

# Money 2000 News



Volume 3, Number 1

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## Dear Friend of Money 2000:

Interested in long-term financial security? Consider giving yourself the gift of financial fitness. Unfortunately this gift does not come neatly gift wrapped with a big, pretty bow. You must work hard to make this gift a reality. You may even have to make sacrifices such as fewer meals out, less money spent on clothing and entertainment, or driving your car another year.

How do you get started? Consider the following suggestions from Clemson Cooperative Extension in South Carolina:

**January:** Get on the financial scales and create an overview of your financial situation. What do you own and what do you owe (your net worth)? How much income comes in and where does it go (your cash flow)?

**February:** Keep an expense log for several months. Compare expenses with income. Income should exceed expenses or you are headed for financial trouble.

**March:** Reduce clutter in your financial life. Keep only important receipts,



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## U.S. Savings Bonds: A Product That Helps You Save

Once you've decided to get serious about saving on a regular basis, your next step is to select vehicles to meet your goals. U.S. Savings Bonds offer a simple and secure way to put aside money for your future. These features make them attractive:

**Ease of purchase:** Savings bonds can be bought at financial institutions in denominations of \$50, \$75, \$100, and up. Many employers offer the \$100

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## Choosing the Right Money Market Fund

The recommended amount of cash to accumulate for an emergency fund is generally three to six months of monthly expenses depending on whether you are single or dual-earner family. Money market funds make ideal vehicles for monies set aside for emergency reserves and for funding short-term goals. They are almost as safe as an insured bank account, but are often preferred because of the availability of higher yields and the fact that they provide easy access to other funds in a mutual fund family.

It is important to know that all money market funds are not created equal. The group can be broken down into five categories as follows:

**All U.S. Treasury** describes funds that invest totally in U.S. Treasury securi-

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- Choosing the Right Money Market Fund
- U.S. Savings Bonds: A Product That Helps You Save
- Financial Tips to Start the Year Out Right
- Money Editor Shares Recommended Financial Strategies
- Tips to Get Your Finances in Order
- Consumers Advised to Avoid Credit Card Late Fees
- Auto Insurance: You Can Do Something About It
- Tax-Exempt Investments: Benefits Explained

# Financial Tips to Start the Year Out Right

Is getting your finances in order one of your New Year's resolutions? You're definitely not alone! Saving more, spending less, and reducing accumulated debt are common topics of conversation at this time of year. Looking for specific ideas that you can adopt? Below is a list of tips for decreasing expenses and freeing up money to save or reduce debt:

- Consider refinancing your mortgage if you plan to stay put long enough to recoup the closing costs.
- Start brown-bagging your lunch, instead of eating out. You could save hundreds of dollars. Ditto for snacks and sodas.
- Borrow videos, books, and magazines at the public library.
- Ask an insurance agent to review

your policies to make sure you're not paying more than necessary or missing discounts.

- Dry clothes indoors or outdoors, when possible, to save at laundromats or on your electric bill.
- Shop "alternative" vendors such as flea markets, garage sales, thrift shops, and consignment stores for inexpensive items.
- Make do with what you have. Consider postponing the purchase of "big ticket" items like a car or computer.
- Write letters or use e-mail instead of making expensive long-distance phone calls.
- Contact your local utility company

to arrange for an energy audit and inexpensive energy conservation measures.

- Turn back the thermostat at night and when no one is at home.
- Slash food expenses by 10%. Do this by buying fewer snack and convenience foods and making better use of coupons, store and generic brands, and price breaks.
- Join Rutgers Cooperative Extension's MONEY 2000 program by setting a financial goal to achieve by the end of the year 2000. There is no cost to enroll and you won't be asked any questions about your personal finances. The only information that you'll be asked to

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## Money 2000 News

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## Money Editor Shares Recommended Financial Strategies

On November 8, 1997, over 150 New Jersey residents attended a statewide conference called "Countdown to 2000: Financial Strategies For Your Future" sponsored by Rutgers Cooperative Extension. Richard Eisenberg, executive editor of *Money* magazine, was the keynote speaker. Below is a summary of Eisenberg's remarks, which focused on five recommended financial strategies to achieve future financial success:

**1. Save and invest painlessly.** Savings and investments should be "automated" so you don't need to remember where and when to make deposits. In other words, arrange to have money deducted from your paycheck or bank account. Examples include 401(k), 403(b), or Section 457 employer retirement savings plans, pre-authorized mutual fund deposits that transfer funds from a bank account, and the purchase of U.S. Savings bonds by payroll deduction.

