for their services or require a percentage of your pay from the company who has hired you.

Networking has become the new buzzword in professional circles—and for good reason. Many of the best jobs out there are never advertised. The key to landing them is a lucky combination of being in the right place at the right time and talking to the right person. Don't be afraid to go to social events and advertise yourself or talk about your goals. Or share your plans with friends and family. You'll be surprised how supportive people can be. After all, everyone has been there at one time or another. If they can't immediately connect you with a job, they can often provide valuable advice on where to look and who the best contacts might be.

Know What You’re Looking For

Think about the big picture and not just the job you want now. Beyond earning a paycheck, what skills and experiences do you want to take away from your new job? Look to the next step of your career and think about which job will get you closer to that goal. Also, look at the associated benefits. A high-paying job with no benefits may not be as advantageous as a lower-paying position with a complete benefits package.

Consider cost of living and your expenses before you relocate for a job. Every city is different, so a starting salary in one area may not be enough to support you in a new location. Moving costs are another factor to take into consideration. If your prospective employer isn't going to pay your moving costs, make sure the salary will make up for these costs in the long run, or that you have additional funds to cover the expenses.

Landing a Job

It may sound silly but the only way to find a job is to look for one. Some experts actually recommend you start looking six to nine months ahead of time. In fact, finding work can be almost as time consuming as a full-time position. Constantly keep your eyes open for new opportunities and keep up on networking to build your list of contacts. Even if you choose not to work immediately upon graduation, it's good to have the opportunity if you change your mind.

The Resume

Have a well-written resume that focuses on the skills and experience related to the specific position. If you're lacking in work history, you can always include your education and other applicable experience along with any awards you have received that are applicable to the job. As you continue down your career path, remember to update your resume with your most current and relevant work experience.

Use action words and other phrases to better illustrate your experiences. "Managed all inventory," sounds more active than "in charge of all inventory." Also, keep in mind that employers receive many resumes, so make sure yours stands out with smart content or an interesting design. Employers are also incredibly busy. When writing your resume, try to be concise without making things sound like a laundry list. They would much rather read one well-written sentence than four describing the same thing.

Appearance is important. In addition to ensuring your resume is well-thought out and organized, make sure it is pleasing to the eye. This will give potential employers the impression that you have strong organizational skills and attention to detail.

The Interview

Preparation is key to a successful interview. Research the company as well as you can and learn about what they do and how they do it. During the interview, be sure to ask questions about the company and share the things you've been looking into. Also, take your knowledge of the company and determine how you fit in, then discuss how your skills could help the company.

Research standard questions interviewers generally ask and prepare to answer them. What is your biggest weakness? Where do you see yourself in five years? They may be cliché, but employers ask them for a reason. There will also be questions you won't expect so pay attention. Don't let a curveball throw you off and disrupt the interview. Coming into an interview prepared not only to answer questions but to ask them shows two very important qualities every employer is looking for—a genuine interest in the company and self-confidence.

Paying Student Loans

You have the education. Now it's time to start paying for it. Easier said than done. But the following information may make paying back your student loans just a little bit easier.

Exit Interview
If you have taken student loans, your school is required by law to give you an exit interview. This is simply a time to meet with a financial aid advisor to discuss your repayment obligations and options. Make sure not to miss the opportunity.

Grace Periods
Because most college students don't get jobs immediately after graduation, lenders usually offer a grace period of about six months before you need to start repaying your student loans. Take time during your grace period to organize your finances and evaluate your options.

Repayment Options
There are many different ways you can arrange your payment schedule, depending on what you can afford:

- The standard payment plan, if you can afford it, will offer you the lowest total loan cost.
- A graduated payment plan will start you out with lower payments that increase as time goes on.
- With income-related payment plans, your monthly payment amounts are tied directly to your income instead of rising gradually no matter what your income.
- Extended repayment allows you to make smaller payments for a much longer period of time.

Loan Forgiveness
As an unemployed recent college graduate, you may have much more time than you have money. You can get help paying off your loan by volunteering for certain government projects. Some will forgive your debt entirely.

- **Peace Corps** not only allows you to visit exotic locations (Third World countries) and challenge yourself (endure difficult conditions) but you can cancel a substantial portion of your Perkins loans in return for service. You can receive a 15% cancellation on each of your first two years and 20% on your third and fourth years. That's a 70% reduction for four years of service. You do have to contact your lender in advance of your term of service to receive your cancellation credit.
- **Americorps** If you like the idea of the Peace Corps but don't want to leave the country, Americorps is for you. You receive a modest living allowance for housing and food, and after a year of satisfactory service, up to $5,500 to be used toward education. The education award can be used for future education or to pay off previous education debt (your student loans). The work itself can be reward enough: cleaning up the environment, helping at-risk children and other positive community-building services.
- **Military Service** The Army, Air Force, Navy, Marines and the National Guard all offer education assistance programs. Check with your local recruiter to find out how these programs can help you.

- **Teaching** Depending on where and how long you teach, you can receive complete loan cancellation or at least a deferment of some loans by filling some understaffed teaching positions, including teaching in schools serving low-income students or teaching certain subjects in which there is a shortage of teachers.
- **Legal and Medical Service** If you choose to study medicine or law you can rack up some hefty education loans. But there are programs that offer partial cancellation of loans for public service.

If a lender can offer you a lower interest rate and consolidate all of your loan payments into one convenient payment, you could save a lot of money over the life of your loan.

Job Paperwork
With everything that happens after college, it’s easy to see why recent graduates forget to make timely payments on their loans. But if you don't pay your loans for six months, you will face collectors, your credit rating will suffer and your likelihood of being approved for car loans, mortgages and credit cards in the future will be greatly reduced. Staying on top of your loans from the get-go is one of the smartest financial decisions you can make.

Job Paperwork

When you first get a job, start-up paperwork can be overwhelming. Take the paperwork a piece at a time and the tasks will begin to make sense; the information below should help.

W-4
The W-4 is a federal form that determines how much tax is withheld from your check. The fewer dependents you claim, the more tax will be withheld from your check. If you want to make sure you don't end up paying a large amount in April, make this number 1 or 0. If you'd rather have a larger paycheck and you can handle owing a little tax at the end of the year, claim the number of exemptions that you are entitled to on your W-4 worksheet.

I-9
The I-9 is a federal form that the Immigration and Naturalization Service requires. It ensures that you are a United States citizen or that you are eligible to work in this country. As a U.S. citizen, you need to show proof with a passport or two other forms of ID. If you are not a citizen of the United States, you will need to prove that you are authorized to work in this country.

Health Insurance
If your employer offers health insurance, you will be required to complete a health insurance application that outlines your complete medical history. It may seem like a lot of trouble to go through, but having a record of your medical history can be a literal lifesaver.

Life Insurance
Life insurance can be difficult to think about, but it will help provide for your loved ones in case something happens. Your beneficiary—the person who receives payments from your life

insurance policy if you should die, should be the person you support the most, usually a spouse or close family member. If you don't have a spouse or children, you may want to list a parent as your beneficiary.

401(k)
If your company has a 401(k) program, you'll get paperwork for that, too. Read it over and immediately sign yourself up. A 401(k) program is a great way to start saving for retirement and possibly increase your after-tax paycheck. Learn more about 401(k) plans.

Internship Resources

Internships are not just for college students. Whether it's that final resume-building gig you are looking for to impress future employers, or an internship to win over college admissions decision makers, there are resources to help you find that next opportunity.

Before you start your search, do a personal inventory of what you want. Think about whether your internship has to be close to home, or if you are willing to broaden your search and work abroad. Is your dream to work for your local newspaper or as a marine ecology intern in Costa Rica?

Here are a few things to consider before sending out your resume:

- Have you used keywords central to your industry? (E.g. engineering, finance, business, marketing, law, biotech, education, computer science/technology, design)
- Are you appealing to companies that interest you?
- What location are you looking for?
- What type of employer do you want? (Non-profit, for profit, government)
- Compensation: are you willing to work for free, or do you need to be paid?

Now that you have an idea of the direction you want to take, use these online resources for both high school and college students to find the ideal internship:

Internships.com – This site allows you to search for jobs by keyword, industry and region. It also features an Internship Predictor app, with an online assessment that can help direct you to a particular career path. You can also utilize the site's career navigator tool and resume resources.

InternJobs.com – Part of the AboutJobs.com network of sites, this resource features internship job searches by keyword and region on an international level, as well as a blog, tools and tips, articles and advice and an eNewsletter.

InternWeb.com – This site features search capability for internships and seasonal summer jobs, along with articles featuring resume writing tips and social media feeds with new job listings.

InternshipPrograms.com– Search by job, company or region and set up a candidate account so future employers can find you.

Going to job portal sites is a great start, but you should also try going directly to the source. If there is a company you have dreamed of working for, check their website for job postings aimed specifically at students. One example is Google, which has dedicated part of its site to student jobs here.

When you land the internship of your dreams, make sure you add value. Find a way to make an impact and be memorable for the contribution you make to the organization. While you are making new business connections on the job, don't forget to keep those connections alive once you leave by asking to keep in touch. Graduation may be months or years away, but the contacts made at your internship could open doors in the future.

Loan Forgiveness

As an unemployed recent college graduate, you might have more time than money right now. You can get help to pay off your loans by volunteering for certain government projects. In some cases, volunteering for certain programs or services will forgive your debt entirely.

Peace Corps allows you to cancel a substantial portion of your Perkins loans in return for service. You can receive a 15% cancellation for each of your first two years of service and 20% for your third and fourth years.

Americorps offers the social outreach of the Peace Corps without requiring you to leave the country. You can receive up to $7,400 for living expenses and, after a year of satisfactory service, up to $4,725 to be used toward education.

Military Service such as the Army, Air Force, Navy, Marines and the National Guard all offer education assistance programs. Check with your local recruiter to find out how these programs can help you.

Teaching can make you eligible for a complete loan cancellation or at least a deferment of some loans if you fill specific understaffed teaching positions.

Legal and Medical Service offer certain programs that provide partial cancellations of loans for public service. If you choose to study medicine or law, it may be in your best interest to look into this since you can rack up some hefty education loans from both these fields of study.

MONEY SKILLS

EMPLOYER PROVIDED BENEFITS

Whether you've just started a new job or you've been with the same company for years, you need to make sure you're maximizing your employee benefits.

Most employers offer a host of company-sponsored benefits. Often, the combined value of these coverages is worth a third or more of your base pay. That's too much money to leave on the table. And some employee benefits have valuable tax advantages you can't afford to ignore.

If your employer provides a 401(k) plan or Health Care and Dependent Care Flexible Spending Accounts (FSAs) and you're not participating, you could be missing out on hundreds - or thousands - of dollars in tax savings each year. That's money that goes right into your pocket instead of Uncle Sam's.

Here you'll find the ins and outs of employee benefits and everything you need to maximize your job and all it has to offer.

Flexible Spending Accounts

Flexible Spending Accounts (FSAs), also known as reimbursement accounts, are optional benefits plans offered by many U.S. employers that allow employees to set aside money from their paychecks on a pretax basis to pay for eligible out-of-pocket medical and dependent care expenses.

There are two types of FSAs – one is for health care-related expenses and the other is for dependent care-related expenses. These two accounts are separate. You may sign up for either or both of them during the open enrollment period, but it's important to note that money set aside in one account cannot be used to pay for expenses from the other.

You can enroll in an FSA only during your company's open enrollment period unless you have a qualified "family status change" during the year such as marriage, birth or adoption, divorce, or loss of a spouse's insurance coverage. The contribution amount(s) you designate for the year will be deducted from your paycheck each month (or each pay period – check your employer's plan for details).

You must actively re-enroll in FSAs each year – contribution amounts don't carry over from year to year. Also note that FSAs are not portable from one employer to another. You must enroll in your new employer's plan if you change companies.

How Pretax Contributions Work
The IRS allows participants to contribute to their FSA account(s) through payroll deductions taken out on a pre-tax basis. This means the money is deducted from your pay before federal and

state income taxes and Social Security have been withheld. Thus, your taxable income is lowered, which in turn reduces the amount of taxes you must pay.

By contributing to an FSA to cover expenses you would have paid for anyway, you reduce your gross taxable income by that amount, which in turn lowers your tax bill. For example, say you earn $35,000 a year and are in the 25 percent marginal tax rate. You decide to put $1,000 in the Health Care FSA and $3,000 in the Dependent Care FSA. This would lower your gross income by $4,000 and in turn reduce your taxes by $1,000. That's $1,000 that stays in your pocket instead of going to Uncle Sam.

The more you contribute to FSAs, the greater your potential tax savings. Just be sure that you calculate your expected expenses carefully, because according to IRS rules, any funds in your account not used during that plan year must be forfeited (see Tax Rules that Govern FSAs below).

While almost all employees benefit from the tax savings provided by FSAs, you should be aware that making pretax contributions to FSAs may slightly reduce your Social Security benefits at retirement. However, the value of current year tax savings usually more than offsets any such slight reduction in Social Security benefits.

Tax Rules That Govern FSAs
There are several IRS rules that govern the use of FSAs:

- Any healthcare expense for which you are reimbursed by your Health Care FSA cannot be taken as a deduction from your federal income tax in any tax year, even though it may qualify as a tax-deductible expense – you must either declare the expense on your tax form or get reimbursed through your FSA – never both.
- You cannot be reimbursed from your FSA for any healthcare insurance premiums, although plan deductibles and co-payments are allowable reimbursed expenses.
- The alternative to using a Dependent Care FSA is to take a dependent care tax credit when you file your federal income taxes. The two alternatives have different pros and cons: See the discussion in "How Dependent Care FSAs work" below.
- It is important that you estimate your expenses carefully, because you must use all the funds in your FSA account during the plan year or forfeit the remaining amount. This is known as the "use it or lose it" rule.
- In 2005, Congress passed a law allowing employers to grant an optional 2 ½ month grace period that would extend the deadline. Thus if your plan is on the calendar year, the deadline for eligible expenses to be incurred may be extended from December 31 until March 15 of the following year. Important Note: This grace period is voluntary, not mandatory, so be sure your employer offers a grace period before factoring one into your plans – otherwise, you would need to incur expenses within the plan year.
- However, even though you must incur an expense within the plan year (or within the grace period, if offered), your employer typically will provide a specified period after the plan year ends during which you may submit a claim for an incurred expense (usually 90 days beyond the plan year, but check with your employer for the exact date).

- The IRS defines "incurred" as when the service was provided, not when you were billed. For example, if your child's day care provider bills you at the beginning of each month, you can be reimbursed by your Dependent Care FSA only after you have received all day care services for that month, not when you paid the month's bill.

How Health Care FSAs work

You can use your Health Care FSA to pay for qualified medical expenses that are not covered or reimbursed by your employer's medical, dental or vision plans, or by any other type of insurance. As you incur medical expenses not fully covered by your insurance, you submit a copy of the Explanation of Benefits or the provider's invoice and proof of payment to the plan administrator, which will then issue you a reimbursement check or make a direct deposit to your bank account.

