

Money 2000 News



Volume 2, Number 2

Spring 1997

Dear Friend of Money 2000:

For some of you, this is your first *MONEY 2000 News* newsletter. If this is the case, welcome to the MONEY 2000 program! For others, who started with us back in early 1996, this is issue number 6. By now, many of you who enrolled last year have started increasing your savings and/or reducing your debt load. Congratulations and keep up the good work! As of February 1, participants in 9 counties who completed their first 6-month follow-up survey reported savings and debt reduction totaling \$151,634. Over a quarter million households are receiving MONEY 2000 personal finance information through newspaper articles and the *MONEY 2000 News* newsletter.

Rutgers Cooperative Extension stands ready to assist you with your efforts to improve your finances in a number of ways. Our major outreach methods are listed below:

1. Classes and Club Speaking Engagements—We have a number of classes and speaking engagements on saving money and the wise use of credit. Contact your local Cooperative Extension office for details about upcoming programs in your area.

2. Home Study Course—Our six-part home study course, *Take Control of Your Finances*, is available statewide at a cost of \$8. The course is mailed periodically, an issue at a time, several times a year in each county.

3. State Conference—Our first statewide conference for MONEY 2000 participants will be Saturday, November 8 in New Brunswick. It will feature exhibits, several prominent financial experts, and a selection of workshops. Hold the date and watch for further details.

4. Quarterly Newsletter—This is our main way of keeping in touch regularly with MONEY 2000 participants. If you have suggestions for future articles, or financial questions that you'd like answered by one of Rutgers Cooperative Extensions's several certified financial planners (CFPs), feel free to contact the editor by phone or by e-mail at oneill@aesop.rutgers.edu.

5. PowerPay Debt Reduction Software Analysis—This program, which will soon be available statewide, provides our clients with a printout describing the fastest way to repay existing debts and a calendar of monthly payments. It is currently available in Sussex, Morris, Warren, and Burlington counties. For additional information about obtaining a PowerPay analysis, contact your local Rutgers Cooperative Extension office.

6. Personal Finance Fact Sheets—Dozens of fact sheets are available on financial planning topics, including two new ones developed especially for MONEY 2000: "So Where

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Where Am I Going to Find \$2,000 to Save?

Rutgers Cooperative Extension is encouraging New Jerseyans to save or reduce debt by \$2,000 by the year 2000. Where is the money going to come from? Below are a dozen ideas:

1. Refinance Your Mortgage—Consider doing this if you plan to stay put long enough to recoup the cost. For example, a no-points refinance costs about \$1,000. Trading a 8.75%, \$100,000, 30-year mortgage for a new loan charging only 7.75% would save \$70 per month (\$840 annually) and pay for itself in just 14 months.

2. Get a Cheaper Credit Card—Call RAM Research (800-344-7714)

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Topics Covered

- Where Am I Going to Find \$2000 to Save?
- How is Your Financial Health?
- Risk-Proof Your Savings
- So Where Do I Put That \$2000?
- Financial Resources Only a Phone Call Away
- Many Factors Determine Home Affordability
- Don't Forget to Fund Your IRA

How is Your Financial Health?

Many people call Rutgers Cooperative Extension to see “how they’re doing” financially. Perhaps they’ve just read an article about personal finance or they’ve talked to friends or family members and “compared notes” about money management. In 1984, IDS/American Express developed the following quiz to “Test Your Financial Health.” Answer each question and check the scoring description at the end to determine how well you’ve planned your financial future so far. Questions where points are missing or subtracted indicate areas needing improvement.

1. If you have 3 times your gross monthly income in a readily accessible account, give yourself 10 points. _____

2. If your savings is currently earning a market rate yield, give yourself 5 points. _____
3. If you earn interest on a checking account, give yourself 5 points. _____
4. If the last time you received a salary increase, you also increased your regular savings, add 10 points. _____
5. If you (and your spouse, if married) have laid out specific financial goals (such as a new home or college education for children) and when you want to achieve them, add 5 points. _____
6. If you review those goals at least once a year and measure your progress against them, add 10 points. _____
7. If you have a savings or investment account for long term goals (other than a pension plan), add 10 points. _____
8. If you have added to and not withdrawn any money from this account for the past 2 years, add 15 points. _____
9. If this account is spread across more than one type of investment, add 5 points. _____
10. If you are married and do not have life insurance coverage equal to at least three times your annual salary, subtract 10 points. _____
11. If you do not have a long term disability insurance policy that will pay at least 60% of

your annual salary, subtract 10 points. _____

12. If you are over 30 years old and have no personal retirement fund to which you contribute regularly, subtract 10 points. _____
13. If you have a current will, add 10 points. _____
14. If you know your marginal federal tax bracket, add 5 points. _____
15. If you know your net worth, add 5 points. _____