**2. Cut your debt and spending.** According to Eisenberg, many Americans have developed "nasty debt habits." Fully 57% of Americans are paying down credit card bills less quickly than a year ago. Recommended strategies include:

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# Tips to Get Your Finances in Order

Want to get your finances in order? Thousands of New Jersey residents are doing just that by participating in MONEY 2000, an educational program sponsored by Rutgers Cooperative Extension. MONEY 2000 is designed to improve the financial well-being of New Jersey residents through increased savings and reduced debt. Participating households are encouraged to save, reduce debt, or a combination of both by at least \$2,000 by the year 2000.

Where's the money going to come from? Short of winning a sweepstakes or receiving an inheritance, most people improve their finances by saving more or spending less. Below is a list of ideas for increasing savings and reducing expenses:

## Savings Tips

- Treat savings like a "bill." Put a part of each paycheck, even if it's only a few dollars, into savings.

- Place loose change in a can or jar. As money accumulates, place it in a savings account.
- If you're about to pay off a loan, continue making the same monthly payment...to yourself.
- Have money deducted from your paycheck for employer savings programs (e.g., credit union, 401(k), thrift plan).
- Workers paid bi-weekly have two months a year with three paydays; those paid weekly have four months with five paydays. Save all or part of these extra paychecks.

## Credit Tips

- Transfer existing balances to a low-rate credit card or call current creditors and request a lower interest rate.
- Keep monthly consumer debt pay-

ments (e.g., credit cards, car loan) at no more than 15% of net household income.

- Avoid using credit card cash advances due to their high interest rates, extra fees, and lack of a grace period.
- Avoid the use of credit cards for "disposable" items (e.g., fast food, vacations, groceries), if you carry a balance.
- Repay credit card bills quickly to decrease the average daily balance on which interest is charged.
- Contact Rutgers Cooperative Extension for a "PowerPay" computer analysis designed to accelerate debt repayment.

If you haven't already done so, consider joining MONEY 2000. There is

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# Consumers Advised to Avoid Credit Card Late Fees

According to a recent newsletter from the San Francisco consumer advocacy group Consumer Action, late fees on credit cards have increased 26% since 1995. With fierce competition for customers putting downward pressure on interest rates (many are now as low as 8.5%), credit card issuers are "compensating" by increasing old fees and creating new ones.

According to Consumer Action, borrowers are advised to read their credit card agreements carefully, especially any notices they receive of changes in practices. If you don't, you may get hit with a late fee or a higher interest rate—or even a fee that penalizes you for paying off your balance on time.

The average credit card late fee jumped from \$13 to \$16.50 between 1995 to 1997 according to Consumer Action. Of 100 credit cards studied, 46 had late fees of \$20 or more. In contrast, no one surveyed in 1995 charged a late

fee more than \$18.

In addition to increasing the amount of late fees, many banks now assess them much earlier than they did previously. Late fees may not have been a major concern to cardholders in the past, because banks waited anywhere from a few to 30 days past the due date before recording a late fee. But now some credit card companies have begun to charge late fees sooner—in some cases when a payment is only one day late.

Higher charges are also being assessed for over-the-limit fees. These are fees charged when your balance exceeds your credit limit. Many cardholders assume that when they get too close to their credit limit, a charge will be denied, but this isn't always the case. You may be allowed to go over your credit limit, but you'll be charged a fee for doing so. An over-the-limit fee is charged every month until you bring

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## Money Editor

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switching to a lower rate credit card, avoiding the use of high-interest department store cards, seeking low-rate car loans (AAA was mentioned as a possible source), and refinancing your mortgage.

**3. Cut your taxes.** Recent tax law changes provide increased incentives to save and opportunities to reduce federal income taxes. Because of the relatively high incomes allowed before benefits phase out, Roth IRAs (available in 1998) were recommended for most people with earned income. Two other notable tax changes are the decrease in capital gains rates on long-term investments and higher amounts of tax-free capital gains (\$250,000 for singles; \$500,000 for married couples) on the sale of a principal residence.

**4. Be a stock market investor.** Eisenberg noted that most mutual funds don't beat market averages and recommended putting some money in an index fund that mirrors a market index (e.g., S&P 500). Two other advantages of index funds: low expenses and relatively low turnover, which can mean lower taxes. Also recommended were actively-managed funds in the following areas: small cap, international, and bonds. Key criteria for mutual fund selection are low expenses and good long-term performance.

**5. Use your computer to help manage your finances.** Eisenberg mentioned popular software programs like "Quicken" and "Microsoft Money" that can simplify financial record-keeping. He also noted several paid web sites (e.g., zacks.com) where stocks can be screened against various criteria. Online brokerages are another popular trend for consumers who just need to have trades executed and don't require research or advice. \$

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# Auto Insurance: You Can Do Something About It

One of the largest items in a New Jersey resident's budget is auto insurance. As residents of the state with the dubious distinction of having the highest rates in the nation, it is not uncommon for us to pay over \$1,000 a year for coverage.

