

# Money 2000 News



Volume 3, Number 2

Spring 1998

## Dear Friend of Money 2000:

Where does all the money go? Before the month is out, the paycheck's gone. Sometimes even necessities get charged to a credit card, just to make it to payday. It is estimated that 70% of Americans live "paycheck to paycheck," courting disaster if their income were suddenly reduced or stopped.

Rutgers Cooperative Extension's MONEY 2000 is a program that teaches participants "how to tell where your money is going instead of wondering where it went." In addition to learning where their money goes, participants are encouraged to set a goal to increase savings or reduce debt by \$2000, or any other amount, by the end of the year 2000.

MONEY 2000 was designed to improve the financial well-being of New Jersey residents. Between January 1996 and December 1997, 1,200 participants in 20 counties have enrolled in this free program. These participants have set goals to increase savings and reduce debt totaling over \$15 million and have achieved almost \$1.3 million of financial progress to date.

Persons interested in participating in Money 2000 can contact their local Rutgers Cooperative Extension office for an enrollment kit. Information is also available about the second statewide Money 2000 conference to be held Saturday, May 9 from 9 a.m. to 3 p.m. at the Frelinghuysen Arboretum in Morris Township. \$

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

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## Repaying Debt Quickly Can Save Thousands

Rising household debt levels are cause for concern. The average U.S. household has credit cards with balances totaling over \$4,800, more than twice the 1991 average. This article will show differences in debt reduction and the amount of interest paid by three fictional families, each with a different repayment schedule. We will assume that each family has a credit card balance of \$4,800 with a 17% APR. We will also assume that each family does not add any more charges

*Continued on page 6*

## Positive Attitude Can Help Achieve Financial Goals

To improve *physical* fitness, one needs to increase exercise and reduce dietary fat. To improve *fiscal* fitness, one needs to increase savings and reduce household spending and debt.

Making behavior changes necessary to establish new, beneficial habits in either physical or fiscal areas of life can be difficult. Dr. James Prochaska describes self-change as a process that occurs in steps, based on an individual's readiness to change. In his book, *Changing For Good*, he presents a helpful model for understanding how indi-

*Continued on page 6*

### Topics Covered

- Repaying Debt Quickly Can Save Thousands
- Positive Attitude Can Help Achieve Financial Goals
- Retirement Housing Dreams
- Lower Your Utility Costs...Easily
- Be a Savvy Bank Shopper
- Start Saving Money at Work: Here's How
- New Car Leasing Rules in Effect
- Financial Goals Should Be SMART Goals
- "Hot" Financial Topics Explained

# Retirement Housing Dreams

Does your dream of retirement include sitting in the sun or playing golf? If so, consider moving into an active adult community. Housing developments, usually restricted to adults over age 55, are springing up and are proving to be very popular. Selling for \$90,000 to \$300,000, the units range from prefabricated homes to deluxe condominium high-rises. These units are located on the beach, in the mountains, on the golf course, and in both rural and urban settings. Fees for recreational activities and maintenance of common grounds vary greatly, depending on the facilities and type of management.

Here are some questions to consider before you buy:

## 1. Why live in a resort community?

These communities cater to people of the same age and interests providing a ready-made social group. Many seniors have raised their children and prefer to select environments without small children.

## 2. What type of environment meets your needs?

Do you want a warm and humid climate or a hot and dry one? Is distance from other family members a factor? How far away is a major hospital, airport, shopping mall, churches or cultural center? Are the members of the community compatible with your interests? Does the community or local area offer activities that meet your needs? Location is one issue, type of home is another, e.g. condo, townhouse, trailer, small house.

## 3. Can you afford it?

Remember the general rule of spending no more than 28% to 36% of your monthly gross income on housing. Fees you'll have to pay for upkeep of common areas should be included in that percentage. Gather all the financial information from the community you are thinking about, read the small print, and go over the numbers with a qualified person.

## 4. Are there any pitfalls?

There are some risks in buying into a brand new development. The developer may still be trying to sell most of the properties and not be in a financially sound state. Nothing will happen to your home if the developer goes bankrupt, but you could be hit with assessments to maintain the common areas and the unsold homes. One risk is that the unsold homes could be sold at distress prices that could reduce the value of your home. Another risk is being

*Continued on page 6*

# Lower Your Utility Costs...Easily

Many people think their utility bills are something they can do nothing about. But think again. If you do your homework, you can find dozens of ways to slash your energy consumption—from buying an energy efficient refrigerator to closing the fireplace flue following its use to insulating the attic.