The minimum and maximum amounts you can contribute to the Health Care FSA are set by your employer, although the maximum allowed by the IRS is $5,000 a year. If you are married and your spouse also has a health care FSA through his or her job, you can each contribute up to the maximum allowed by your respective plans – potentially up to $10,000. This differs from the rules for Dependent Care FSAs, which are outlined in the Dependent Care FSA section below.

FSA contributions are deducted from your pay on a monthly basis, so by year's end, your total annual contribution amount will have been deducted from your pay. With the Health Care FSA (unlike the Dependent Care FSA), you can submit a claim for reimbursement earlier in the plan year that exceeds your current account balance; however, the total amount of claims submitted for the year is limited to the total contribution amount you chose during open enrollment.

Eligible And Ineligible Health Care Expenses
You can use a Health Care FSA to pay for any IRS-allowed medical expenses not covered by your medical, dental or vision coverage. Common allowable expenses include:

- Deductibles and co-payments for office visits and prescription drugs
- Orthodontia, braces or other dental work over plan limits
- Contact lenses, glasses or lasik surgery
- False teeth, hearing aids, crutches, wheelchairs, and guide dogs for the blind or deaf
- Fees in excess of reasonable and customary amounts allowed by your insurance
- Cost of vasectomies, hysterectomies and birth control
- Non-elective cosmetic surgery
- Over-the-counter medicines (including pain relievers, antacids, cough syrup, bandages, blood pressure monitors, first aid kits, flu shots and other vaccines, allergy medications, cold and flu medications, etc.)
  *** As of January 1, 2011, with the exception of insulin, over-the-counter medications now require a doctor's prescription to be eligible for reimbursement from your FSA account, so plan accordingly. See this IRS Bulletin for details.**
- Physical therapy
- Acupuncture, chiropractic and homeopathic care, when administered by a licensed practitioner
- Smoking cessation programs

- Inpatient treatment at a center for alcohol or drug addiction
- Qualified long-term care services

The following products and services are NOT eligible for reimbursement through a Health Care FSA:

- Babysitting, childcare or nursing services for a normal, healthy baby
- Controlled substances, without a prescription
- Elective cosmetic surgery, such as a face lift, hair transplants, teeth whitening or liposuction
- Electrolysis or hair removal
- Health club dues
- Nutritional supplements, unless prescribed by a medical practitioner for a specific medical condition
- Cosmetics
- Dental products (tooth paste, tooth brush, dental floss, teeth whiteners)

Check IRS Publication 502, Medical and Dental Expenses, for a complete list of allowable expenses (www.irs.gov/pub/irs-pdf/p502.pdf). Your employer may also have a list of allowable and unallowable expenses available.

How Dependent Care FSAs work

A Dependent Care FSA lets you use pretax dollars to pay for eligible expenses related to care for your child, disabled spouse, elderly parent, or other dependent who is physically or mentally incapable of self-care, so you can work, or if you're married, for your spouse to work, look for work or attend school full time.

The alternative to using a Dependent Care FSA is to take a dependent care tax credit when you file your federal income taxes. Your preferred method depends on your income, number of eligible dependents, and other factors; however, Dependent Care FSAs usually provide the greater tax advantage for most people, especially as income increases. Check with a tax advisor to help decide which is best for you.

How Much You Can Contribute
The minimum and maximum amounts you can contribute to the Dependent Care FSA are set by your employer, although the maximum allowed by the IRS is $5,000 a year. Under IRS rules governing Dependent Care FSAs, the annual maximum you may contribute is $5,000, or $2,500 if you are married and filing a separate tax return. Married couples have a combined $5,000 limit, even if each has access to a separate FSA through his or her employer.

Keep in mind that the IRS allows an income tax credit of up to $3,000 for dependent care expenses if you have one dependent, or up to $6,000 if you have two or more dependents. The amount of the credit is based on your adjusted gross income and applies only to your federal income taxes. So, while the maximum allowed under a Dependent Care FSA is $5,000, you may be able to apply the Child and Dependent Care Tax Credit for amounts over that limit – up to your tax credit limit – depending on your tax situation. For more information on how the tax credit works, see IRS Form 2441, available at www.irs.gov, or consult a tax professional.

Unlike Health Care FSAs, with Dependent Care FSAs you can be reimbursed only for expenses that fall within your current account balance, so you may have to wait until the account balance builds to sufficiently cover a large claim early in the year.

Also, you may not submit an expense for reimbursement that has been covered, paid or reimbursed from any other source.

Eligibility Rules for Dependent Care FSAs
Your qualified dependents for a Dependent Care FSA may include:

- Your child(ren) under age 13.
- Dependents of any age who are mentally or physically incapable of caring for themselves, and whom you claim as a dependent on your federal income tax return.
- An adult may qualify as your dependent if you provide more than half that person's maintenance costs during the year.

Expenses for care of a qualified dependent are only eligible if the care enables you (or you and your spouse) to work, look for work, or go to school full-time. If your spouse is a stay-at-home mom or dad, you cannot participate in Dependent care FSAs. Eligible expenses include:

- Fees for licensed day care or adult care facilities.
- Amounts paid for services (including babysitters or nursery school) – provided in or outside of your home – for the care of a qualified dependent necessary to allow you and your spouse to work, look for work, or attend school full-time.
- Placement fees for a dependent care provider, such as an au pair.
- Summer day camp for children under age 13 qualifies if attendance allows you and your spouse to work, look for work, or for your spouse to attend school full-time.
- Before and after school care programs for dependents under age 13.
- Payment to a relative (age 19 or older who is not your dependent) who cares for your qualified dependent.
- Payment to a housekeeper whose duties also include dependent day care.

Expenses that are NOT eligible for Dependent Care FSA payment include:

- Baby-sitter in or out of your home for reasons other than to enable you to work.
- Food, clothing, and entertainment.
- Child support payments.
- Activity fees and educational supplies.
- Overnight camp.
- Cleaning and cooking services not provided by a caregiver.
- Late Payment Fees.

You must submit a claim every time you wish to request reimbursement of an expense. There is no automated process. Many people file claims monthly to eliminate weekly claim submission, but that is up to the individual. Regardless of the amount on your claim, you will be reimbursed only up to the amount in your account at that time.

Note that payments for dependent care are NOT reimbursable from a Dependent Care FSA if the caregiver is your spouse, someone you claim as a dependent on your tax return or your child who is under age 19 (i.e., one child babysitting another.)

Learn More
To learn more about Health Care and Dependent Care FSAs, ask your employer for a copy of your Summary Plan Description and the current open enrollment materials.

If your company does not offer FSAs, talk to a financial advisor about other ways to save taxes on health and dependent care-related expenses. A few minutes of your time filling out a simple form can add up to big savings for you next year.

In addition, the Internal Revenue Service has documents on its Web site that: List eligible medical and dental expenses for the Health Care FSA (Publication 502, Medical and Dental Expenses, at www.irs.gov/pub/irs-pdf/p502.pdf); and explain how the Child and Dependent Care Tax Credit works (www.irs.gov/pub/irs-pdf/f2441.pdf).

And, as always, please consult your tax advisor for help in determining which options are best for your individual situation.

What is a 401(k) plan?

Many employers sponsor a retirement savings plan for their employees. Under these plans, also commonly known as defined contribution plans, you can save money toward your retirement on a tax-deferred basis – that is, you don't pay federal or state income taxes on your savings or their investment earnings until you withdraw the money at retirement.

Most people's taxable income – and therefore, their tax rate – is lower at retirement than during employment, so they end up paying considerably less in taxes on their savings.

The most common types of employer-sponsored retirement savings plans are called 401(k), 403(b) or 457 plans – so named for the Internal Revenue Service tax codes that govern them – and Thrift Savings Plans. Each has a different target audience:

- 401(k) plans are offered to employees of public or private for-profit companies.
- 403(b) plans are offered to employees of tax-exempt or non-profit organizations, such as public schools, colleges, hospitals, libraries, philanthropic organizations and churches.
- 457 plans are offered to employees of state and local municipal governments (and some local school and state university systems).
- Thrift Savings Plans are offered to federal civilian and uniformed services employees.

These plans have many features in common, although contribution limits, vesting schedules for employer-matching contributions, investment options and other details may differ, so be sure to read the plan documents for your particular plan carefully.

How do 401(k) Plans Work?

With a 401(k) plan, money is deducted from your paycheck before taxes are withdrawn, which lowers your taxable income and therefore, lowers your taxes.

Some plans allow you to contribute money on an after-tax basis as well. Check with your financial advisor for cases when this might be advantageous in your situation.

Eligibility For Participation

Some employers apply a waiting period before you can begin participating in their 401(k) – anywhere from one month to one year – while others allow employees to begin making contributions immediately. Also, it's not unusual for an employer to wait until you pass a similar waiting period before it will begin making matching contributions to your account. Check your benefits enrollment materials to see what, if any, waiting periods must be met.

Contribution Amounts

The IRS sets a maximum amount you can contribute to a 401(k) plan in any given year and it is usually adjusted upward to account for inflation. For 2011, this limit is $16,500 and for 2012 it is $17,000. In addition, employees over age 50 can also make "catch-up contributions" above and beyond the maximum amount. For 2011 and 2012, this catch-up contribution amount is $5,500.

Most plans let employees contribute a percentage of covered compensation, in whole percentages, up to a specified percentage – usually up to a maximum of about 20 percent to 25 percent of covered compensation. (Note: The definition of “covered compensation” usually means total salary, but it varies from employer to employer, so check your plan documents.) This upper percentage amount could conceivably limit your ability to reach the legal maximum contribution, depending on your pay. For example, if you earn $35,000 a year and your employer limits contributions to 20 percent of pay, you could only contribute up to $7,000 a year ($35,000 X 0.20 = $7,000).

Employer Matching Contributions

Although not required to by law, many employers match a portion of the contributions employees make to their 401(k) account. These matching contribution amounts vary widely from employer to employer (usually from 25 percent to 100 percent of your contributions, up to a set percentage of your pay). In addition, some employers will increase their match based on your years of service.

Vesting Schedules

You are always 100 percent vested in (that is, have complete ownership of) your own contributions to your 401(k) account. Some employers make you fully vested in their matching contributions immediately, while others have a vesting schedule outlining how much of the company-matching contributions and their investment earnings you own at any given time. In the latter case, if you left the company before being fully vested, you would lose a portion of the company-matching contributions (but not of your own contributions). Check your plan documents to see if this applies.

Your retirement savings in a 401(k) plan can really add up over time: Say you earn $35,000 and are in the 25 percent marginal tax bracket. Contributing 6 percent of your pay ($2,100) lowers your taxable income to $32,900, reducing income taxes by $525. A 50 percent employer match of the first 3 percent of earnings you contribute would add another $525 to your account. So, you would pay only $1,050 for $2,100 in annual savings, or $87.50 a month. To save that same $2,100 on an after-tax basis would cost you $175 a month.

You may begin taking money from your account without incurring an early withdrawal penalty at age 59 ½. In addition, you will be exempt from this penalty if you are over age 55 and have been let go by your employer, or if you become totally disabled.

The laws governing 401(k) plans require that you begin withdrawing money from your 401(k) plan by the age of 70 ½, unless you are still a full time employee with the company sponsoring your 401(k). These distributions are considered income and subject to income tax.

Changing Employers
If you leave your employer, you have several options for what to do with your 401(k) account balance:

- Roll over your account balance into your new employer's plan.
- Roll over your account balance into an Individual Retirement Account (IRA).
- If allowed by your former employer, you may leave your balance in its plan (although, for account balances below $5,000, your employer may require you to close your account).
- Withdraw your account balance in a lump sum cash payout.

The last option may sound tempting, but it is almost never a good idea. Not only will taking a lump sum distribution significantly reduce your retirement savings, but you'll likely face severe tax consequences. You'll have to pay federal (and possibly state) income tax on the amount, plus a 10 percent early withdrawal penalty unless you qualify for an exemption (e.g., if you're over age 55 or disabled). And, because your employer is required to withhold 20 percent of your distribution for federal taxes, your cash payout could be significantly less than you were expecting.

What Are the Advantages of a 401(k)?

Financial planners often speak of there being a three-legged stool for funding retirement: government-provided benefits, employer-provided benefits and personal savings. But with Social Security's future in doubt and pension plans going the way of the dodo bird, it's a good idea to depend on your own resources as much as possible.

One of the best ways for you to save toward your own retirement and ensure your future security is through an employer-sponsored 401(k) plan. If you don't participate, you're missing a golden opportunity to save for retirement while lowering your tax burden on those savings.

Some of the features offered by many 401(k) plans include:

Matching Contributions Many employers will match a portion of your savings. It's like passing up free money if you don't participate. A common match might be 50 percent of the first 6 percent of pay you save. Under that scenario, someone whose annual salary is $35,000 and who contributes 6 percent to the plan ($2,100) would receive an additional $1,050 in matching employer contributions. It's pretty hard to find a 50 percent return on any investment. Even if your employer doesn't offer matching contributions, the tax advantages of a 401(k) still make this one of the best ways to save money for retirement.

Tax-Deferred Earnings When you contribute a percentage of your pay to a 401(k) plan, you immediately start paying less to Uncle Sam. That's because your contribution comes out of your paycheck before income taxes are deducted. That means your taxable income is less, which in turn lowers your tax bill. Thus, you "defer" or postpone paying income tax on your 401(k) savings and any investment earnings they may accumulate until you withdraw the money at retirement. For many people, their income – and therefore income tax rate – is lower at retirement, so they're paying a smaller amount of tax on the money. Plus, if you happen to retire to a state that has no or very low state income tax, you'll be that much further ahead.

Loans Many plans allow you to borrow from your account for specific reasons, such as buying a primary residence, paying for education or medical expenses, or in case of severe economic hardship. A loan usually must be paid back with interest within five years (although this may be extended for a home purchase), and as long as you remain employed by the company, you can pay it back without incurring any income tax liability. The interest you pay goes directly into your account.

Please note, however, that if you leave the company, you will be required to pay back the entire loan amount within 30 days, or face paying income tax on the unpaid loan amount as well as a 10 percent early distribution penalty if you're under age 59 ½. Be sure to read your plan documents carefully before taking a loan from your account.

Investment Options
Most 401(k) plans provide a variety of investment vehicles from which you may choose. Typical investment choices might include:

- Money market funds
- Stable value accounts, including guaranteed investment contracts (GICs) or bank deposit accounts
- Bond mutual funds
- Stock mutual funds
- Your own company's stock

Each type of investment offers varying degrees of risk and reward potential. For example, money market funds and stable value accounts have very low risk, since they're often invested in certificates of deposit (CDs) or U.S. Treasury securities; however their earnings potential is much lower than other types of investments and they don't always keep pace with inflation. Stocks and bonds have a higher risk for loss of value, but they also have the potential to earn much more, especially over long periods of time.