Scoring:

Up to 25: You’re a financial novice but don’t despair. It’s never too late (or too early) to begin financial planning.

30-50: Fair. You’ve taken some steps in the right direction, so keep up the good work.

55-85: Good. You’re above average in planning for your financial future.

90-100: Excellent. You are now ready for more sophisticated financial planning such as estate conservation, tax planning, etc.

For additional financial information, contact Rutgers Cooperative Extension. Our services to county residents include classes, home study courses, free fact sheets and newsletters, speaking engagements for organizations, telephone and in-person consultations, and low-cost computer analyses. \$

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Money 2000 News

is a quarterly newsletter sent to persons enrolled in the Money 2000 program sponsored by Rutgers Cooperative Extension. Money 2000 and all Rutgers Cooperative Extension educational programs are offered without regard to race, sex, age, handicap or disability, color, or national origin.

The information in this newsletter is for educational purposes only. References to investment products do not imply endorsement. For specific advice, see your financial or legal advisor.

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Barbara M. O'Neill, Ph.D., CFP, AFC, CHC,
CFCS, Editor
Patricia Q. Brennan, CFP, AFC, CHC, CFCS

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Communications and Public Affairs

Please send any queries to:
Rutgers Cooperative Extension of
Sussex County
3 High St., First Floor
Newton, N.J. 07860
201-579-0985
oneill@aesop.rutgers.edu

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Risk-Proof Your Savings

Attempting to figure the direction of interest rates and then, in turn, make short-term saving and investment decisions is very tricky business at best. You have a 50-50 chance of guessing the direction and the timing of the move. Those are not very good odds for making intelligent investment decisions. In short, it's a risk you may not be able to afford.

Suppose last year you had all of your savings languishing in a bank account earning a skimpy three percent return just waiting for the Federal Reserve to bump up interest rates. One year later the money would still be sitting there.. However, if you thought interest rates had topped out and you invested your savings in 5-year Treasury notes and CDS, you'd be happy now. But should the Federal Reserve decide to raise rates again, your money would be locked in and you would have to accept the lower rate of return for the next five years.

What should you do? There's a better way to invest in today's uncertain market, given the trade-off between risk and yield. The best bond or CD strategy is to "ladder" your investments. This means buying bonds in different maturities (e.g., 6-month, one-year, two-year, three-year, five-year). An illustration follows showing how to allocate \$5,000 into CDs:

\$1,000 into a 6-month CD

\$1,000 into a 1-year CD

\$1,000 into a 2-year CD

\$ 1,000 into a 3-year CD

\$1,000 into a 5-year CD

If you had \$10,000 to invest, put \$2,000 in each denomination.

If you had a larger amount of cash to invest, say \$30-40,000, in fixed income vehicles, you might choose Treasuries instead:

\$10,000 into a 26-week Treasury bill

\$10,000 into a 1-year Treasury bill

\$10,000 into a 2-year Treasury note

\$10,000 into a 5-year Treasury note

With this strategy you've always got money coming due. If interest rates rise, you've got money maturing in the short term to reinvest at a higher rate. If rates should go down, then you have got the longer-term yield locked in.

This strategy may not be perfect, but it is the safest for fixed income investments. Some of your money will be subject to lower rates in either case—but not all of it. The main point is that no matter which way interest rates move, some of your money will always be earning the highest rate available. In addition, you'll be able to sleep at night. \$

PQB

So Where Do I Put That \$2,000?

Hundreds of Rutgers Cooperative Extension MONEY 2000 participants are getting richer through a combination of increased savings and/or reduced debt. As people start to accumulate some money, they often wonder where to put it. Listed below are a "baker's dozen" saving and investment ideas:

1. Bank Passbook or Statement Savings Account—You may need \$100 to open a typical bank account, which is a good place for your first \$500 or so. After that, better-yielding alternatives are available.