Here are four money savings actions to take that are easy to accomplish and won't inconvenience you in any way:

**1. Install a thermostat with an automatic timer.** You can purchase a thermostat that automatically lowers and raises your home's temperature at the times that you program. Just set the thermostat to lower your heat or air conditioning when you are going out to work and turn it back on again an hour before you are due home. That way it is perfectly comfortable when you arrive. The same goes for setting the thermostat to automatically go off at bedtime and come on an hour before you awaken. A new thermostat can be purchased for approximately \$30-\$50 and can save the average utility customer about \$400 a year. That's an excellent return on your money!

**2. Enroll in your utility's "time-of-day" plan.** This kind of plan charges you different rates for the gas or electricity you use at different times of the day. For example, if electricity customarily costs a flat 8 cents per kilowatt-hour (kWh) 24 hours a day, by signing up with a "time-of-day" plan, your electricity may then cost you 8 cents per kWh during peak times (10 A.M. to 8 P.M.) and several cents less per kWh during off-peak hours (8 P.M. to 10 A.M.) Then adjust your schedule to make your dishwashing and laundry chores en-

*Continued on page 5*

## Money 2000 News

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# Be a Savvy Bank Shopper

Do you know how much your bank is charging you to do business with them? The average customer may be paying a lot more than need be for the privilege. Your goal should be to keep more money in your account than in the bank's vault. Follow these golden rules of banking:

- **Remember the “Rule of Three.”** Compare at least three institutions before you decide where to do your banking. The closest bank is not always the best choice.

- **If you are an ATM frequenter, don't do business with a bank that charges you to use it.** The average bank charges \$1 for each use of the ATM machine. That may not sound like a lot of money. But think of it this way—if you use the ATM only twice a week, that's over \$100 you are paying a year to use your own money. Consider looking elsewhere to bank if this is a service you have made a habit.

- **Don't order checks from your bank.** If you do, you are paying up to three times as much as you should. Banks charge \$12–15 for the same checks you can order through the mail for \$5. Whether you are opening a new account or just need to reorder checks, you can save more than half on this recurring expense by ordering direct from companies such as: Checks in the Mail (800-773-4443), Current (800-533-3973), or Image Checks (800-562-8768).

- **Choose the account that best suits your needs.** Bank accounts are like clothes—they come in lots of shapes and sizes. By finding the “right” bank account, you can significantly lower your costs. To illustrate: if you

*Continued on page 6*

# Start Saving Money at Work: Here's How

With lots of news coverage today about retirement planning, many people are deciding to invest in their employer's savings plan. If you're one of them, consider the following ten steps from Charlotte Crawford and Karen Chan, certified financial planners with the University of Illinois Cooperative Extension:

1. First of all, decide to participate in an employer savings plan (e.g., 401(k)) if you currently do not belong.

2. Call the employee benefits office to request a plan booklet and authorize deductions from pay and the percentage allocation to and funds in which you will invest.

3. Determine your desired asset allocation. This depends on several factors including: your risk tolerance, your age, years to retirement, and the asset allocation of other retirement assets (e.g., IRAs). Asset categories can include large cap stocks, small cap stocks, bonds, international funds, emerging market funds, and cash equivalents such as money market funds and guaranteed investment contracts (GICs).

4. Determine which specific investments are your top candidates in asset classes that you are considering. Use library references (e.g., Morningstar), the *Wall Street Journal*, financial magazines and newsletters to select funds that rank high in each asset class.

5. Order prospectuses, annual reports, and election forms from each company.

6. Read and study prospectuses to determine goals of an investment, fees charged, management stability, and total return over the past 1, 3, 5, and 10 years.

7. Make final choices of investments and the percentage you will invest in each company. For example, let's say you decide to invest 10% of your salary into a plan. With that amount, you then decide to invest 50% in mutual fund A, 30% in fund B, and 20% in fund C.

8. Do the paperwork to actually enroll.

9. Evaluate asset allocation and fund performance at least once a year. Re-balance your portfolio as needed to maintain desired asset percentages. Because some funds will do better than others, periodic evaluation is necessary to maintain desired allocation percentages as well as monitor overall performance.

10. A final piece of advice: don't delay. Start saving in something, even 1% of pay, and increase this amount over time. Remember: compound interest is not retroactive. The best time to start saving in an employer retirement savings plan is today. \$



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## New Car Leasing Rules in Effect

Since January 1, 1998, consumers planning to lease a car are affected by new disclosure requirements designed to assist them in understanding the process of car leasing. The new disclosure requirements give consumers essential and readily understandable information about costs and terms found in leasing advertisements before they sign a contract.