Typically, you can mix and match your account balance among the different options available. Check your plan documents to see if there are any restrictions on when or how often you can request changes. With many plans, these kinds of changes can be done online, at your convenience.

Your tolerance for risk will vary, depending on your age, how early you begin saving for retirement, and other factors. Speak to a financial advisor who can help you analyze your 401(k) investment options and determine the right mix for your situation.

Many financial professionals advise against investing more than 10 percent of your account in your own company's stock, as a precaution against poor stock performance.

Timing is Everything

The sooner you start saving for retirement, the faster your account will grow. Conversely, the longer you wait to get started, the harder it will be to catch up. Some experts say that for every five years you delay getting started, you may need to double the amount you must save each month to reach the same level of income at retirement.

Here's a hypothetical example: Say you contributed $5,000 a year to a 401(k) for 10 years – assume that your investment earned 8 percent a year and all investment earnings were reinvested in your account. Depending on how old you were when you made those contributions, you would see wildly different amounts at age 65 when you retire:

- If you started saving at age 25, stopping at age 35, when you retire at 65 your account would be worth about $787,000.
- If you started saving at age 35, stopping at age 45, it would be worth about $364,000.
- If you started at age 45 and stopped at age 55, its value would be only about $170,000.
- And, if you waited to start saving until age 55 and contributed until age 65, you'd only amass about $78,000.

These examples assume that you only invest $5,000 a year for 10 years and then stop. If you were to contribute that amount consistently from ages 25 to 65, you would amass more than $1.35 million during those 40 years. And, remember, these estimates don't even factor in employer-matching contributions, which would make your account grow even larger – and faster.

Convenience

Many people find that having money automatically deducted from their pay each month is more conducive to saving than relying on themselves to remember to put money aside.

MONEY SKILLS

RENTING AN APARTMENT

While it doesn't offer any investment potential, renting an apartment is the wisest financial choice for many people. Some may be saving for a down payment on a home, others may be unable to afford buying a home. For families or individuals who move often or for those not interested in the maintenance and repair of a home, renting can offer freedom to relocate and some relief from the costs of home ownership. No matter why an individual is renting, it's a great idea to know about the financial and legal aspects.

Leases
A lease is a binding contract that lays out the conditions and responsibilities of a rental agreement, both for the owner and the renter. It stipulates the monthly rental price, payment due date, the length of the lease and what happens if one of you breaks the lease. A lease generally also outlines whether the renter or landlord will pay the utilities, whether pets are allowed, and any other restrictions and requirements the landlord wants to include.

Read your lease agreement very carefully before you sign it. You will be held accountable for knowing everything included in the lease. Also, keep a copy of the lease for your records. It may come in handy if you have a question about what you are or are not allowed to do.

Cosigning
If the landlord is not convinced that you will be able to make your payments, he or she may require you to get a cosigner. This is someone who will share financial responsibility for the lease. If for some reason you are unable to make the payments, the cosigner will then be responsible for making the payments.

Breaking a Lease
You should avoid breaking a lease by moving out before the end of the agreed term if at all possible. Each lease agreement has its own penalties for breaking the termsâ€”some only require the payment of a penalty but others require the renter to continue paying rent until the apartment is re-rented. For this reason, it's critical to check your lease and make sure you can handle the financial ramifications before you break your lease.

Renter's Rights

Tenant rights are, for the most part, set by state law, so you should check for the specific laws that affect tenants in your state. The following is information on some fairly common tenants' rights that may or may not be applicable to your state.

Your Responsibilities
Before we talk about what the landlord is responsible for, let's take a look at your responsibilities:

- Keep the apartment clean.
- Put out garbage in proper containers.
- Use electrical and plumbing fixtures properly.
- Follow local housing, health and safety rules.
- Do not damage the landlord's property or disturb neighbors.
- Make sure guests do not destroy the landlord's property or disturb other residents.
- Use appliances with care.
- Notify the landlord when repairs are needed.

Landlord's Responsibilities
Renting is a two-way street. Since you are required to keep up your end of the bargain, the landlord has certain responsibilities, as well:

- Obey all health and safety laws and regulations.
- Make all repairs needed to maintain the property in good condition.
- Keep all common areas safe, clean and in good repair.
- Maintain all electrical, plumbing, heating and air conditioning fixtures and applications that the landlord provides or is required to provide.
- Provide and maintain garbage cans and provide for trash removal where there are four or more units in the building.
- Supply running water and enough hot water and heat at all times, unless there are separate heating or hot water units for each dwelling unit and the utility fees for the heating and hot water are paid directly by the tenant to a public utility company.
- Give at least 24 hours notice to a tenant before trying to enter his or her apartment and enter only at reasonable times unless there is an emergency.
- Do not abuse the right to enter.

Prohibited Actions
There are certain actions your landlord is not allowed to take, no matter what the situation. A landlord cannot shut off utilities, take anything that belongs to a tenant, change the locks or otherwise lock a tenant out of his or her apartment to force the tenant to pay rent or leave the apartment. A landlord also cannot raise the rent or threaten to evict a tenant for taking legal action against the landlord. A landlord is not permitted to abuse the right to enter the apartment, meaning that the landlord is not allowed to harass a tenant with repeated visits.

Renter's Insurance

Renter's insurance is a necessity. Your landlord has insurance only on the building. You are responsible for insuring your belongings. Get renter's insurance as soon as you move into your apartment. If you are attending college, however, check to see if your parents' policy will cover you.

What Does It Cover?
Renter's insurance will insure all of your property within your apartment. Some policies will also cover your property when it's outside of your apartment. For example, if your bike is stolen when

it is parked at your friend's apartment, your renter's insurance may reimburse you the cost of your stolen bike. Renter's insurance also covers fire or water damage.

Consider a replacement-cost policy. In the stolen bike example, a replacement-cost policy would foot the bill for you to buy a new bike, similar in quality to the one you lost. Without this, you would receive an amount equal to what your bike is worth minus depreciation, which probably wouldn't be enough to buy a new bike. A replacement-cost policy will increase your premium slightly, but it can be well worth it.

There are limits on reimbursement for expensive items. If you have computer or stereo equipment or costly jewelry, you may want to insure those separately. If you have items of great sentimental value, they obviously can't be replaced and you should put them in a safe deposit box.

Your insurance should also cover personal liability. Most renter's insurance policies will cover all non-auto accidents, including accidents that happen away from your apartment. Let's say that before your bike was stolen, you accidentally hit a pedestrian with it and he or she sued you. You are protected against lawsuits because you have renter's insurance. Although coverage varies, $300,000 is standard coverage for personal liability.

How Much Does It Cost?
For as much as it covers, renter's insurance is relatively inexpensive. The National Association of Insurance Commissioners estimates that the average policy costs only $169 per year. Compare that with auto and health insurance and it's a bargain.

Make Claims Easier
As soon as you obtain renter's insurance, document your belongings. Make a videotape of everything you own or photos of everything you would want replaced. If you can't do that, write a detailed list of your things. If you lose your belongings in a fire it will be nearly impossible to remember everything you had. A record of your things will be invaluable in settling claims with the insurance company.

Keep your tapes, photos or written list somewhere outside of your apartment - at a friend's residence or with a relative. If you have a fire, you don't want these records destroyed as well.

Security Deposit and Eviction

Landlords may require a security deposit that will be used to cover any unpaid rent or damages you cause. This money must be refunded within 30 days of the end of the rental agreement. The landlord, however, may deduct the cost of any repairs that he or she has to make, other than maintenance from normal wear and tear. Any charges deducted from the security deposit must be listed separately and sent with the remainder of the deposit. If you disagree with the deductions or you do not receive the security deposit, you may sue your landlord.

A landlord can require any amount for a security deposit. A few states require the landlord to pay you interest on your deposit.

Troubleshooting
If your landlord is not living up to his or her legal responsibilities, or if a government agency determines that the apartment has a health or safety violation, you have several courses of action available to you.

You can sue the landlord for money damages. You can also force the landlord to make the required repairs. Send a notice to the same address as the rent checks are sent and the landlord is required to make the repairs within 30 days.

If the landlord fails to make these changes, don't stop paying rent. Here are some options you can take, however, that will stop the landlord from collecting your rent:

1. Instead of mailing the rent, take the rent check to the clerk of courts. The clerk of courts will hold this money until the repairs are made. You still need to stay current on rent payments.
2. Ask to the court to legally force the landlord to make the repairs. In addition to ordering the repairs, the court may also decrease the rent for the period the repairs are not made.
3. Simply end the lease and move out of the apartment. You still must give proper notice.

Eviction
Hopefully your rental experience will not include an eviction. But if you don't pay your rent, don't live up to your end of the lease agreement or refuse to leave at the end of the lease, your landlord may evict you.

The landlord must serve you a written eviction notice. After a few days, the landlord can file that eviction notice in court. If the landlord wins his suit for eviction, and you still don't vacate, the landlord can ask a local law enforcement officer to remove you from the apartment.

MONEY SKILLS

BUYING A HOME

Turtles and snails are born with their homes on their backs. You, however, are not so lucky. Unless you plan to live in a cardboard box or you can talk someone into allowing you to live with them for the rest of your life, you will probably need to either buy or rent housing.

To Own or Not to Own
Home ownership isn't for everyone. It's definitely a long-term commitment. The prices of homes increase over the years, but usually at a slow rate. With all the financing, closing costs and other expenses associated with owning a home, you'll probably lose money if you sell in less than five years.

You also have to think about the upkeep of a home. Everything from cutting the grass to putting on a new roof is your responsibility. The costs can really add up. Then add taxes, water and sewer bills and other expenses and you can get into some sizable payments.

But when you take full financial and maintenance responsibility for a home, it's yours to do what you please. Paint the walls purple. Add a planetarium. Put in a fireman's pole. You're in charge.

There are also substantial financial advantages to owning a home. The part of your monthly payment that goes toward the principal is all equity and the part that goes toward interest is tax deductible. Compare that with paying rent, which is neither an investment nor a tax write-off.

As your equity increases with time (and payments) it will be a source of financial stability for you, giving you collateral for a loan or producing a large sum of money if you sell. And if you decide to sell your home, as long as you have lived in it for two of the past five years, you won't have to pay tax on gains of up to $250,000. The limit doubles to $500,000 if you're married and both have lived in the home for two years.

Prepare to Qualify

If you think owning a home is for you, start planning for it right now. You need to get your finances in order, save for a down payment and mentally prepare for the responsibility of owning a home.

Down Payment
The down payment is usually expressed as a percentage of the price of the house. A $10,000 down payment on a $100,000 house would be a 10% down payment.

How much do you need to save for a down payment? It depends on a lot of variables.

Different banks require different amounts, between 3% and 10% depending on the program, and often give better interest rates for down payments larger than 10%. Some programs even will let you put 0% down.

No matter how much you need for a down payment, save more. There are a lot of fees included with buying a house and you'll be in much better financial shape when you move in if you've given yourself a little padding.

Unless you're some kind of a financial magician, don't try to pull this down payment out of your finances all at once. Decide how much you want to spend on a house and how much you will need to save for a down payment. Saving a reasonable amount every month, you can compute a target date when you will have your down payment and start your house shopping.

Government Assistance
Check with your local city or county government for special programs that may offer down payment assistance or reduced down payment requirements. To qualify, your household income will need to be lower than the program's income requirements, or you'll need to buy a home in an area targeted for redevelopment.

If you're going to be saving money, you might as well have it work for you. Check into short term Certificates of Deposit (CDs) and Money Market Accounts to earn some interest while you're adding more to savings. It won't be a lot of interest but every little bit helps.

Check Your Credit Report
Becoming familiar with your credit report is an important part of financial fitness at all stages in life. But it's especially important when you're ready to buy a house. The better your credit rating, the better interest rate you're likely to get. So while you're taking the time to save money for a down payment, take some time to get your credit report in order.

If you have poor debt ratios, meaning too much debt compared to your income, start paying down your debt. That's not an easy thing to do. But it's crucial in repairing your credit and getting favorable interest rates.

Get Pre-qualified
Negotiating for a house is a lot easier when you have a check for the full amount in your back pocket. That's about what you have when you pre-qualify for a mortgage. Based on your financial strength, a lender will give you a firm commitment on a loan for a certain amount even though you haven't yet identified a specific property.

You can shop around for houses with confidence, knowing that if you find one within the amount of your pre-approval, you will get financing if you decide to buy it. And when it comes time for negotiations, you're in a much better position because the seller knows you can get the financing.

Understanding Mortgages

If you're going to be responsible for paying a mortgage for the next 30 years, you should know exactly what a mortgage is. A mortgage has three basic parts: a down payment, monthly payments and fees. We've already discussed the down payment. The monthly payment is the amount needed to pay off the mortgage over the length of the loan and includes a payment on the principal of the loan as well as interest. The fees are all the costs you have to pay up front to get the loan.

Keeping in mind those basic concepts, we'll look at some of the mortgage variations that are available:

- **Fixed Rate** A fixed rate mortgage requires a monthly payment that is the same amount throughout the term of the loan. When you sign the loan papers you agree on an interest rate and that rate never changes. This is the best type of loan if interest rates are low when you get a mortgage.
- **Adjustable Rate** Be careful if you're considering taking an adjustable rate mortgage. An adjustable rate mortgage allows the interest rate on your loan to vary with prevailing interest rates. If rates go up, so will your mortgage rate and monthly payment. If rates increase a lot, you could be in big trouble. If rates go down, your mortgage rate will drop and so will your monthly payment. A good strategy may be to stick with a fixed rate loan to safeguard against rising interest rates. And if rates drop, refinance your mortgage to take advantage of lower rates.
- **Pledged Asset Mortgages** In a pledged asset mortgage, you can use assets such as stocks, bonds, other property, etc. as collateral on your loan. This eliminates the need for a down payment and also avoids PMI (Private Mortgage Insurance).
- **Mortgage Help Programs** There are programs that will assist you in obtaining and financing a mortgage. The number and variety of these programs makes it impossible to list and discuss them all here. Check with your bank, city development office or a knowledgeable real estate agent.
- **Veterans Administration (VA) Loans** The Veterans Administration offers loan benefits to veterans who served in the armed forces on active duty during times of conflict, such as Korea, Vietnam, Desert Storm and Afghanistan, as long as they were not discharged dishonorably. The first step to obtain a VA loan is to obtain a certificate of eligibility, then submit it with your most recent discharge or separation papers to a VA eligibility center.
- **Federal Housing Administration (FHA) Loans** The FHA was created to aid people in obtaining affordable housing. FHA loans are actually made by a lending institution, such as a bank, but the federal government insures the loan. This is often the least expensive loan that non-veterans can get.