The premium you pay depends on dozens of variables, from the obvious (your driving record, where you live, and the type of car you own or lease) to the highly personal (your marital status or credit history). That's right, some insurers are using credit reports as a factor to determine the insurance premiums.

In addition, driving an expensive, high-performance car, receiving moving violations, putting a lot of miles on your car each year, and having a young driver at home will run up your insurance costs sharply. How big a premium you pay also depends on the levels of coverage you buy.

It is a good idea to shop around, comparing at least three different insurers when you first purchase auto insurance and periodically before you renew policies. A recent study by the insurance industry found that one-third of all drivers admitted that it had been at least six years since they last shopped for a new policy. Another 20% said that they had never shopped at all. You could be wasting hundreds of dollars a year by failing to compare how your insurance carrier's premiums stack up against the competition's.

Re-evaluate regularly the level of coverage you need and ask about any discounts for which you may qualify. Being a good consumer can cost you time and energy, but may help you save money. Here are some additional tips to consider:

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## Tax-Exempt Investments: Benefits Explained

Before investing in a bond, be sure to find out whether the interest is free of federal, state, and local tax. Traditionally, tax-free municipal bonds provide lower yields than taxable investments of comparable quality. But since the interest is tax-free, they may be more attractive financially. This is especially true for consumers in high (28% or above) marginal tax brackets. There are also related products, such as mutual funds and municipal bond unit trusts, which are diversified portfolios consisting of municipal bonds. These, too, offer tax-free investing opportunities.

With tax-free investments, it is important to evaluate the risk involved. The governing authority that issues a municipal bond may default just as any other debtor, and the investor risks losing all or a portion of his principal investment. Before investing, check a municipal bond issuer's rating with Moody's or Standard & Poors, two widely-respected bond rating firms. \$

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## U.S. Savings Bonds

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and higher Series EE Bonds through payroll savings plans. In either case, you pay one-half of a bond's face value (e.g., \$50 for a \$100 bond).

**Competitive market rate:** Interest on savings bonds is now calculated at 90% of the yield on five-year Treasury securities. The rate is adjusted twice a year to reflect market changes. Interest is accrued monthly and compounded semiannually. The longer you hold a savings bond, the more it will be worth.

**Liquidity:** If you need to cash a savings bond, you can do so anytime after the first six months at your financial institution. A three-month interest rate penalty will apply if a bond is cashed within the first five years, however.

**Tax advantages:** Savings bond interest is exempt from state and local income taxes. Federal tax liability can be deferred until bonds are cashed (up to 30 years). When bonds are used by parents to pay for college tuition (depending on income level), bond interest may be completely tax-free. The bonds must be held in the parent's name to be eligible, however.

**Safety:** Your savings bond investment is backed directly by the U.S. Government. If you lose your bonds, or they are destroyed, the Treasury will replace them at no charge. Savings bonds earn interest for up to 30 years, increasing in value well beyond the face amount. Bonds bought for a child will be there when he/she is going to college or starting a career.

If your employer offers a payroll plan for savings bonds, consider signing up. By selecting an affordable amount, you will receive bonds regularly at home. You can also purchase bonds at your bank or credit union by

completing an order form. The bonds will be mailed to you within three weeks. Bonds should be kept in a firesafe location, usually a bank safe deposit box.

For further details, visit the Internet at [www.ustreas.gov](http://www.ustreas.gov) or request an Investor Information brochure from: Savings Bonds Marketing Office, 1421 Cherry St., Suite 600, Philadelphia, PA 19102-1493. \$

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## Auto Insurance

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- Raise the deductible on your policies to the highest level that you can afford to pay in case of an accident. Make sure that you have this amount saved in your emergency fund.
- Check policies to make certain that you are not paying twice for the same coverage. If you have good, comprehensive health insurance coverage, deleting medical payments coverage on your auto insurance may save you money.
- Take advantage of discounts available to you. Combine two or more cars on one policy or combine homeowners and/or auto insurance with the same company.
- Buy a car that is less costly to insure and equip it with safety features, such as air bags or alarms.
- Keep your driving record clean. Make sure your teen driver has driver's education training and that he or she maintains a good academic record.
- Do not purchase additional rental car insurance if your auto insurance policy provides adequate coverage. \$

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## Order

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no cost to enroll and you will not be asked any questions about your income, assets, or debts. The only information you need to provide is your name, address, phone number, and savings and/or debt reduction goal. Rutgers Cooperative Extension provides MONEY 2000 participants with a free quarterly newsletter and other services (e.g., classes) are available at a nominal cost. Every six months, you will be contacted to report progress toward your financial goal. This is all that is required. \$

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## Right

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provide is your name, financial goal, and progress toward your goal.