In 1997, the Federal Reserve Board issued these new disclosures as part of a revision to Regulation M, which implements the Consumer Leasing Act (CLA). A major highlight of the new requirements is segregation of major lease costs and terms. Certain important disclosures must be separated from other information, including the gross capitalized cost, amount due at lease signing or delivery, total of payments, payment schedule, rent charge, notice about early termination charge, and notice about liability for wear and use. Below is a brief description of some of these terms:

- **Gross Capitalized Cost.** This includes the agreed-upon value of a leased vehicle and other items that are capitalized over the lease term.
- **Amount Due at Lease Signing or Delivery.** The total amount that consumers must pay at the beginning of a lease.
- **Rent Charge.** The amount charged in addition to depreciation and any amortized amounts. This figure is similar to interest in a credit transaction.
- **Residual Value.** The estimated

*Continued on page 5*

## Financial Goals Should Be SMART Goals

It's fun to fantasize about winning the state lottery! However, for most of us, it's a dream that simply won't come true! What can come true (with some work, of course) is financial stability for you and your family. One critical component of a sound personal financial plan is a set of goals. How do you get started? Consider this advice from Michigan State University Extension:

- Goal setting requires knowing what dreams are most important to you and your family. Start by involving your family in a discussion of what you'd like to achieve financially in the years ahead.
- Use your top priority dreams as the basis for developing specific financial goals. Short-term goals are ones you hope to accomplish within the next year. Other goals may take longer and need to be planned over several years. Be selective. Financial planners tell us that it is almost impossible to work successfully on more than two or three goals at one time.

*Continued on page 5*

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## "Hot" Financial Topics Explained

What's "hot" or new in the world of personal finance? Consider the following three topics: saving, bankruptcy, and expansion of the number of households using bank accounts:

**Savings.** Don Blandin, President of the American Savings Education Council (ASEC), recently noted that about 75% of Americans have not calculated the amount of savings required to maintain their lifestyle in retirement. A frequent reason cited for not doing the math is that people "don't want to know." On the other hand, when survey respondents were asked if they could save \$25 a week, only 7% said they could not. Mr. Blandin also described research that shows that worksite seminars often lead to an increase in savings. Many employees also change their asset allocations and invest more aggressively after learning about characteristics of investment products. With the recent passage of the SAVER (Savings Are Vital to Everyone's Retirement) Act, a 1998 White House Conference on Retirement Savings will be held this June in Washington DC. There will also be increased governmental efforts to promote saving for retirement in the years ahead.

**Bankruptcy.** A national commission recently made recommendations to improve the bankruptcy system including uniform national exemptions, random audits of filers and post-bankruptcy financial education. In Canada, which has only 10% of the number of bankruptcy filers as the U.S., two class sessions on personal finances are mandatory for all citizens filing for bankruptcy. Approximately 1.3 million U.S. households filed for bankruptcy in 1997, including 42,672 New Jersey residents.

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## Utility Costs

*Continued from page 2*

ergy-efficient. If you are an average utility customer, a “time-of-day” plan could save you 20–40%.

**3. Keep the temperature on your water heater set at 120 degrees.** Most water heaters come pre-set at 140 degrees. If you lower the temperature by 20 degrees, you will be able to save between 10–20% on your heating bill—and probably never notice the difference.

**4. Clean the filters on your air conditioners and heater to make them run more efficiently.** For some furnaces it is best to change filters every 2–3 months and some may need replacement monthly. In any case, timely filter cleaning can save you 10–20% on your bill.

These four strategies can lower your energy costs with just minimal effort. Check with your company on their time-of-day plan and ask about a free energy audit. \$

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## Car Leasing

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value of the leased vehicle at the end of the lease term (e.g., in 3 years).

- **Notice of Early Termination.** A notice to consumers that they may have to pay a substantial charge if they end the lease early, and information about the consequences of termination.
- **Wear and Use.** Information about the charges and standards for wear and use.

About a third of all new car transactions today involve leasing. Therefore, the Federal Trade Commission (FTC) has made automobile leasing advertising enforcement a priority. A new brochure, “Keys to Vehicle Leasing” can now be found on the Internet at the FTC’s web site, [www.ftc.gov](http://www.ftc.gov). The FTC web site also provides links to these materials on the Federal Reserve’s web site, [www.bog.frb.fed.us/pubs/leasing](http://www.bog.frb.fed.us/pubs/leasing).

In addition, the FTC’s web site has other lease education materials available such as “Look Before You Lease,” which contains important tips for consumers planning to lease their next vehicle. These publications can also be obtained by mail by writing to: Publications Services, Federal Reserve System, Mail Stop 127, Washington DC 20551. \$

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## SMART Goals

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- The most effective financial goals are SMART:

**S Specific**—They tell what will be done.

**M Measurable**—They describe a dollar amount or action to be accomplished.

**A Agreeable**—Members of your household know and have agreed upon the action.

**R Realistic**—Resources are available to accomplish the goal.

**T Timed**—A completion date is established.

- SMART financial goals provide a framework for making decisions about what to do. Once accomplished, they can be a source of satisfaction and pride. Be sure that each financial goal that you set has a cost and a deadline date included.