The Right Home

When you're deciding what type of home is right for you, you not only have to think about now, you must think about your future. Will your family be growing? Are you going to need an office at home? Are you going to be able to keep up with the maintenance? You don't want to buy a home and then find out three years later that you have outgrown it.

Types of properties:

- **Houses** If you like privacy and independence, buying a single-family residence might be the right choice for you. Decide whether you want a new home, a previously-owned home or a fixer-upper. If you buy a newly built home, be sure to figure in the cost of upgrades and landscaping, which aren't usually included in the base price. You might be better off with a previously owned home in good repair. A fixer-upper, on the other hand, may allow you to purchase more home for your money. Your house will quickly increase in value as you put work into it - as long as you're willing to invest the time and money it requires to do the job right.
- **Condominiums** A condominium is halfway between an apartment and a house. You still own the building and the property, but you pay maintenance fees every month that pay for cutting the grass, trimming the hedges, painting the shutters, etc. You're still responsible for interior repairs and maintenance. Be sure to read the homeowners agreement before you decide to buy a condominium. These documents dictate what is and isn't allowed on the property and can include anything from how many and what types of vehicles can be parked in your driveway to how many pets you can own.
- **Co-ops** Co-ops are more frequent in larger cities and they're becoming increasingly popular. In a co-op, you're a renter, but you're also part of a group that serves as a landlord. You buy into the association.

Home Size Does Matter

The drawbacks to a small house are obvious - not enough space. But there are drawbacks to a large home as well. Upkeep is considerably more work with a large home. The spaciousness that once brought you such happiness may lead to the frustration of never-ending cleaning and maintenance. Consider how much space you need, how many rooms you need and how much furniture you want to have. Limit your home size to meet these requirements unless you're willing to put in a lot of time or hire maintenance and cleaning professionals.

Neighborhood

Urban, suburban, rural, young, old, high-traffic, low-traffic. You have many different options when it comes to choosing a neighborhood - too many to cover here. But here are some neighborhood variables to think about.

How long are you willing to commute? This will give you a geographical boundary to look within.

Do you have children? If so, carefully investigate the school system that your children will be attending. See what learning opportunities are available to them. Even if you don't have kids or your children attend private school, the quality of the schools in your community will have an impact on the resale value of your home.

Do you like high-energy environments or peace and quiet? When some people go home, they want to leave the world behind and relax in the peace and quiet of their personal retreat. Others would be bored to death by that environment and need more interaction and energy.

What aspects of a community are important to you? Envision the perfect neighborhood. Ask yourself what makes it perfect? Then seek out that neighborhood.

When you're looking at homes, try to get a feel for the neighborhood to see if it's right for you. Talk to the neighbors and ask them what it's like. Be nosy. After all, you might live there for quite some time

Closing On Your Home

It's time for the end game. All the financing, house hunting and negotiating come together into one final step - the closing. This can be a confusing and anxious time, especially if you're not familiar with the process. If you're pre-approved and you've saved enough money to handle the extra costs, you've done everything you can do. So try to relax as you go through the closing process.

The contract
Once you've found a home, made an offer and the seller has accepted your offer, the seller's agent draws up a contract specifying the terms and a closing date. When you sign this contract, you have officially agreed to purchase the home. Have a real estate attorney, or the real estate agent representing you, look over your contract. There are many small details that could make the difference between a good deal and a bad deal. An experienced professional can help ensure you're getting a good deal.

Good faith deposit
When you make an offer on a house, you'll have to put down a good-faith deposit. This is to discourage you from putting a bid in on a lot of different houses with the intention of buying only one. This good faith deposit is usually several thousand dollars. If the deal falls through, you will get this money back unless you failed to perform as you contracted. If the deal goes through, the deposit goes toward your down payment and your share of closing costs.

Contingencies
The contract almost always specifies contingencies. That means the contract is valid only if certain requirements are met. So, for example, if your financing doesn't come through, you still aren't required to purchase the home. Contingencies also cover home inspection (defined later), termite inspection, title search and several other possibilities that would nullify the deal.

Inspection
Don't skip the home inspection. It is one of the most important parts of the home buying process. There are many big problems with a home that can't be detected with an untrained eye. A home inspector will go through the entire home to make sure there are no problems, which will either affect the value of the home or cause major problems in the future. If the home inspector finds any major problems not disclosed before you signed the sales contract, you can use the inspection contingency to walk away from the deal or to renegotiate the price.

Requirement for closing
Be ready for closing so that the process can move much more quickly. A settlement agent will handle most of the process. This may be your lawyer, a mortgage broker or an escrow company. You will be given an estimate of the closing costs and fees up front.

Before you can close on a house, you need the following:

> **Title Search** - This ensures the seller is clearly the owner of the house and that there are no liens against it.
>
> **Title Insurance** - If there is a problem with ownership, including fraud and forgery, the costs of dealing with those problems will be covered.
>
> **Survey** - In some locales a surveyor will be employed to make sure that the dimensions of the lot are accurate.
>
> **Homeowner's Insurance** - Since the home is the collateral for the loan, a lender will not give you a loan unless you have fire and casualty insurance. If you carry auto insurance, ask that agent for rates on home insurance. Insurance companies often give you better rates if you have more than one type of policy with them.

Closing costs
The cost of closing a home can be thousands of dollars. You should have some money set aside for these costs. But before you sign the contract, see if you can negotiate to have the seller pay for more of the closing costs. They are receiving a large amount of cash and will more easily be able to afford a few thousand dollars in closing costs. You may not be able to negotiate more than is customary in your area, but it doesn't hurt to try.

Home Equity

One of the biggest advantages of home ownership is the equity you build in your home. The faster you pay your mortgage and build this equity, the better financial shape you'll be in. Equity can be a powerful tool to manage your finances.

Paying Off Your Mortgage
During the first few years you make payments on your mortgage, most of your payment goes toward interest and not very much goes toward paying down the principal. The more you owe on the mortgage, the more interest you'll pay. So if you increase the amount you pay, more of the principal will be paid and less interest will be charged. You could retire your mortgage several years ahead of schedule if you just make one extra mortgage payment per year.

Home Equity Credit Lines
A home equity line of credit is a form of revolving credit in which your home serves as collateral. With a home equity line, you will be approved for a specific amount of credit that represents the maximum amount you can borrow. You pay a variable interest rate and have a minimum payment due each month based on the amount of the credit line you have used.

Once approved for the home equity plan, you will be able to borrow up to your credit limit at any time. You can draw on your line of credit by writing checks against it. You may be charged for a property appraisal, application fee and possibly other costs.

When you sell your home, you will be required to pay off your home equity line in full. If you are likely to sell your house in the near future, consider whether it makes sense to pay the up-front costs of setting up an equity credit line. Also keep in mind that leasing your home may be prohibited under the terms of your home equity agreement.

Home Equity Loans
Similar to a home equity line of credit, a home equity loan is backed by your home as collateral. Because they are considered more secure by lenders than unsecured debt such as credit cards, home equity loans offer more attractive interest rates than unsecured loans.

A home equity loan is best utilized for a specific expense, such as paying college expenses, which you will be able to pay off over a shorter time period than your primary mortgage. If you're carrying a great amount of high-interest, unsecured debt, transferring it to a home equity loan can help you pay it off sooner, as well as provide tax advantages. The interest on up to $100,000 of a home equity credit line or home equity loans is tax deductible.

Just remember that you've used your home as collateral. If you can't keep up with the payments, you may lose your home.

Refinancing
If interest rates have dropped since you took out your mortgage, you may want to consider refinancing your home - that is, getting a new mortgage with a better interest rate to replace the old one. As a general rule, if you can cut your rate by 2% or more, it is worth investigating. Depending on how much the new bank charges in closing costs and how long you plan to stay in your home, you could end up saving a significant amount of money this way. Refinancing may slash $100 to $300 or more off your monthly payment. Interest on the entire amount borrowed is tax deductible, unless you increase the amount of the loan by more than $100,000. Consult your tax advisor to discuss the particulars of your situation.

You do not have to refinance with the same mortgage broker that you originally used. It's wise to try them first, as they may offer you an attractive package in order to keep your business, but shop around and compare rates as you did the first time around.

Costs versus Benefits
To make sure you're going to save money by refinancing, take all the costs into consideration.

- **Closing Costs** Remember these? You will have to pay them again when you refinance. Depending on how high they are, they may overshadow the savings you will get from your new interest rate and it may not be worth it to refinance.
- **Pre-payment Penalties** Your current mortgage may have a significant penalty for pre-payment that could overshadow the savings that result from refinancing. Check your mortgage papers. If a pre-payment penalty exists, it will be in your agreement.

Health Care

For most of us, health care and prescriptions represent a big financial burden. When families and individuals experience financial strain, many cut back on health care services. But in the event of a serious illness or catastrophe, not being adequately covered can lead to financial disaster. Luckily, there are ways to ensure you find the best medical coverage for yourself and your family, as well as access to low-cost prescriptions and other services. Resources are available; you just need to seek them out.

Choosing a Health Plan

With the countless options available and the complex terminology and paperwork, selecting a health care plan can be overwhelming. There are two basic types of plans: group plans (plans supported by an employer) and individual plans (plans not supported by an employer). Whether you have access to a plan supported by an employer or you need an individual plan, these tips for selecting a plan can help.

Before choosing a plan, ask yourself:

- How much can you afford to pay monthly for health care?
- Who requires coverage under your plan (just you, or a spouse or dependents as well)?
- How often do you, your spouse, and children visit the doctor?
- Do you want or need dental and vision coverage?
- Do you or your dependents have medical conditions that require specialized care?
- What would happen in the event of an accident or surgery?
- What is the maximum deductible you could afford to pay?

Knowing the answers to these questions can help you understand your health care needs and financial considerations. If you or a family member has a pre-existing health condition, it can be more difficult to get the health coverage you need. As part of the Affordable Care Plan passed in 2010, there is a Pre-Existing Condition Insurance Plan (PCIP) available. You can find out more about it here.

Managed Care Health Plans

Here is a brief explanation of some of the most common Managed Care health plans:

- **HMOS** (Health Maintenance Organizations) are a type of health insurance plan where coverage is limited to doctors who work for or contract with the HMO. A primary care physician generally oversees your care and must refer you to specialists as needed.
- **PPOs** (Preferred Provider Networks) allow subscribers to use doctors, hospitals and providers outside of the network for a fee.

- **High-Deductible Health Care Plans** are high-deductible plans with low monthly premiums, designed to offer minimal day-to-day coverage but to protect you in the event of a catastrophe.
- **Point of Service Plans** combine some aspects of PPOs and HMOs. Like PPOs, they generally require users to choose a primary care physician, who can make referrals to other doctors inside or outside of the network.
- **Fee-for-Service Plans** reimburse you for a large percentage of what you pay out of pocket. You pay the bill for services; then your insurance company pays you back.

After choosing your plan and services, make sure to use them wisely. Most health insurers supply educational materials on preventive care such as quitting smoking, weight loss and chronic disease management. Many even provide financial incentives for completing treatment programs, getting immunizations and using generic drugs.

For information about managing health care in retirement, click here.

For more on the importance of health care for self-employed workers, click here.

Staying Healthy
In addition to making life more enjoyable, living a healthy lifestyle is key to keeping healthcare costs down. People who live a healthy lifestyle tend to be more productive and better at handling stress, making them more valuable employees. Being fit can even save you on health insurance – many companies factor in height and weight when determining rates for consumers. Making healthy choices, like quitting smoking, can also help to keep your health care and medical insurance costs done. For tips on living healthfully on a budget, click here.

Health Care Resources

Many people struggle to pay for health care and prescriptions. If you have difficulty affording needed services and medications, there are many available resources that can provide significant relief. Here are a few of the most common resources available.

Medicare
Medicare is government-provided health and hospitalization insurance for people age 65 and older and those under 65 with certain disabilities. Some portions of Medicare are free and others cost money, with premiums typically deducted from your Social Security benefit checks. Medicare tax is deducted from workers' wages.

Medicaid
Many uninsured people not eligible for Medicare can obtain medical coverage through state-administered Medicaid programs. To learn more about Medicaid, click here.

COBRA
The Consolidated Omnibus Budget Reconciliation Act (COBRA) gives some individuals who lose their health benefits the ability to continue receiving benefits for a limited period of time.

You can become eligible due to job loss, reduced hours at work, death, divorce and other events. You can find out more about COBRA here.

Medical Financial Aid
The U.S. Department of Health and Human Services (HHS) helps fund over 7,000 community health centers serving millions of uninsured and underinsured Americans. Patients pay based on what they can afford for services such as routine checkups, maternity care, immunizations, prescription drugs, and dental, mental health and substance abuse care. To learn more about this program and find the closest HHS-supported center, visit http://bphc.hrsa.gov.

Discounted Care
Many university teaching hospitals and dental schools operate clinics on a sliding payment scale, so it is often worthwhile to check with the institutions near you about discounted services.

Free Screenings
Many pharmacies, clinics and health organizations, such the National Kidney Foundation and the American Academy of Dermatology, provide free screenings for illnesses such as kidney disease, skin cancer, diabetes and heart disease.

Patient Assistance Programs
Most pharmaceutical companies offer patient assistance programs (PAPs), through which uninsured patients with limited incomes can access drugs they couldn't otherwise afford. Ask your doctor, pharmacist or clinic how to proceed, or visit Partnership for Prescription Assistance. An excellent resource for anyone looking for more information about health care resources in the U.S. is www.healthcare.gov.

Glossary of Health Care Terms

Appeal – The process of requesting a provider or health plan pay for a service for which payment has been denied.

Auto-Enrollment – The automatic assignment of a person to a health insurance plan.

Broker – A salesperson that has obtained a state license to sell and service health plan and insurer contracts.

Claim – A request by an individual that his or her insurance company pay for medical services received.

COBRA – Federally supported health care benefits for people whose employment has been terminated, or who have experienced other circumstances that lead to loss of coverage.

Copayment – The set amount of money a health plan enrollee pays for a specific service.

Deductible – The minimum amount of out-of-pocket expenses a health care plan enrollee must pay for medical services or medication before their plan begins to cover expenses.

Employee Assistance Program (EAP) – Benefits that are designed for personal or family problems, including mental health, substance abuse and other problems.

Enrollee – A subscriber or dependent that is eligible for coverage under a certain health care contract.

Exclusions - Conditions or situations not covered under a certain contract or plan.

Fee-For-Service (FFS) – A traditional method of payment for health care services where users pay for services rendered.

Flexible Spending Account (FSA) – A plan that provides employees with the opportunity to set aside funds pre-tax for certain medical expenses.

Group Health Plan – Health coverage to employees and their families, provided by an employer or employee organization.

Health Maintenance Organization (HMO) – A type of U.S. health care coverage where subscribers are required to receive all of their health care from a provider within a given network.