2. Certificates of Deposit (CDs)—Minimum denominations are often \$250 to \$500. CDs pay a fixed rate of interest for a fixed period of time. Generally, the longer you tie up your money, the more interest you earn.

3. Christmas (Holiday) Clubs—Banks pay little or no interest on "club" accounts and most stopped giving gifts

years ago. Major advantages, however, are reinforcement of systematic savings with weekly coupon books and the ability to save small amounts.

4. Corporate Bonds—These are IOUs issued by a company and typically sell for \$1,000. Investors receive a fixed amount of interest at regular intervals, generally every six months, until the bond matures. Then they get back their principal.

5. DRIP Stocks—Almost 1,000 publicly traded companies allow investors to buy stock directly from the company through dividend reinvestment plans (DRIPs). Minimum investments are very affordable, often just \$100.

6. Employer Retirement Plans—Specific plans are 401(k)s for corporations, 403(b)s for schools and non-profit groups, and Section 457s for county/municipal government.

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Financial Resources Only a Phone Call Away

Did you ever wish you had someone to call for financial information or advice? Actually, quite a few companies, government agencies, and non-profit organizations provide helpful phone numbers and/or internet web sites to assist consumers. Below is a description of some helpful sources of information:

1. Credit Reports—There are three major credit reporting agencies: Experian (formerly TRW), Equifax, and TransUnion. All three, Experian (800-682-7654), Equifax (800-685-1111) and TransUnion (316-636-6100), charge \$8 for a report unless you have been denied credit, insurance, or employment within the past 60 days, based on information in your credit file. Specific information is required with a credit report request. To obtain a credit file request form, contact Rutgers Cooperative Extension of Sussex County (579-0985).

2. Social Security Benefit Estimates—You'll need form SSA-7004, "Request for Earnings and Benefit Estimate Statement." To obtain a copy, call 800-772-1213. The report will include both disability benefits and anticipated retirement benefits at ages 62, 65, and 70.

3. Life Insurance Premiums—Several companies pro-

vide information about the cost of life insurance. Premium quotes can be obtained from Insurance Quote (800-972-1104), Quick Quote (800-867-2404), Quotesmith (800-431-1147) or Term Quote (800-444-8376).

4. Financial Advisors—For the names of local certified financial planners (CFPs), call 800-286-PLAN (7526). This phone number is operated by the Denver-based Institute of Certified Financial Planners, a national profession organization of CFPs. For referrals to fee-only planners who don't take commissions, call 888-FEE-ONLY (333-6659). This hotline is maintained by NAPFA, the professional organization for fee-only financial planners.

5. Treasury Securities—For information and tender forms to buy Treasury bills, notes, and bonds from the Federal Reserve, call 212-720-6619 (New York) or 215-574-6675 (Philadelphia). Rutgers Cooperative Extension (RCE) also has a free fact sheet (#810) on Treasury Securities. To obtain a copy, call your nearest RCE office.

The next time you need financial information, "let your fingers do the walking" with a phone call. Information is readily available and the price is right. \$

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Many Factors Determine Home Affordability

Spring is a time when many homebuyers start looking at houses. For most people, a home is their largest single financial investment. Careful shopping now could save thousands of dollars over time.

To make a realistic home selection, you must determine how much you can afford. Key factors are household income, the cost of a home and property taxes, and other household debt (e.g., student loans, car payments).

Most lenders use the 28/36 rule or some variation of it. This means that the total monthly cost of a new home—principal, interest, taxes, and insurance (PITI)—cannot exceed 28 percent of gross monthly income. In addition, PITI plus all other outstanding debt (e.g., a car loan payment, charge cards), cannot exceed 36 percent of gross pay.

To illustrate the 28/36 rule, assume a dual-income couple earning \$60,000 a year, or \$5,000 per month, is shopping for a home. They would qualify for a loan requiring a \$1,400

monthly payment ($\$5,000 \times .28$) if they had no other debt. If they had a \$500 a month car payment, however, their mortgage would be limited to \$1,300 ($\$5,000 \times .36 = \$1,800 - \$500 = \$1,300$).