Keep in mind that the route to achieving your financial goals will be just like any other journey—it will have bumps and curves and detours. Midtrip adjustments are often necessary, too. As Stephen Covey so appropriately states in the *Seven Habits of Highly Effective People*, “Begin with the end in mind.” SMART goals will help you define the end financial results that you aspire to and develop a plan of action to achieve them. \$

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## Topics Explained

*Continued from page 4*

**Banking.** “EFT (electronic funds transfer) ’99 is on the horizon.” EFT ’99 is the law that requires all recurring federal payments (e.g., Social Security—but not tax refunds) to be deposited electronically into a bank account after January 1, 1999. Presently, about 80% of all federal payments are made to individuals. Results from a study of why people don’t have bank accounts reveal “no money” and “I don’t write enough checks” as frequently-cited reasons. Some of the 12 million U.S. households without accounts do use banks for check cashing, however. Efforts are underway by The Federal Reserve Board to inform people about “EFT ’99” and to provide “unbanked households” with information about low-cost banking options (like the “Consumer Checking Account” available at banks throughout New Jersey) and the process of check-writing. \$

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## Repaying Debt

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to their existing debt, and that they do not miss any payments.

## The Palmers

This family makes just the minimum payment each month (credit card companies charge around 2% of the unpaid balance with a minimum floor of approximately \$10). The Palmer family will make 405 monthly payments (33.75 years!) and they will pay a total of \$10,399.78 in interest charges in addition to the original \$4,800 they borrowed for a grand total of \$15,199.78.

## The Joneses

The Jones family has decided to pay \$120 per month. At this rate of repayment, their debt will be paid off in exactly five years (60 payments) and they will pay a total of \$2,333.83 in interest charges for a total of \$7,133.83.

## The Smiths

The Smith family has decided to pay \$240 per month. They will finish paying off the principal in 2 years (24 payments) with a total interest cost of \$884.11 for a total of \$5,684.11. They then decide to continue making the \$240 monthly payment to themselves to build savings. They find a good mutual fund and contribute \$240 per month for 381 months. This length of time coincides with the date that the Palmer family finishes paying off their original \$4,800 loan. If the Smiths' mutual fund earns a modest 8% return over the 31.75 years in which they are contributing, they will have accumulated \$390,362 in savings toward a secure retirement.

All of the above calculations were done by Barbara Bristow of Cornell Cooperative Extension using the soft-

ware program PowerPay. For information about how PowerPay can help you reduce the cost of existing debt, call your local Rutgers Cooperative Extension office weekdays during business hours. Another suggestion, for all of these hypothetical families, is to lower their credit card interest rate. They should be able to save even more by negotiating with existing creditors for a lower rate or transferring their balances to a lower-rate card. \$

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## Retirement Housing

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billed for unexpected membership fees if you do not have contractual rights to amenities. Another point to consider is whether or not there are restrictions on selling your property. \$

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*Reference: Money Adviser, 1997.*

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## Bank Shopper

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usually keep a healthy balance in your checking account, you can eliminate the seven to ten dollar monthly account fee by locating a bank that won't charge it as long as you keep the required minimum amount. If you write few checks a month, select an account that will let you write a set number of checks each month (usually 8–10) without charging a monthly fee. Remember too, some services may be worth paying for—like the return of your canceled checks. You decide what services are most important to you. If you like the bank you are with but want a better deal, negotiate. Banks are extremely competitive these days, so it really pays to shop, shop, shop for the best deals. \$

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## Positive Attitude

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viduals change their behavior. According to Prochaska, there are six stages to behavioral change: pre-contemplation, contemplation, preparation, action, maintenance, and termination. It is during the preparation stage of the change process that individuals need to plan and prepare for establishing new behaviors.

If your goal is to get your finances in order, Rutgers Cooperative Extension can help. Our MONEY 2000 program encourages New Jersey residents to set a personal financial goal (increased savings and/or reduced debt) and take action to achieve it. Over \$1 million of increased savings and debt reduction have been reported by participants to date.

One of the central goals of Rutgers Cooperative Extension is to help New Jersey residents achieve a better quality of life through effective personal financial planning. The MONEY 2000 program, along with free newsletters and fact sheets and low-cost classes and computer analyses, provide information to help consumers make important financial decisions.

Albert Schweitzer once said, "The power of ideals is incalculable. We see no power in a drop of water. But let it get into a crack and be turned into ice, and it splits the rock; turned into steam, it drives the pistons of the most powerful engines." Commitment is a lot like that. If you hold fast to your commitment to reach a financial goal, and that goal fits with your personal beliefs and values and you are consistent and deliberate in taking action to put your plan into practice, your goal will become a reality! \$

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*Reference: Money 2000 News, Vol. 1, No. 4, Cornell Cooperative Extension.*