Health and Human Services (HHS) – The U.S. department that is responsible for health-related programs and issues.

Health Care Provider – Providers of medical or health care.

Individual Plans – A type of insurance plan for individuals and families not eligible for health care coverage through an employer.

Lifetime Limit – A cap on the benefits available during a subscriber's lifetime under a given policy.

Managed Care – Systems and techniques used to manage health care services.

Medicaid – A federal and state program that helps with medical costs for some low-income individuals and families.

Medicare – A federal program that helps cover the medical costs of elderly and disabled individuals.

Open Enrollment Period – A period during which subscribers in a health program can revise their benefits.

Patient Assistance Programs – Programs offered by pharmaceutical companies to provide free or low-cost medications to people who could not otherwise afford them.

Pre-Existing Condition – A condition or illness that you have before enrolling in a health care plan.

Preferred Provider Organization (PPO) – A type of health care plan where a group of doctors and hospitals agrees to render particular services to a group of people for a reduced cost. This type of insurance is generally more expensive than HMOs but offers subscribers more freedom to select physicians.

Premium – The amount paid to a health care company for providing medical coverage under a contract.

Preventive Care – Health care that emphasizes prevention, early detection and early treatment.

Primary Care Physician (PCP) – A "generalist" physician who, under certain health care plans, is accountable for the total health services of enrollees.

Referral – The process of referring a patient to another doctor for specific health care services.

State Health Insurance Assistance Program (SHIP) – A state-run, federally funded program that provides free local health insurance counseling to Medicare subscribers.

Waiting Period – The minimum amount of time an individual must wait before becoming eligible for specific benefits after coverage has begun.

Workers' Compensation – Insurance that covers employees who get sick or injured on the job.

Getting Married

Marriage is the coming together of two lives and two separate financial histories and situations. And while your financial history may continue to influence your finances now, you'll also be contending with a lifetime of new money-related experiences and decisions together. The key to success is preparing yourself and your spouse to handle the unexpected, while also learning to communicate with each other about financial matters.

Talking About Finances
Financial problems are a factor contributing to many divorces. So how do you keep marital finances from putting a strain on your relationship? First, get to know each other's financial histories, strengths, goals and challenges. Discuss your experiences with money, saving and credit. Ask about your partner's financial history and what he or she expects when it comes to marital finances and financial planning.

Financial Planning
Before you tie the knot, it can be useful to meet with a qualified, objective financial planner together. A financial planner can help you develop financial goals as a couple and create a shared budget. This is also an excellent way to ensure you are in agreement about important financial topics. The Financial Planning Association™ offers valuable information on finding a qualified professional to meet your financial planning needs.

Planning an Affordable Wedding
With the average American wedding costing $25,000, the event runs the risk of saddling couples with relationship-crippling debt for years to come. Here are a few tips for planning a memorable yet affordable wedding:

- Develop a budget, prioritizing the parts of the wedding that are most important to you and your spouse-to-be; then cut back on expenses in other areas.
- Limit the guest list to close friends and family.
- Hold your ceremony and reception in one location – it will cut travel time for vendors you pay by the hour.
- When shopping for wedding attire, be sure to check outlet stores.
- If there is a photographer you love but his or her prices are not in your budget, ask them if they have an associate who may be able to photograph your wedding for less.
- Substitute less expensive seasonal and local flowers for more expensive options, or use more greenery.
- Order a small one or two-tiered cake for display; then supplement with a larger sheet cake served from the kitchen.
- Consider a weekend honeymoon nearby and then have a more elaborate trip for your first anniversary.

A Financial Life Together

Once the wedding is over, the practicality of day-to-day life together begins. In addition to dividing household responsibilities, couples will also need to determine who will pay the bills, track investments, review bank statements and more. Although it's not necessary to assign each task to one partner, it is critical that you have a system in place to ensure these tasks get done. Here are a few financial and estate-related items that recently married couples should consider.

Review Your Beneficiaries
Go through each of your accounts–including retirement plans and insurance–and ensure that the beneficiaries listed are still accurate. If you would like your spouse to receive the funds from your accounts in the event of your death, make him or her the beneficiary.

Revisit Your Insurance
Upon getting married, it's important to sit down and review both of your medical, life and car insurance plans. Review whether your coverage overlaps in certain areas, or whether you could be saving money by combining coverage.

Changing Your Name
If you change your name upon marrying–to your spouse's last name or to a hyphenated name–it's important that you notify certain organizations of the change. You should notify the Social Security Administration immediately to ensure that your retirement account is properly credited, and also to request a new Social Security card. Change your name on all important documents and accounts. And remember to change your name on your driver's license, which serves as the primary form of identification for most Americans.

Develop a Budget
Whether you already have individual budgets and want to combine them or you are new to budgeting, marriage marks an important time to sit down and create a plan for your spending and savings. Your new budget should reflect your shared living situation and both of your incomes and expenses. For help developing a joint budget, click here.

Prenuptial Agreements
A prenuptial agreement outlines how assets will be divided in the event that the marriage ends. While some people consider prenuptial agreements to be unromantic or to represent a lack of faith, others feel they can ensure some security for both partners and help them know what to expect in the event the marriage ends.

It may be wise to develop a prenuptial agreement if either spouse has:

- Wealth to preserve
- Children from a previous marriage or relationship
- Ownership of a company
- An expected inheritance or other assets
- Ongoing family-related financial obligations
- A much higher income than the other partner

Postnuptial Agreements
If you're already married and have come into wealth or you've just decided you want a financial agreement with your spouse, consider a postnuptial agreement. In some other cases, such as when one spouse enters into a business partnership with another individual, a postnuptial agreement may be an important contract to consider.

Goal and Career Planning

As a married couple, evaluating where you are financially and setting shared goals is important. Once you define your goals as individuals and as a married couple, it will help you plan the means to reach your goals.

Retirement
A comfortable retirement should be a top priority for every individual. Since people are living longer than ever, retirement savings need to last longer and work harder. Develop a plan to ensure you are each contributing enough to your retirement funds to ensure the life you want during your golden years.

Debt
If you or your spouse has considerable debt, one of your first goals should be to pay it off so you can focus on other financial goals. The first step is to get an accurate picture of how much you owe. Next, review your budget and construct a plan to pay off your debt as quickly as possible. The more you can pay per month, the less you will pay in interest overall.

Together or Separate?
Every couple has a different approach to how fully they would like to integrate their finances. Here are a few of the decisions you are likely to face as a married couple:

- **Taxes**
  Once married, you will have the option of filing your annual income tax returns separately or jointly with your spouse. Filing jointly means that you will add your income and deductions together when filing. Most couples file jointly because it is easier to file one return than two, and some deductions and credits are only available to married couples filing jointly. It is always a smart idea to consult a tax professional when making tax-related decisions like these.
- **Bank Accounts**
  When it comes to whether to maintain joint or individual bank accounts, every couple is different. There are numerous options: you can maintain separate bank accounts and each pay a portion of your bills, deposit a set amount into a shared account each month and pay your bills using that account while maintaining separate accounts for your own expenses, or pool all of your money in one account.

  If you decide to hold any of your accounts jointly, be sure to keep track of your transactions carefully and to communicate them to your spouse. With two individuals using one account, tracking cash flow can be difficult.

- **Credit Cards**
  You should each keep at least one credit card in your own name to maintain a credit history of your own. If you divorce or one of you dies, it will be much easier to get a mortgage, loan or credit card with some individual credit activity.

Ongoing Financial Decisions

It's a smart idea to sit down together annually or more often to discuss your finances. You can take that time to assess where you are, determine whether your financial goals have changed, and decide how to better meet them. Other items to discuss might include:

- **Important Documents.** Do you both have access to insurance policies, wills, tax forms, bank account numbers, investment specifics and other important documents and information?
- **Current Debts and Assets.** How much do you currently owe and are you paying off your debt as quickly as possible?
- **Budget.** Is your current budget working well for you, or are there areas in need of adjustment? If your spending doesn't match your priorities, fine-tune your budget to get the most out of your income.
- **Goals.** Revisit the financial goals you made in the past. Are you moving toward them as quickly as you'd like? Do you have any new goals to discuss with your partner?
- **Financial Vulnerability.** Find the weak links in your financial armor. Do you have too much debt? Is your income secure? Do you have insufficient income to cover your spending? Identifying your financial weaknesses is the first step to strengthening your financial picture overall.
- **Responsibilities.** Is your division of financial responsibilities working for both of you? If not, what can you change to ensure both partners are happy?

Estate Planning

It's hard to think about, but no one lives forever. Putting the legalities in place will make it easier for your loved ones in the event of your death. Here are a few things to consider:

Wills
A will is the first step in estate planning and should be at the top of your "to do" list. The provisions of your will determine who will inherit your property, who will become the guardian of your children, and who will wrap up your financial affairs in the event of your death.

Trusts
A trust allows you to have more control over the money you leave to someone than does your will. For example, if you leave money to a young child, it can be put into a trust and used only for education. Or the money could be disbursed to the child when he or she reaches a particular age. A trust also protects the money from creditors since it cannot be taken from the beneficiary to pay debts.

Powers of Attorney
If you are unable to make legal decisions because you are somehow incapacitated, someone will need to make these decisions for you. You need to decide who this person will be in advance. This is called giving someone power of attorney. There are two main types of powers of attorney. A durable power of attorney gives a person, or people, authority to manage your finances and other legal affairs for you if you are not capable of managing them yourself. A healthcare directive is a power of attorney that allows the person you designate to make healthcare decisions for you if you are unable to make those decisions yourself.

Living Will
A living will is a clear statement about your wishes regarding artificial life support. If your brain is dead and your body remains functioning only with the help of life support, a living will directs attendants in what choice to make for you.

Testamentary Letters
A testamentary letter is similar to a will except that it deals with items of smaller value. Through this handwritten letter you can designate who inherits such items as dishes, art, photos and other heirlooms. This letter is a handwritten document, and it should be referenced in the will. Many states recognize a testamentary letter as legally binding, but it is probably a good idea to have your letter signed by a witness.

Divorce

A divorce can be one of the most difficult experiences a person ever faces. The emotional impact ending a relationship is difficult enough, but the financial and lifestyle changes that result can be just as traumatic. For most people, divorce is the biggest financial transaction they ever face.

If you're reading this but not going through a divorce, continue reading. It shouldn't take a divorce before you take control of your finances. You may not be in the best emotional shape at that point to make the decisions you need to make. Make them now. Even if you never get divorced, you will be in a much better financial position.

If you are going through a divorce, you're not alone. Statistics suggest that nearly half of all marriages end up in divorce. During this difficult time, it's important that a couple cooperate to work out the financial aspect of the relationship.

Do You Need A Lawyer?
In most cases, a lawyer will be required to guide an individual through a divorce. Attorney fees will be costly. Only rarely does a divorce end to the satisfaction of both parties through the efforts of a mediator.

On the other hand, if both spouses are fairly amicable and willing to reach agreement, you may be able to divorce without litigation. If you and your spouse are able to agree, chances are good you'll be able to handle your divorce yourselves. You simply split your common assets, file the correct papers and, in some states, go in front of a judge to tell him why you are divorcing. But rarely are divorces this simple. Splitting assets alone can be complicated. When you and your spouse can't agree on things together, instead of litigation, consider mediation or collaborative divorce, which helps the two of you work together with trained professionals to solve the problems of property division and custody arrangements. If you can't agree, litigation will become necessary. You definitely want a lawyer for any kind of litigation.

Even if you and your spouse are divorcing on very cordial terms, it can be hard to decide what's fair for both of you. A lawyer can be an advocate to help you make tough decisions.

Finding a Lawyer
Finding a good lawyer is important. You want someone you can trust in this rough period of your life to guide you through a very painful process. There is no specific time limit on how long the divorce process can last so choose a lawyer that you'll be comfortable with for a long time.

Don’t use the same lawyer that your spouse uses. Even though everyone involved may have good intentions, it can make for some very difficult situations. Ask recently divorced friends about their lawyers. If they had a good experience, you might want to interview that attorney. If you have worked with lawyers in other legal matters, ask them for a recommendation. Often lawyers know other lawyers outside of their own specialty.

No matter who recommended the lawyer you're considering, check his or her credentials and qualifications carefully. You're not looking for the cheapest lawyer you can find, you're looking for the best person to represent your interests in your divorce.

Legal Costs

A divorce can be costly if you hire a lawyer. And if it turns into a court battle, legal fees can get very expensive very quickly.

Cutting Costs
The biggest step in reducing legal fees is to do as much of the work as you can. Gather as much financial information as you can before you meet with an attorney. His or her hourly rate will be very expensive. You're paying that fee for legal expertise; you don't want to pay a lawyer to search through your finances. If you can, negotiate a fixed fee for your attorney. Otherwise, you can reduce fees by remaining actively involved in your case and following your lawyer's instructions carefully.

Try to settle small issues with your spouse without the help of a lawyer. Lots of tiny spats can lead to one gigantic legal bill. Save your money for the bigger battles that may take some greater legal muscle.

Stick to the tasks at hand with your lawyer. As you work with a lawyer, you'll probably build trust with that person and it might be tempting to "unload" some of your feelings on him or her. You really need to find a friend you can confide in - someone that isn't charging you by the hour.

Don't try to use a divorce settlement to punish an ex. It will end up causing more stress, more pain and much more money in legal fees. Remain diligent to make sure the settlement is fair to you, but if you insist on "sticking it to your spouse" your lawyers will end up sticking it to both of you.

Find a way to communicate with your spouse. There is a lot of emotional stress involved with a divorce. There is most likely some anger involved as well. But if you each use lawyers to relay all communications between you, the fees will add up quickly.

Before a lawyer represents you, you will need to sign a written fee agreement. This is a legal document explaining the fees that your lawyer will charge. Make sure you understand this document and feel free to ask questions if you don't.

Splitting Assets and Debts

You need to know what you and your spouse are worth together and what you're worth on your own. It sounds like a big job but it comes down to a simple equation: Net Worth = Assets - Liabilities.

It does get a little more complicated. There are three categories of assets:

- **Joint Assets** These are accounts that you have built together including savings accounts, money market accounts, mutual funds or a co-owned business.
- **Your Assets** These are accounts that you opened before you were married and have been the only contributor to. Things that you owned before you married are also included in your assets.
- **Spouse's Assets** These are anything your spouse opened or owned before the marriage including an individual IRA or assets inherited from family members.

You're both entitled to a portion of each other's retirement benefits that were earned during marriage. In order to get part of your spouse's pension or 401(k), you'll need a lawyer to draw up a qualified domestic relations order, or QDRO (pronounced "quadro"). There are several options, including a one-time payment, monthly payments at retirement, or a lump-sum payment that you transfer directly into your own IRA, where your money will continue to grow tax-free until you retire. IRAs can be divided without a QDRO, as long as the division is clearly specified in your divorce agreement.