Be sure to plan for the cash you will need for a downpayment and closing costs. It is also wise to set aside a "reserve fund" to cover initial expenses such as decorating, lawn care equipment, unanticipated repairs, and higher utility costs. Since utility (heating) costs may differ substantially from what you are currently paying, ask to see the previous owner's heating bills.

Experts advise not planning any major remodeling during the first year of homeownership. Living in a house a while may help you appreciate the existing arrangement. Another concern is finances. If you stretch yourself too far and cannot meet monthly payments, you may be forced to

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Don't Forget to Fund Your IRA

April 15, 1997 is the last day to make your contribution to a 1996 Individual Retirement Account (IRA). The major advantage of IRAs is that contributions and earnings compound tax-deferred until retirement.

Without an IRA, the earnings of an investor saving for retirement are eroded by taxes. Put another way, only part of your money is working for you if you save for retirement outside of a tax-deferred plan. Over time, the difference in earnings between taxable and tax-deferred investments will equal thousands of dollars.

A second advantage, for some IRA investors, is that the \$2,000 annual contribution is tax-deductible. To qualify for a full IRA deduction, households with at least one earner who participates in an employer pension plan must have an adjusted gross income (AGI) less than \$40,000 (\$25,000 for singles). Married couples with AGIs up to \$50,000 (\$35,000 for singles) qualify for a partial deduction. Households with earners lacking an employer retirement plan can earn any amount and obtain a full IRA write-off.

The 1996 IRA Guide, published by Mutual Funds magazine lists the following tips for IRA investors:

1. Start Early—IRAs should start early in life, even in your teens, if you have earned income. The difference between starting in your 20s versus your 40s is hundreds of thousands of dollars.

2. Invest Early—IRA contributions can be made the first business day of every year. Waiting 16½ months later until April 15 of the following year will cost thousands of dollars of foregone earnings.

3. Earn More On Your Money—Over long time periods, no other investment outperforms stock. Between 1926 and 1996, the average annual return of stocks was 10.7%, compared to 5.1% on Treasury bonds, 3.7% on Treasury bills, and an inflation rate that averaged 3.1%.

4. Avoid Tax-Exempt Securities—IRAs are tax-deferred so putting lower-yielding tax-free securities (e.g., municipal bonds) in them, while legal, is unwise. Much better choices are investments that generate interest (e.g., corporate bonds) or capital gains (e.g., growth mutual funds).

5. Ditto For Annuities—Annuities are already tax-deferred so it is generally counterproductive to put them inside an IRA. It's kind of like wearing two raincoats in a shower. \$

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That \$2,000

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Minimum savings can be as little as \$10 per pay period or 1% of salary.

7. Growth and/or Income Mutual Funds—Owning shares gives you an ownership interest in stocks (growth funds), bonds (income funds), or other securities that comprise its portfolio. Many funds accept initial deposits of \$2,000 or less. Subsequent deposits are usually lower (e.g., \$100). Funds that require more than \$2,000 often take less (e.g., \$500) for IRAs.

8. Individual Retirement Accounts (IRAs)—IRAs are not an investment per se but, rather, a place to put products (e.g., CDs, mutual funds) selected for retirement savings. All workers with earned income can contribute up to \$2,000 annually. Minimum investment amounts will vary according to the investment selected but can be as low as \$250 to \$500.

9. Money Market Mutual Funds—These are a type of mutual fund that invests in short-term debt obligations issued by governments, government agencies, and/or corporations. The minimum initial investment is often \$1,000 or less.

10. Treasury Notes and Bonds—Treasury notes are issued for 2- to 10-year durations. For bonds with 4- to 10-year maturities, the minimum investment is \$1,000 to \$2,000. Treasury bonds are issued in denominations of \$1,000 for 30 years.

11. Unit Investment Trusts (UITs)—Sold by brokerage firms, unit trusts are a portfolio, usually of bonds or mortgage-backed securities (e.g., Ginnie Maes), that are sold to investors in small pieces called units. The cost of a unit is generally \$1,000. Unlike mutual funds, however, UITs are not professionally managed. Instead, the securities in the portfolio are simply held to generate interest for investors.

12. U.S. EE Savings Bonds—EE savings bonds can be purchased at banks and through employer payroll deduction plans. They are purchased for one-half of their face value (e.g., \$25 for a \$50 bond) and come in denominations including \$50, \$75, \$100, \$200, \$500, \$1,000.