Dozens of additional savings ideas are contained in the following Rutgers Cooperative Extension fact sheets:

FS539, *How to Save \$1,000 or More a Year*

FS563, *Twenty Ways to Save Money*

FS564, *Twenty-Five Ways to Live on Less*

FS860, *Give Yourself Credit: Tips for Smarter Borrowing*

FS861, *Making the Most of Your 401(k) or 403(b) Plan*

FS882, *Where am I Going to Find \$2,000 to Save?*

FS883, *So Where Do I Put That \$2,000?*

To obtain a copy of these publications, contact your local Rutgers Cooperative Extension office. \$

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## Dear Friend

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records, and papers. Instead of using the “stash and pile” method of organization, use the “file it, find it” approach.

**April:** Trim your taxes. Track deductions, contribute the maximum to tax-deferred retirement plans (e.g., 401(k)s) and evaluate potential tax credits. Meet the April 15 deadline or file for an extension to avoid penalties.

**May:** Reduce expenses and debt. Curb the temptation to spend more than necessary and avoid the overuse of credit. Get in the habit of “smart spending.” Before making spending decisions, ask yourself, “Is what I am getting today worth the money I lose for future goals?” And remember, using credit does not extend your income, it only adds to your debt.

**June:** To ensure steady, healthy growth of your net worth, use the savings strategy, “pay yourself first.” Establish a regular savings plan and consider it a major bill to pay monthly.

**July:** Exercise the best insurance options. Review all coverages. It is a good idea to compare your company’s coverage with that of two other companies to be sure you are getting the best protection for your money.

**August:** Now that you have a good understanding of your resource base, you are ready to begin working on establishing long-term financial goals. Identify your long-term goals, attach a dollar value to them, and develop a plan of action to achieve them.

**September:** Choose a savings or investment plan to help you reach long-term goals. Explore options available through your employer and financial institutions.

**October:** Make dinnertime a special time. Share money management

skills with your children and encourage them to save and invest for their financial future.

**November:** Keep your financial health in good order, even if you become physically ill or incapacitated. Execute a living will, health care power of attorney, general durable power of attorney, and will.

**December:** Distribute good will to family and friends and share your bounty with others. Give wisely to charities. Be sure the charity is reputable and know what they do with the money collected. \$

Barbara O’Neill, Ph.D., CFP, AFC  
Editor

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## Money Market Fund

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ties, primarily Treasury bills. These are the safest of all money funds. Because of this feature, and the fact that they are normally state tax-free, Treasury mutual funds usually have slightly lower yields than other taxable money markets.

**U.S. Government** funds invest in notes that are issued by federal government agencies, like the Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal National Mortgage Association (Fannie Mae), as well as Treasury bills and repurchase agreements (short-term obligations to sell and repurchase securities). Federal agency securities are a little riskier than Treasuries because they only have an implied backing by the U.S. government instead of a full guarantee.

**General purpose** funds invest in a broad array of high-grade money market securities that include commercial paper (IOUs of large, creditworthy corporations), U.S. government securities, certificates of deposits (CDs) and repurchase agreements. This type of fund

provides the highest yield among all money markets.

**Federally tax-free** funds hold a variety of short-term municipal bonds. The income is federally tax-exempt, but only a small amount may be exempt from state taxes depending on the portion of the portfolio that is invested in the issuing state.

**Double tax-free** refers to state-specific funds whose income is free from state as well as federal income taxes for the taxpayer of the respective state. An individual’s federal tax bracket would determine whether it is wise to invest in a taxable or tax-free money fund. Generally, consider tax-exempt funds if your income bracket is 28% or above. A calculation should always be done to make comparisons between taxable and tax-free funds. This formula will help with the decision:

$$\text{Taxable equivalent yield} = \frac{\text{Tax-free money market yield}}{1.00 - \text{federal tax rate (e.g., 15\% or 28\%)}}$$

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## Late Fees

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the balance within your credit limit.

Two years ago, Consumer Action found only one bank charging a \$20 over-the-limit fee. In 1997, 43 cards surveyed had over-the-limit fees of \$20, while four would hit cardholders with \$25.

Today, more than ever, credit cardholders need to watch for changes in creditor policies and fees. Paying bills shortly after they arrive is also advisable, as is monitoring card balances to avoid exceeding your credit line. Although consumers can’t always control the fees creditors charge, we can try to avoid them. \$

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