Be sure to consider the future value of these assets. If you give up pension, for example, in exchange for keeping the house or up-front money, you may feel short-changed when you reach retirement age. A pension can be very valuable down the road.

You may need to appraise real estate, artwork and collectibles to determine their value. If you both own a business, you will need to value it to determine the amount needed to buy out the other spouse's share of the business.

Information You Will Need
Gather your paperwork into one container, preferably mobile, that will help you be prepared and organized. Included should be:

- Tax returns for the past five years
- Retirement account records for both spouses
- You and your spouse's paycheck stubs to show current income and withholdings
- You and your spouse's employee benefit statements
- Copies of all insurance policies including life, health, homeowners and auto
- Current statements for all bank and brokerage accounts
- Mutual fund statements
- Copy of the deed or lease agreement on your home
- Statements on all outstanding loans, including your mortgage and credit cards
- Employer stock option plans
- Copies of wills and trusts
- Copies of powers of attorney

- Receipts for major purchases
- A copy of your estate plan
- Copies of birth certificates and marriage licenses

Depending on what is being contested, you may also want to keep records for the following: A prioritized list of assets you want to keep. Your children's records, including how much time you spend with them, the activities you do together, and the expenses associated with their upbringing.

Remember, if you have your finances in order, you won't have to pay a lawyer to discover this information.

Divorce and Home Ownership

A house is often seen as more than an asset. It's where you live. You may have put a lot of hard work into making the house feel like home. It can be a difficult choice to give that up during a divorce.

Can You Afford To Keep It?
Make sure it makes financial sense for you to keep the house. You may have bought the house with two incomes and keeping up with payments on one income may be tough or even impossible. Think not only of the monthly mortgage payment but also of the insurance, repairs, maintenance, property taxes, utilities and other expenses for which you will be responsible.

To keep the house, you may be required to buy out your spouse's equity in the house, which is measured by the value of the house minus any mortgages owed on it. You might be able to "trade" assets. In other words, you would give up your half of some other assets you own jointly to pay for your spouse's half of the house. You may be able to refinance the mortgage for more than you currently owe and pay your spouse for your spouse's half of the house from the proceeds of the new mortgage.

Keeping the house, if you can, may provide you some stability in an unstable time. You may want to keep it to get you through the divorce and make decisions after you've had a chance to settle into your new situation in life. On the other hand, selling the house may set both you and your spouse free. You'll be able to make a clean break from your married life and start over.

As you can see there are a lot of things to consider in keeping a house. You need to make the decision that's right for you. Think about it very carefully.

Can You Afford To Sell The House?
In general, selling a house will put you in a better financial position, but not always. Consider how much you can sell it for, then subtract selling costs and the amount that is still owed on the mortgage. If you're selling and splitting the proceeds, you'll need to halve that amount. What you're left with must provide you with a solid financial base from which to find a new place to live and start your new, single life.

Is Your Spouse Keeping The House?
If your spouse will be keeping the house, make sure you obtain an appraisal if the value of the home is in question. Also, get accustomed to the fact that it will no longer be your house. It may seem like you're leaving the life you had while your spouse is still living in it. But even though the home may be the same physical structure, in reality, wherever either of you lives, your lives will be forever changed. Also consider how you will feel if your ex-spouse acquires a new mate who moves into your old home.

Does Joint Ownership Make Sense?
It may make sense to own the house jointly for an extended period after divorce. For example, Dad can agree to let Mom and the kids live in the house until the kids graduate from high school. As long as the divorce decree provides for Mom's exclusive use of the home, Dad will be able to exclude his share of the gain when the home is sold.

Taxes On The House
If you're awarded the house in your settlement, whether you choose to remain there or sell, you'll have serious tax implications to consider. Before you decide to keep the house, be sure you consider capital gains taxes. Individuals are allowed up to $250,000 in tax-free capital gains when they sell their home. Couples are allowed $500,000. To qualify, you must have lived in the home for at least two of the five years prior to the sale. There is no age requirement.

Parenting

How can something so small cause such a major upheaval in your life? Not the least of this upheaval is financial. The U.S. Department of Agriculture estimates that the average middle-income family will spend over $241,080 raising a child until the age 18 -- and that does not include any college costs.

But just as you find the extra time and energy you will need to take care of the little bundle of consuming joy, you will find ways to work it out financially.

Planning for Parenthood
Brace yourself. You will be spending much more than expected to buy things you never even thought of. Start planning financially for having a baby as soon as you can - before conception if possible.

Set aside as much as you can every month in a savings account. The actual event of birth can be expensive as well as all the first time purchases you'll make. Don't forget to save some money for your maternity or paternity leave. This is usually unpaid time off work.

How much do you need? As much as you can save. Any funds left over make a great starter for a college fund. If you've amassed a considerable amount well before the due date, you can invest in a short-term CD or other insured investment. But don't tie up your entire fund in investments. Babies will not sign contracts and they have not agreed to your schedule.

Have a brainstorming session with an experienced parent to figure out all the things you need to purchase before the delivery. It will be extremely helpful to have most of what you need before the baby is born. Your spare shopping time after birth is reduced drastically. If you need to shop after the baby is born, try the Internet. Nobody on the Internet cares how loud your baby is crying, what you are wearing or what time it is when your baby gives you a free moment to shop.

Here's a starter list for your brainstorming session. This is far from a complete list, but it will help get you thinking.

- **Car Seat** By law, you can't even take the baby home from the hospital without one.
- **Crib** You want one that meets the highest safety standards.
- **Bassinet** One with wheels will add to your mobility around the house.
- **Stroller** Consider getting one that's part of a stroller/car seat combo. It makes transitions easier.
- **Baby Monitor** "Baby calling Parents, come in, Parents."
- **Safety Gate** Keep your newly mobile child away from staircases and other hazards.

Maternity and Paternity Leave
Most companies don't provide paid maternity leave - and don't have to. The Family and Medical Leave Act, which only applies if a company has more than 50 employees, ensures mothers should be able to return to their old job or an equivalent job up to 12 weeks after they begin their leave. The actual policy varies from company to company, especially if the company has fewer than 50 employees.

If you are a father, ask your employer about paternity leave. The Family and Medical Leave Act does not cover this time, but many employers are offering the same or similar benefits to their male employees.

Plan monetarily for maternity and paternity leave, as it is unpaid. You may be able to save up sick time and vacation time to continue receiving income for several weeks. But most likely, you will lose some income during this time.

Budgeting for Parents

When your baby is born, your financial picture changes drastically. Now it's more important than ever to create, maintain and stick to a budget. You now have someone depending on you to keep the family financial matters in order. A well-thought-out budget will be your most valuable tool in managing the family money.

If you already have a budget, you'll need to revise it to fit your new, expanded family. If you don't have a budget, create one right now. This information will be still be here when you're done.

Don't throw away your old budget. You can use it as a starting point for a new budget. Go through each of your expenses to see if they will change with your new baby. For example, your rent or mortgage will probably stay the same. But electric bills might increase if one person is planning to stay at home every day.

Add all the extra costs of raising a child into your budget. Another parent can help you identify what extra expenses might come up on a regular basis and what you can expect to spend on them.

One Income versus Two
One of the hardest decisions for new parents is whether to have one parent stay at home full-time. As much as we wish it wasn't the case, this decision is often made based on financial considerations rather than emotional and developmental considerations. Here are some questions that might help guide your decision:

- **Are both jobs paying off?** A job is more than just income - it also includes expenses. There's gas and/or other expenses related to transportation. You may eat out much more when working. You will need to pay for childcare while you are at work as well. Add up all of these work-related expenses to figure out how much you would really lose by staying home. It may not be as big a loss as you thought.

- **Can you afford not to work?** Subtract your income and work-related expenses from your budget. If that produces a deficit, see if you can cut any expenses but keep your savings as high as possible.
- **What are the emotional costs?** Some parents can't wait to get back to work after maternity or paternity leave. As beautiful and enjoyable as the parent-child relationship is, it can get stifling. Parents often yearn for the company and conversation of another adult, the satisfaction of working and the structure of a regular day at the office. If you decide to be a stay-at-home parent, make sure you receive the stimulation you need by getting out of the house once in a while, spending time with friends, or arranging a trusted babysitter so that you can spend some time taking care of only yourself.

Childcare

A caregiver is more than a babysitter for your child. The caregiver will take part in some of the earliest development and education that your child will receive. For that reason, choosing childcare can be a hard decision.

Childcare can be one of the largest costs of raising a child. So the choice often comes to finding a balance between what's affordable and what's the optimal setting in which your child will spend five days a week.

Day Care Centers
Day care centers are a moderately priced option for childcare, but averaging between $400 to $1,000 a month, they are still expensive. You may be lucky enough to be employed by a company that offers day care as part of its benefits package. Churches, schools and community centers often offer lower-priced day care. The center should be staffed by trained and licensed day care professionals.

Day care centers are an attractive childcare option because they provide a stimulating environment for children and typically have several caregivers working at any given time. They also welcome unannounced visits, helping parents feel comfortable with what goes on while they aren't there.

But day care centers are usually closed on holidays and if your child is sick, they won't be allowed in day care so you'll have to take the day off, too. They also have stiff monetary penalties for early drop-off or late pick-up so if something unexpected happens, you'll pay for it.

Family Day Care
Family day care differs from traditional day care in that the caregiver provides care in his or her own home. Since they are run from a residence, they are often located more conveniently than other centers and can be much less expensive, around $300-$400 a month. You should still insist on licensed caregivers. Family day care is often less structured so you'll want to make sure the caregiver's ideas on playtime, feeding, napping and other issues as well as their value system are

a good fit with your own ideas and values. You'll also want to inquire about and possibly run a background check on the other people that live in the home, even if they are not caregivers.

Nannies
While usually the most expensive option, costing $1,500 a month and up, both live-in and daytime nanny and au pair childcare have definite advantages: One-to-one attention, the familiarity and convenience of your own home, a consistent companion for your child. You also don't have to worry about getting your child ready and out to day care before you leave for work. If you pay enough, light housekeeping chores may be included in the deal, too.

Keep in mind that you will be an employer, so legally you are required to withhold money for taxes and pay Social Security, unemployment insurance and any other costs according to your specific state and local laws. Nannies get sick occasionally, so you will either have to find a substitute on short notice or stay home.

Taxes and Parenting

Believe it or not, there is a financial advantage to having a child. You not only gained a loved one, you also gained a dependency exemption you can deduct on your tax return.

Apply for a social security number for your child within a year after his or her birth. That will make the baby "official" in the eyes of the IRS and that's the first step in getting your deduction.

Who is a Dependent?
There are five requirements that a person must meet to be your dependent.

1. This person must be a relative or at least have lived in your home as a family member all year.
2. If the person is married, he or she can't file a joint return. This probably isn't a consideration for a newborn.
3. This person must be a United States citizen, resident alien or a resident of Canada or Mexico.
4. This person must have a gross income of less than $3,000, unless the person is under the age of 19 or a full time student under the age of 24.
5. You must have provided more than 50% of the person's total support for the tax year for which you are taking the deduction.

Tax Credits
Tax credits differ from deductions in that they don't just lower your taxable income, they actually directly lower the tax you owe. So a $1 tax credit will lower the tax you owe by $1.

If you pay for someone to take care of your child, for example day care or a nanny, you may receive a tax credit equal to 20% to 30% (depending on your income) of qualified childcare expense, up to $2,400 for one child or $4,800 for two or more children.

Be sure to keep all payment records, including receipts, for all childcare expenses. You will need them to substantiate your expenses. Nursery school, private kindergarten, after school programs and day care are all qualifying expenses.

Flexible Spending Accounts

Some companies offer their employees flexible spending accounts [from Employer Provided Benefits] as a benefit. These accounts allow employees to have from $2,000 to $5,000 a year deducted from their paychecks pre-tax. This money can be spent on healthcare and childcare for the family.

All of these tax issues have complexities that are not covered here. To find out exactly how you can benefit the most from federal tax laws, as well as the state and local tax laws that apply to you, ask a professional accountant for advice.

Retirement

Plan ahead. There's no better time than right now to plan for your retirement. Saving for retirement often gets put off as we deal with life's more pressing demands – marriage, house, children – but each month you delay cuts significantly into the total savings you have when that day comes. Save early. Save often.

Planning
Unplanned savings is better than no savings at all. But to get the most out of your retirement savings, you should figure out where you want to be and how you're going to get there. Since people are living longer than ever, retirement savings need to last longer and work harder. It's more important than ever to make smart financial decisions.

Decide on Your Strategy
If you are starting your retirement savings early, you can afford to be aggressive and put money into riskier funds. If your fund loses value, you have time to let it grow again. However, if you're getting close to retirement and suddenly your investments lose 40% of their value, it will have a huge negative impact on your financial comfort in retirement.

Options to consider when saving for retirement include:

- Individual Retirement Accounts (IRA)
- 401(k) Plans
- Annuities

Individual Retirement Account (IRA)

An IRA is a retirement account that allows you to save up to a certain amount of money in a tax-deferred account. The annual contribution limit is set by the Federal government, and in 2010 is $5000 for individuals under the age of 50 and $6000 for those who turn 50 by the end of the year. The main benefit of an IRA is that you get a tax deduction for your contributions, so the tax on this money is deferred until you withdraw it from your IRA account. Since your income will probably be lower when you retire, you likely will pay a lower overall tax on this money.

To put this in practical terms, if you save $1,000 in an IRA, and you are in the 32% tax bracket, you will save $320 on your current taxes. The tax on that income is deferred until you take the money out of the account. But since you will be retired then, your tax bracket may have decreased to 25%. So when, at age 65, you take the money out of the IRA account, you will only pay $250 in tax. While $70 of savings doesn't seem like much, you are likely to have saved much more than $1,000 by the time you retire. If you save $100,000, your savings will be $7,000!

Another potential advantage of an IRA is that you have the freedom to choose which investments you would like to make with your money. One restriction with an IRA is that you must begin taking withdrawals from your IRA by age 70 and a half.

Roth IRA
If your household income is less than $$167,000, or $105,000 if you are single, you may want to contribute to a Roth IRA instead of a traditional IRA. While contributions to a traditional IRA are tax deferred, you get no current tax deductions for money put into a Roth IRA. But your money grows tax-free in a Roth IRA, so when you take out funds from the IRA, you are not taxed on that money or the interest it has earned.

Another difference between a traditional IRA and a Roth IRA is that a Roth IRA does not require you to withdraw funds from your IRA at age 70 ½. If you are employed, you can even continue to contribute money into that account.

401(k) Plans
A 401(k) plan is a great tool to start saving for retirement. It allows you to take money out of your paycheck before taxes and put it into an investment account. You are not taxed on this money until you take it out of the 401(k) account, hopefully when you retire and are in a lower tax bracket.