13. Zero Coupon Bonds—"Zeros" are bonds issued by governments or corporations that sell at a deep discount to face value (generally \$1,000). Unlike other bonds that pay periodic interest, they don't pay anything until maturity, at which time an investor receives \$1,000. Investors with a 15- to 20-year time horizon can purchase a \$1,000 zero for around \$200-\$300. \$

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\$2000 to Save

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for an inexpensive list of low-rate and no-fee credit cards. Transferring a typical \$2,000 balance from an 18% card to a 10% card would save \$160 a year in finance charges.

3. Bring Your Lunch and Snacks—That can of soda you buy every workday for 75 cents costs \$188 a year. Buy 12 store brand cans on sale for \$3 and you'll save \$125. Do the same for expensive lunches and you'll save several hundred dollars per year.

4. Slash Food Expenses By 10%—Do this by buying fewer snack foods and "impulse" items and making better use of store and generic brands, coupons, and price breaks. Consider joining a warehouse club (e.g., BJ's) for additional savings. Trimming a \$100 weekly food bill by 10% to \$90 would save \$520 a year.

5. Get Discounts—Many products and services (e.g., insurance, hotels, car rentals) have discounts...but only for consumers who ask. Asking the question "is this the best price available?" frequently should save at least a hundred dollars annually.

6. Be Patient—Waiting for things to go on sale, instead of purchasing at full price, should save several hundred dollars.

7. Get a Long Distance Telephone Savings Plan—Savings will vary, depending on your calling habits, and you may have to make calls at designated times. Nevertheless, the savings can be impressive. If a plan saves \$20 a month, that's \$240 a year!

8. Get An Insurance Analysis—You may be paying for unnecessary coverage or missing valuable discounts. Ask an agent to review your policies. If you are paying several thousand dollars a year for insurance (all types), some savings probably exist.

9. Shop "Alternative" Vendors—Inexpensive sources of toys, tools, appliances, clothing, and home furnishings include flea markets, garage sales, thrift shops, and consignment stores. Possible savings? Hundreds, maybe thousands, of dollars.

10. Earn More On Savings—Don't let existing savings languish in a 2% to 3% bank account. You're losing money after inflation and taxes. Move this money to a CD or money market fund to earn a higher rate of return.

11. Slash Bank and Investment Fees—Avoid banks that charge high fees or require large minimum balances on low-yield accounts. Shop around for a better deal. Ditto for high brokerage firm commissions and mutual fund expense ratios.

12. Get a Match—If your employer offers a 401(k) plan, save enough to earn the maximum employer match. Unlike the proverbial "free lunch," this deal is too good to pass up. \$

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Dear Friend

Continued from front page

Do I Put That \$2,000?" and "Where Am I Going To Find \$2,000 To Save?"

7. Money Management Calendars—Many county Extension offices have money management calendars available at a nominal cost. For each month of the year, there is a chart to record fixed and flexible expenses. Summary charts at the end of the calendar provide a way to total spending for the year.

8. MONEY 2000 Video—Our 6½-minute video, *MONEY 2000: Start Today*, contains a description of the MONEY 2000 program and soundbites from "real people" describing ways to increase savings and reduce debt. It is available for borrowing at Extension offices across the state.

In return for all the above-mentioned services, all Rutgers Cooperative Extension asks is that you complete your six-month follow-up survey and return it to us promptly. It is the ONLY way we have to measure the effectiveness of the MONEY 2000 program and its impact on the lives of participants. Thank-you in advance for your cooperation and best wishes for continued future financial success. \$

Barbara O'Neill, Ph.D., CFP
Editor

Home Affordability

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vacate your new home and go into foreclosure. In addition, you damage your credit rating and future chances of buying another home.

What percentage of your take-home pay should be spent on housing and consumer debt? Experts suggest 40% is a safe percentage of debt to net income. When families spend more than half of their take-home pay on a mortgage and other debt, that doesn't leave much else for food, clothing, gas, child care, etc. Financial problems often occur as a result.

Rutgers Cooperative Extension (RCE) has a free MONEY 2000 "debt-ratio ruler" which indicates safe and "problem" percentages for household debt with or without a mortgage. To obtain a ruler, contact your local RCE office. \$

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