Your employer may also provide matching funds, up to a certain percent of your income. The money your employer contributes to your 401(k) account is not automatically yours. You have to be "vested." To be vested, you have to stay with the company for a certain length of time according to the schedule your employer determines. After that time, any money your employer contributes to your 401(k) money is yours.

One more important fact about 401(k) funds - if you decide to withdraw your money before you retire, you will pay a 10% penalty to the IRS and be taxed on that money. So only withdraw money from a 401(k) as a last resort! Your employer may allow you to borrow money from your account, without penalty. You will, however, pay interest on the loan. But the interest goes right back into your account so you don't actually lose any money in borrowing. Borrowing will slow down your investment growth.

More about 401(k) plans.

Self-Employment
Self-employment offers special challenges but also special advantages in saving for retirement. A Keogh plan is a tax-deferred retirement plan, similar to a 401(k), except that it is geared toward self-employed individuals. If you are self-employed, you can contribute up to $49,000 per year to a Keogh plan.

There are two different Keogh plans to choose from: a profit sharing plan, with a variable contribution rate and the availability of in-service withdrawals, or a money purchase plan, with a fixed annual contribution rate.

Self-employed people may choose instead to set up a Simplified Employee Pension, also known as a SEP-IRA, to which they can contribute 25% of their income, up to $49,000 a year. The SEP-IRA does not require special paperwork and annual filings, and so it is a less cumbersome alternative. Also available to small-business employers with employees are SIMPLE plans and SIMPLE 401(k) plans. Check with your tax adviser to see which type of plan would be best for you and your business.

Annuities

Annuities are financial contracts with an insurance company that provide a regular income at retirement. A deferred annuity allows you to contribute money now for use later. You are not allowed to touch this money until you reach the age of 59 ½. When you reach retirement age, the money you have built up in your annuity will provide you regular income payments throughout your retirement.

An immediate annuity skips the step of making regular payments into an annuity fund. If you have a large sum of money, you can invest this in an annuity and receive regular payments throughout retirement.

There are no limits on how much you can contribute to an annuity. Unlike retirement accounts, the money you contribute is not tax-deductible, but the earnings on the funds are tax-deferred until you withdraw them.

Whole Life Insurance
Whole life insurance is different from term life insurance in that it's an investment. With every premium you pay, you are creating cash value in the policy. Whole life insurance can be considered a retirement investment because you can withdraw money from this account when you retire. If you cash in the policy, you'll pay tax on the difference between what you receive and the premiums you've paid. If you borrow against the cash value of the policy, you won't be taxed on what you borrow, but you'll have to pay interest at a fixed rate on the loan.

Social Security

The United States Social Security Program, started in 1935, is meant to provide supplemental support for retired or disabled persons in the United States.

How It Works
Unless you were employed by an agency that opted out of the Social Security system, every paycheck you've earned throughout your life has had Social Security tax taken out of it. This money isn't reserved for you when you retire. It's put into a large fund from which current Social Security benefits are paid. But your tax isn't being taken in vain. You receive Social Security credit for your tax. You need to have been employed for at least 40 quarters under Social Security to be eligible for Social Security benefits when you retire.

Social Security Updates
All workers who are over the age of 25 who are not yet receiving Social Security benefits receive yearly statements from the Social Security Administration. These statements contain your earnings over the years as well as estimates for your Social Security retirement, disability and survivor's benefits. Check these statements carefully to make sure you are getting credit for all of your earnings. Errors could affect your benefits.

When You Are Eligible
The soonest you can receive Social Security retirement benefits is at age 62. But if you delay receiving benefits until a few years later, your benefit amount will be greater. This decision should be based on your financial position - do you need the money or can you wait until your benefits reach their full potential? No matter when you choose to start collecting benefits, you must sign up three months in advance of when you actually want to receive your first check.

The Social Security Crisis
One in six Americans now collects Social Security benefits. That's more than 45 million people. For now, there is more money going into the Social Security fund than is being paid out. But as the baby boomer population gets older, there will be many more people eligible for Social Security benefits. The money going into the fund will not be enough to cover all the benefits being paid out.

Medicare and Medicaid

Medicare is government-provided health and hospitalization insurance for people age 65 and older and those under 65 with certain disabilities. Some portions of Medicare are free and others cost money, with premiums typically deducted from your Social Security benefit checks. Medicare tax is deducted from workers' wages.

It's advisable to enroll in Medicare during your initial enrollment period, which or most people is the seven-month period that begins three months before the month they turn 65. If you miss that window, you may enroll during the general enrollment period between January 1 and March 31 each year, although your coverage won't begin until July 1, and you will likely be charged higher premiums and a late-enrollment penalty.

Note: If you are covered under a group health plan based on current employment (yours or your spouse's), you will have an 8-monthy special enrollment period in which to sign up for Medicare Part A and/or Part B that starts the month after employment ends or after the group plan is terminated, whichever comes first. Usually, you don't pay a late enrollment penalty if you sign up during a special enrollment period. Also note: COBRA and retiree health plans aren't considered coverage based on current employment, so you wouldn't be eligible for a special enrollment period when either of those types of coverage ends.

There are four types of Medicare coverage available.

1. Medicare Part A – Hospital Insurance
Most people age 65 or older are eligible for free Medicare Part A for hospitalization and emergencies, provided they or their spouse have paid FICA taxes for at least 40 calendar quarters. Those who don't qualify for no-cost Part A hospital insurance may be able to get it by paying a small monthly premium. Part A insurance covers many hospitalization costs, some stays in skilled nursing facilities following a hospital stay, and many home health care and hospice care expenses. (Hospice care provides a more comfort-based approach for people facing terminal illness, preferring support, therapy and pain-killing drugs to surgery, hospitalization and traditional medicine.) If you collect Social Security, Railroad Retirement Board benefits or disability benefits, or you have certain diseases, you will automatically get Medicare Parts A and B.

2. Medicare Part B – Doctor, Outpatient and Clinical Services
Medicare Part B covers medically necessary services – any services or supplies you need to diagnose or treat a medical condition; and preventative services, including procedures to prevent illness or detect it at an early stage. Be aware that not all doctors accept Medicare, so it's important to check with your doctor before you receive services. Part B is optional and has a monthly premium, which is based on income and other factors.

Most people are automatically enrolled in Part B at the same time they begin Part A coverage. To opt out, follow the instructions that accompanied your Medicare card, which is mailed about three months before your 65th birthday. Before you opt out, however, weigh that decision carefully because there's often a sizeable penalty if you decide to enroll later on – that is, unless you're currently covered by an employer's plan, in which case you can later enroll without penalty.

3. Medicare Part C – Medicare Advantage Plan
Medicare Part C plans provide an alternative to traditional Part A and B coverage. They are offered by private, Medicare-approved companies. To be eligible for Part C coverage, you must already have both Medicare Parts A and B. Medicare Advantage Plans also often include drug coverage (Part D).

Some of the most common types of Medicare Advantage Plans are: Health Maintenance Organization plans (HMOs), Preferred Provider Organization plans (PPOs), Private Fee-for-Service plans (PFFSs) and Special Needs Plans (SNPs). Part C may also include vision, hearing, dental and other services. Plan C monthly premiums may be higher than for normal Part B coverage, but they usually have lower out-of-pocket costs (such as lower deductibles and copayments). However, you're usually required to use the plan's provider network, which may be more restrictive than providers you could access through regular Parts A and B. Since each plan differs in terms of cost and coverage, it's important to research the costs and rules of service before enrollment. Note that rules and benefits may also change from year to year.

4. Medicare Part D – Prescription Coverage
Medicare Plan D is optional and carries a monthly premium. Coverage is provided by an insurance or other private company that has been approved by Medicare. Plans vary

widely in terms of cost, copayments, deductibles and medications covered. To gain this type of coverage, you must have Part A and/or Part B Medicare insurance. There may be dozens of plans available to you, depending on where you live. For help finding the options available in your area, click here. (https://www.medicare.gov/find-a-plan/questions/home.aspx. As with Medicare Part B, you may be charged a late-enrollment penalty if you don't sign up when first eligible and later decide to enroll. Also, if you're in a Part C plan that includes drug coverage, you don't need to buy Part D.

Medigap

Medigap, also called Medicare Supplement Insurance, is private health insurance that is designed to supplement original Medicare benefits. It differs from Medicare Advantage Plans in that it is not a way to get Medicare benefits, but rather, to fill in the gaps in your Medicare coverage.

Some employers and unions offer Medigap coverage to their retirees. Medigap plans can vary widely in terms of cost, covered benefits and states participating so compare your options carefully. Note that Medigap policies do not pay for Medicare Advantage plan deductibles and copayments, so if you want to join an Advantage plan, you may want to cancel your Medigap coverage. Also, if you already have a Medicare Advantage plan, it's illegal for anyone to sell you Medigap insurance unless you are switching back to original Medicare Part A and B coverage.

Understanding and choosing the right Medicare options for your individual situation can be a complicated and time-consuming process. For assistance, call 1-800-633-4227 or visit www.medicare.gov, where you'll find:

- Helpful publications, including "Medicare & You," a highly detailed guide that explains Medicare in easy-to-understand language.
- Tools to compare prescription drug plans, hospitals, nursing homes, home health agencies and Medigap plans in your area
- A resource to find local doctors and other health practitioners who participate in Medicare
- Services covered by various Medicare plans
- Enrollment instructions

Medicaid

Medicaid is a joint state and federal program that assists with the medical costs of some people with limited incomes who meet certain eligibility requirements. To find out about the requirements and how to apply for Medicaid in your state, click here.

Elder Care

Caring for the elderly is a challenge and can be overwhelming if not given proper consideration. Factors to consider include the choice between professional and home care, as well as a number of financial and legal issues.

Long-Term Care
For those who can no longer take care of themselves, long-term care is a broad term for many different options including nursing homes and in-home care. Long-term care can be incredibly expensive - $40,000 per year or more. Prescription drugs, legal fees and other costs can creep up quickly as well. But insurance premiums can also be fairly expensive - up to $6,000 per year. Decide what type of care you want, find out the uninsured cost for it and compare it to the insurance premium that would cover it. This will help you determine what coverage is right for you.

Long-term care usually consists of some combination of skilled care, intermediate care and custodial care. Skilled care is the most expensive service involving round-the-clock care by a registered nurse under the close supervision of a physician. Intermediate care is less intense and includes occasional nursing and rehabilitative care under the supervision of medical personnel. Custodial care is home care. It provides for the basic, non-medical needs of a patient such as cooking, bathing and other day-to-day needs.

Selecting An Insurance Provider
Long-term care insurance is becoming increasingly popular as a way of easing the financial strain that long-term care can impose. Shopping around for long-term care insurance is important because all policies are different and you will need to find a policy that will fit your particular needs and budget.

With the wide variety of services that are available, choosing the right insurance provider can be difficult. There are a few questions, however, that will help you decide.

- How are the benefits paid? Are they sent directly to the provider or do you have to pay the charges and receive reimbursement?
- Who determines if the patient needs home health or nursing home care?
- What level of care does the policy provide?
- What is the waiting period from when the service begins to when benefits are paid?
- Does the policy cover Alzheimer's disease and related disorders?

The Legalities of Elder Care
When you assume care of an elderly relative, there are many legal documents and formalities that may need to be completed. These should be taken care of as soon as possible and, if the

person you are taking into your care can help you, it will make the process go more smoothly. Keep in mind that when someone completes these documents, they are, in fact, giving up some control of their own lives. Only a very close friend or family member with no conflicting motives should be given these powers.

- **Letter of Instruction** A letter of instruction provides important information and instructions a caretaker may need. It includes the contact information for close family and friends, a list of assets and liabilities, a list of insurance policies and information on all financial accounts.
- **Will** A will designates who will receive major assets after a person dies. It also includes guardianship of any children under the age of 18. Smaller items such as heirlooms, furniture and other household goods, should be addressed in a separate testamentary letter. This letter should be referenced in the will.
- **Powers of Attorney** If the people under your care are unable to make decisions for themselves because they are somehow incapacitated, you will need to have power of attorney to make these decisions for them. Of course, they will need to create powers of attorney before they are actually needed. There are two main types of powers of attorney:
    - A durable power of attorney gives a person, or people, authority to manage finances and other legal affairs if the person needing care is not capable of managing these. It can be long-term or short-term and allows the party that has power of attorney to use money to provide care, sign tax returns, handle investments and other important matters.
    - A healthcare power of attorney allows the person designated to make healthcare decisions if the person being cared for is unable to make these himself or herself. For example, someone holding power of attorney may be able to decide against dangerous surgery if he or she feels that is in the patient's best interest.
- **Living Will** A living will is a clear statement about wishes regarding artificial life support. If a person's brain is dead yet the body remains functioning only with the help of life support, a living will directs attendants in what choice to make - to keep the machines functioning or turn them off.

Financing Elder Care

Elder care can be an expensive undertaking and you should plan for it financially in order to avoid unnecessary tax burdens.

Assess the annual income of the person you will be caring for, including pensions and Social Security benefits. Subtract this income from $40,000 to find out approximately how much of annual elder care costs will need to be met from other sources. Then add up the person's investments and savings. Divide this number by the annual elder care costs that must be met from other sources to get a rough estimate of how many years of care this money will provide.

Gifts
As of 2011, you are allowed to give someone up to $13,000 a year without having to file a gift tax return. If you are married, you and your spouse together can give a $26,000 gift. Medical

expenses you pay on someone's behalf do not count as a gift, however, and you can give the full amount we have discussed in addition to paying those medical expenses. You should check with an accountant or financial adviser for specific requirements.

Tax Deductions
If you provide more than 50% of the financial support for someone, including one for whom you are providing care, you may count that person as a dependent on your tax return as long as his or her income is under $3,700 a year. You can also claim as a deduction any of that person's medical expenses that you have paid.

Reverse Annuity Mortgage
If an elderly person has a home with no (or a low) mortgage, he or she may borrow against the home through a reverse annuity mortgage. The lender pays the homeowner a monthly payment based on the value of the home. These payments reduce the equity of the home. The bank is then repaid, with interest, when the home is sold.

Personal vs. Professional Care

The choice between personal care and professional care can be very difficult. The time and responsibility involved with providing care yourself can be overwhelming. But the familiarity, comfort and personal interaction with someone close can be invaluable for an aging dependent. Professional care provides much more comprehensive service and won't require you to give up as much of your life. But professional care is a large financial burden and doesn't offer the same familiarity and trust between patient and caregiver.

Case Manager
A case manager can help you make decisions concerning what type of care is right for your financial, emotional and medical situation. The case manager is a referral service that, for an hourly fee, will help you develop a care plan. They can also manage the financial affairs of elder care, paying medical bills and insurance premiums, filing tax returns and other financial organization.

Personal Care
If the person in your care is in fairly good health and would feel more comfortable at home, personal care may be the right option for you. There are some support organizations available to make this task easier to handle.

Local support groups can help provide services such as home maintenance, adult day care centers, senior social centers, friend and pet visitation and meal delivery. Your employer may offer elder care benefits as a part of its total benefits package. Ask your Human Resource Manager about the availability of elder care benefits at your place of employment.

To help cope with the emotional strain home care can produce, seek a support group in your area. Often support groups can send a volunteer to give you a break from your care duties. They may also offer counseling or just someone to listen when you need to talk.

Nursing Homes

If the person under your care is unable to perform daily functions and needs more intense care, a nursing home may be a better option. But choosing a nursing home can be a difficult decision. First, prices average $40,000 a year. But cost isn't the most important issue. You want to get the highest quality care you can afford. State certification is an important qualification for a nursing home. Certification is based on level of training, health code compliance, and safety. Most insurance companies won't pay for services rendered at uncertified facilities.

Beyond monetary and regulatory aspects, how can you judge the quality of care a nursing home gives? Start by touring the facilities. Is maintenance a high priority? If the staff isn't attentive to taking care of the grounds and maintenance, they may not be attentive to the residents either. Look into the rooms to check for neatness, overcrowding, cleanliness and comfort. Does the building have an overall uplifting feeling to it?

Talk to some of the current residents of the nursing home to see what life there is really like. Most residents will have some complaints, but if all the residents you talk to have similar complaints, there might be a problem.

The staff members will have the biggest impact on the happiness of the residents, so make sure you interact with them. Are they energetic, interested and compassionate? How quickly do they respond to patient needs? Do they complain about their jobs?

Retirement Communities

Retirement communities offer more independence than a nursing home but still provide the care needed. The downside to a retirement home is the high price tag.

Congregate Care Housing

Between in-home care and a nursing home, congregate care housing allows residents to live in their own home while providing home maintenance and cleaning as well as group meals. There is a staff to look after residents and make sure they are getting the care they need.

Not A One-Time Decision

The most important thing to remember if you have a relative or friend living in a nursing home is to stay interested and involved in his or her life. Visit frequently. Get to know the people that are regular care givers. Be attentive to changes in behavior, habits or mood. If you think there may be a problem, talk to a supervisor or facility director. Keep a journal of any problems you encounter and the steps taken to solve the problems.

Handling the Unexpected

There's nothing harder to plan for than unexpected events that impact your life and finances. Yet loss of a job, the death of a loved one, illness or other unexpected occurrences happen at one point or another in most of our lives. The key to successfully surviving these life-changing events from a financial perspective is to anticipate hard times. Shore up your financial situation before you are hit with an unexpected expense, so you will be covered in the event something happens.

The Importance of an Emergency Fund
Because we cannot predict when life will throw us an unexpected challenge, it is important for everyone to build and maintain an emergency fund with three to six months' worth of living expenses. The key to building an emergency fund is to set money aside every month, no matter how small the amount.

Financial experts recommend that, unlike retirement funds, emergency savings should be kept fairly liquid, in a savings account or a money market fund. Hopefully you will never need it. But if you do, you'll be glad it's there.

A New Financial Picture
Once the immediate financial matters are taken care of after an unexpected life event, it will be time to take stock of your new financial situation and create a plan for yourself moving forward. Whether you have faced job loss, divorce, illness or another event, you should create a new budget reflecting your situation. This is the first step toward financial security and rebuilding your emergency fund, which you may have tapped into to manage a financial crisis.

To develop a budget, write down your current expenses, indicating whether each expense is a necessity or a luxury. Pulling out recent credit card bills and bank statements can help with this process. Next, estimate your monthly income, including only income that you are certain you will receive. Then compare your income to expenses. If your expenses are higher, you will need to trim your expenses until your income is higher than your expenditures.

Loss of a Job

A job, as the source of income, holds a very important place in most people's lives. It represents your family's comfort and security, and provides you with a sense of self-esteem. The loss of that job, and the income it provides, can throw lives into chaos.

First Steps
Negotiate the best severance package you can from your former employer. If it was a layoff or

amicable departure, get letters of reference from those you worked with, especially supervisors. Also, get documentation of projects you worked on that will highlight your skills to a potential employer.

Deal with the emotions. You may feel angry or bitter. Let those emotions flow but don't dwell on them. Harboring those kinds of emotions can take valuable energy from finding a new job.

Go to the unemployment office right away. Receive your entitled benefits until you get back on your feet. There used to be a stigma attached to being unemployed and, as a result, receiving an unemployment check. But as the economy shifts, more and more people are finding themselves out of work for a period of time and unemployment is becoming an expected stage of life.

Find compatriots. One of the hardest parts of losing a job is losing the day-to-day interaction with coworkers. If your former employer let several of you go at once, try to meet up with those people for lunch once in a while. They can understand some of what you're going through. And it will take away some of the loneliness that can accompany unemployment.

Temp Work
If finding a permanent job in your field looks like it might take a while, consider applying to a temp agency. Employers ask them for workers. They provide your services for an hourly rate. Then they pay you - obviously not as much as they received for your services. The employer benefits from reduced recruitment and screening costs and the temp agency benefits from charging high prices for your services.

So what are the benefits for you?

- **Quick Money** Often you can collect a paycheck after only one week of work. If you're in need of some fairly quick cash, temping isn't a bad way to go.
- **Flexibility** You can work this week and not the next. Or if you need to work nights to leave your days free for interviews, a temp agency can accommodate your schedule.
- **Interaction** Having a job, even temporarily, will get you out of the house and interacting with real people. It relieves the "cabin fever" that results from staying in the house every day with no place to go.
- **Experience** Temp work allows you to work in a variety of jobs, though often not in very skilled roles. But having the exposure to a variety of industries can be a positive asset for future employment.
- **Permanent Employment** Often if you are performing well at a temporary job, they may offer you "permanent" employment. (Although no employment is permanent it seems.)
- **Actual Benefits** Some temp agencies, if you work for them long enough, do offer benefits such as health insurance, paid holidays and vacation time.

OK, you know there have to be some disadvantages. Here they are:

- **Undesirable Jobs** Some companies hire temp workers to do jobs that their full-time employees don't want to do. But most times they hire temp workers to perform jobs that won't last long.

- **Sporadic and Undependable Schedule** One week you're working, another you're not. It's hard to get solid financial footing when you never know if and how much you will be paid.
- **Looking For A New Job** One of the best ways to deal with unemployment is to find a new job! But easier said than done. There are four main sources of job leads:

Classified Listings
Start getting the Sunday paper every week, or look at the classifieds on the newspaper's Internet site. Look through all the classified listings, not just where you think your type of job would be listed. You can get some great ideas on different positions that may utilize your skill set. Also, look through trade magazines that relate to your industry. Some employers will advertise in industry publications to reach a more targeted audience.

Headhunters
Pay someone to find you a job! Since they don't actually get paid until they find you a job, they have a large incentive to search.

The Internet
There are many Web sites with large job boards on which employers advertise open positions. Also, check the Web sites of companies in your field. They often have a page devoted to openings in the company.

Networking
It's not what you know; it's whom you know. Attend industry events. Put the word out on the street. Get your name in front of as many people as you can. You never know who has a friend who's looking to hire someone just like you.

Disability

Humans are amazingly adaptive. But sometimes it takes a long time to recover from unexpected circumstances. Car crashes. Heart attacks. Random acts of violence. Back injuries. Cancer. These can have long lasting impacts on our ability to perform our jobs and earn money.

Your employer may offer sick time and a few weeks of short-term disability. But what if you still can't work after that? Half of all mortgage foreclosures are the result of long-term injuries or illness.

You can protect yourself from the financial effects of these situations with long-term disability insurance. Most people have car insurance, yet 60% of working adults in this country don't have coverage to protect their most valuable asset - the ability to earn a living.

Are You Covered?
Check with your employer, you may already have long-term disability coverage. Many employees do and don't even know it. If you do, make sure you know how well you're covered. You don't want to wait until you really need the benefits to discover gaps in the coverage.

Does your benefit calculation include Social Security payments? Your policy may assume you will get Social Security disability payments in determining how much to pay out in case of a claim. But Social Security will pay benefits only if your disability will last more than 12 months or lead to death. There is a waiting period of five months before you qualify, and then another month before you receive benefits. So even if you have short-term disability coverage for the first 12 weeks, there will be several months of potential unpaid time.

Social Security disability covers you only if you are unable to perform ANY job, not just your current job. So even if you are used to sitting behind a computer or talking on the phone all day, the government will expect you to take any job you can get. Think of some of the jobs out there you might be expected to take! They may be much more physically demanding or lower paying that what you are accustomed to.

Your Policy
Policies vary considerably from one to another. Make sure you know how well you are covered so that you can prepare around your policy. If your benefits are not great, you should save up more in your emergency fund.

- **Benefit Amount** Disability insurance pays only 60% of your current income. It's designed to be enough to cover your base expenses without offering incentive for people to abuse the system. If your employer pays your premiums as an employee benefit, the disability payments you receive will be taxable. If you pay your own premiums, your disability payments will be tax-free.
- **Term of Benefits** Check for how long your benefits will be paid. Some policies will cover you for only two years. Others provide lifelong benefits. Most policies are somewhere in between. You can lower your premiums by reducing the term of your benefits.
- **Premium** The amount you (or your employer) will pay for your coverage depends on so many variables that it's impossible to list them all here. But some of the main factors are your age, your gender (on average, women live longer - longer benefit payments mean higher premiums), your job (how dangerous is it?), your income (how much will they have to pay out?), your medical history and your lifestyle.
- **Non-Cancelable** If your policy is non-cancelable, you're in luck. Once you have been approved, they can't cancel your policy or raise your rates unless they stop covering your entire job class.
- **Guaranteed Renewable** Not quite as good as non-cancelable, they can't cancel your policy (again, unless they stop covering your entire job class), but they can raise your rates.
- **Own Occupation** This is an important designation on your policy that determines what it means to be disabled. "Own occupation" means that you're disabled when you're unable to perform your current job. "Any occupation" means that you're disabled when you can't perform any job. Obviously "own occupation" is preferable but it's also more expensive.
- **Elimination Period** The elimination period is how long you'll wait after you are disabled to start receiving benefits. All policies have at least a 30-day waiting period before they start paying you benefits. Otherwise, if you missed one day from work, they would have to pay you for that day. But other policies will wait even longer to start paying - 60, 90 or

even 120 days. The longer the elimination period, the lower the premium. To determine how long an elimination period you should get, figure out how long you could go without earning income. If you've saved up three months of expenses, take a 60-day elimination period (Benefits won't start until after you've been disabled for a month. Add a 60-day elimination period and you're at three months.) If you have a claim, file it as soon as possible. That will start the elimination period and start your benefits faster.

- **Residual Benefits** Some policies will offer lower amounts for less than complete disability. The wording of the policy can sound very morbid - 20% for loss of an eye, 40% for loss of a limb and an eye, etc.

Death of a Spouse

The death of a spouse can be devastating. Sudden losses can be even harder. If your spouse managed the majority of the financial responsibilities, even just paying bills can seem overwhelming. But you can work your way through it. It is manageable.

Try not to make any long-term decisions right away. Take your time. Emotional times are not the best times to make decisions.

Paperwork
Gathering the proper paperwork is the first step in settling your spouse's affairs. Start with the following:

- **Death Certificate** The death certificate will be needed for many financial procedures you will encounter. You should request several copies from the funeral director or county health department.
- **Insurance Policies** These will help you determine benefits you are entitled to.
- **Marriage Certificate** If you can't find your marriage certificate, you can usually get a copy from the courthouse of the county you were married in.
- **Birth Certificates for Dependent Children.**
- **Certificate of Discharge** from the Military If your spouse was in the military, you may need his or her certificate of discharge to collect benefits.
- **The Deceased's Will**
- **Complete List of all Property**

Many of the documents you need may be held in a safe deposit box. If you can open this safe deposit box before your spouse's death, take out all the contents of the box. Some states seal the boxes after a death, even if the box is registered in both your names. If your spouse has already died and the box is sealed, consult your attorney about getting court permission to access the box.

Get Your Finances In Order
If you receive a life insurance benefit, save that money. Put it in an interest-bearing account such as a savings account or money market fund. But keep it liquid. You may need it.

Make sure you have health insurance. Call your spouse's company to see if you're still covered and for how long. If you're not, get medical insurance right away.

Use the paperwork you gathered to claim the following:

- **Life Insurance Benefits** Most likely, the company will pay the proceeds directly to the named beneficiary in either lump sum, fixed payments or as interest payments on a larger amount. It may take several weeks for you to receive payments. If your spouse is named as your beneficiary on your life insurance policy or retirement plans, you should take this time to name another beneficiary.
- **Social Security** Widows are eligible for a $255 death payment designed to help pay for funeral costs. You may also be eligible for survivor's benefits, depending on your age and if you have any dependent children.
- **Employee Benefits** Your spouse may have had life insurance, a 401(k) plan, vacation or sick pay, and other benefits to which you're entitled. Contact the human resources director at your spouse's workplace for a list of benefits. If your spouse was employed by a large company, you will still be eligible for health insurance under COBRA legislation for 18 months after your spouse's death.
- **Veterans' Benefits** If your spouse served in the military, contact Veterans Affairs. You may be eligible for burial expenses, money toward a plot or headstone, as well as disability benefits if your spouse already was receiving such payments. Veterans are also eligible for free burial in a national cemetery.
- **Miscellaneous Benefits** If your spouse belonged to a credit union, a labor union, the American Legion, a college alumni group, or other organizations, you may be eligible for insurance coverage or assistance programs.

Taxes
This is just a brief introduction to some of the tax issues facing you. Taxes can be quite complicated and you should consult a professional tax advisor for more help.

Within nine months, you are required to file an estate tax return if the assets of the estate exceed the threshold for taxability. Your spouse's estate will not be subject to estate taxes if its net worth is less than the current exclusion amount for the year of death.. That threshold will rise each year until the complete repeal of the estate tax in 2010. Taxes, which can be as high as 50 percent, must be paid on any amount above the threshold amount. You also are required to file annual income tax returns reporting any income earned by the estate.

The Unlimited Marital Deduction allows you to avoid estate tax completely if your spouse has left everything to you in his or her will and you are a U.S. citizen.

You must file a final federal and state income tax return for your spouse on income earned that year up to the date of death. As with your return, this is due by April 15th. You can file a joint return as long as you do not remarry prior to the end of the year he or she died. If you have a child still at home, you can use the joint tax rates to figure your income taxes for two additional years.

Some Smaller Details

Review your will and make adjustments to reflect your new situation. You'll probably need to change who will inherit your assets and you may need to decide on a new executor. Change accounts and jointly held property into your name including credit cards, deeds, etc. You do not need to go through the process of applying for new, individual credit card accounts.