

Money 2000 News



Volume 4, Number 2

Spring 1999

Get Financially Fit in 1999

Looking to improve your finances in 1999? Start by taking this Money 2000™ “Financial Fitness Test” developed by Cornell Cooperative Extension. Choose the answer that best describes your finances: 4 = most often; 3 = usually; 2 = seldom; 1 = never.

- ___ 1. I have enough money to pay my rent/mortgage payment each month.
- ___ 2. I have enough money to “make it through the month.”
- ___ 3. I have insurance to cover “big” unexpected expenses, such as a hospital bill.
- ___ 4. I have enough money to pay for an emergency, such as a large car repair.
- ___ 5. I have written financial goals.
- ___ 6. I am able to put money aside for long-term financial goals, such as education for my children or retirement.
- ___ 7. Less than half of one week’s pay goes to my credit cards, student loans, and car payments.
- ___ 8. I have a plan for spending my money.
- ___ 9. I comparison shop for major purchases.
- ___ 10. I keep my financial records organized.

- ___ 11. I have a checking account to pay my regular bills.
- ___ 12. After paying my bills, I have enough money left over for gifts and occasional “treats” for myself and my family.



Scoring for the “Financial Fitness Test” is as follows:

37-48 - You’re in excellent financial health.

29-36 - You’re in good shape.

21-28 - It’s time to shape up.

13-20 - You’re headed for serious trouble.

0-12 - It’s time to get help with your finances.

Use this quiz as a way to identify financial practices that need improvement in 1999 and make plans to address

them (e.g., increase savings). Contact Rutgers Cooperative Extension for free publications and seminars and to enroll in Money 2000™. For further information about Money 2000™, check the Web site <www.rce.rutgers.edu/programs/money2000> and plan to attend our statewide conference on May 22.

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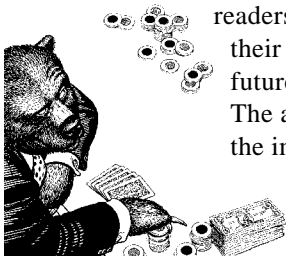
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- Getting Financially Fit in 1999
- Strategies for Building Wealth Over Time
- Give a “Financially Sound” Graduation Gift
- Social Security Benefit Update
- Investments Sold at Banks: Know the Risks
- Tips for Reducing Household Expenses
- Stretching Investment Income in Retirement
- Steps to Take If You Lose Your Job

Strategies for Building Wealth Over Time

A new book called, "Getting Rich In America: 8 Simple Rules for Building a Fortune and a Successful Life," describes dozens of strategies that "real people" can implement to improve their financial security. Unlike "The Millionaire Next Door," which focuses primarily on the characteristics of male business owners, this book describes people of more modest means and offers suggestions that anyone with a desire to improve his/her finances can follow:

1. "Think of America as the Land of Choices" —This chapter encourages readers to organize their life with the future in mind. The authors discuss the importance of hard work in order to get ahead. They



also note that "the greatest good fortune you will have lies within you: your knowledge, skills, and attitudes that take constant cultivation and upgrading."

2. "Take the Power of Compound Interest Seriously and Then Save"—The authors note that most Americans are not capable of building a substantial fortune from work alone. Their wages are simply not high enough. They need help from compound interest, and even small amounts of money can grow handsomely over time.
3. "Resist Temptation"—The authors state up front that "frugality clearly requires some sacrifice." Then they discuss the difference between needs, wants, and various ways to reduce spending in order to free up money for investment (e.g., saving \$5 per

week with coupons from age 23 to age 67 will yield \$85,692).

4. "Get a Good Education"—Education is one of the best foundations for financial success. Also important is studying in a field where skills are scarce or in demand, and one which commands a premium salary from employers. Lifetime continuing education and computer literacy are also essential.
5. "Get Married and Stay Married"—The authors note that marriage and wealth are positively related. While stating up front that you don't have to be married to be wealthy, they also note that married couples, on average,



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Money 2000 News

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Give a "Financially Sound" Graduation Gift



Do you need to buy a college graduation gift this year? Here are a few "financially sound" ideas to consider. These gift suggestions don't include the new SUV or long European tour your graduate may be pining for, but they can be the ticket for fueling the new graduate's financial future. Depending on your budget . . .

- A light-weight notebook computer is a great career aid. Even if you do not know much about computers, your graduate is sure to. For a less pricey electronic gift, select a daytimer/organizer that allows the user to create customized calendars.
- To help your graduate with those tough "first interview" questions, buy the book Knock 'em Dead...the Ultimate Job Seekers Handbook, by Martin Yate, published by Adam's Media (1998).
- To help your student (soon-to-become-employee) get started on the right foot by setting aside some of that first "real" paycheck, give one or both of Peter Lynch's first-time investor primers, One up on Wall Street and Beating the Street, published by Simon & Schuster.
- Gift a few shares of a stock that has a dividend reinvestment plan. The major attraction of such plans is the opportunity to buy shares of stock with little or no commissions charged. There are about 1,600 companies now offering dividend reinvestment plans (DRIPs), where the dividends paid are able to be invested in additional shares. Of these 1,600 plans, almost 500 great U.S. companies offer the ability to purchase stock through direct-purchase plans (also known as DPPs or

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Social Security Benefit Update

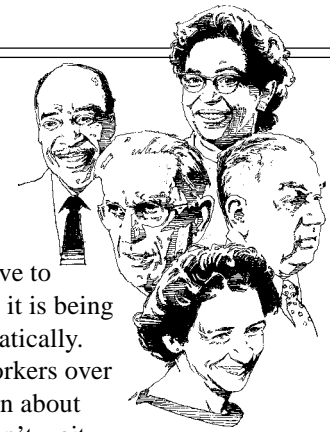
About one in six Americans receive Social Security benefits of some type. Each year, changes are made to this program in accordance with Social Security laws and the cost of living. Below is some important Social Security information for 1999:

- ❑ The maximum taxable income for Social Security in 1999 is \$72,600. The 1.45% of pay deduction for Medicare tax has no income cap, however.
- ❑ Social Security benefits are indexed annually for inflation. The 1999 increase was very small because the rate of increase in the consumer price index in 1998 was only 1.3%.
- ❑ To qualify for benefits, a worker needs 40 quarters (ten years) of work where payments are made into Social Security. In 1999, the amount of income needed to earn a quarter of coverage is \$740 or \$2,960 for the maximum of four quarters that can be earned in a year. Provisions of laws passed in the mid 1980s to shore up Social Security will soon start to become a reality. For example, the “normal retirement age” required to collect full retirement benefits will start to increase for people born in 1938 or later. Those born in 1938 will be turning 62 in the year 2000, but will need to reach age 65 and 2 months in order to collect a full benefit.
- ❑ For persons who want to retire early (i.e., between age 62 and their scheduled normal retirement age), the reduction in benefits will gradually increase along with the age required to receive full benefits. The delayed retirement credit paid to persons who choose to delay receipt of benefits until after age 65 will be increasing as well, until it reaches 8% for persons born in 1943 and later.
- ❑ Workers are advised to check their Social Security earnings record periodically in case there are errors. Retirement

benefit estimates are also available. It used to be that people had to take the initiative to request this information. Now it is being sent by Social Security automatically. Sometime during 1999, all workers over age 25 will be sent information about their future benefits. If you can't wait, you can call 1-800-SSA-1213 for Form SSA-7004, or check your benefits online through the Web site <www.ssa.gov>.

- ❑ Earnings limits for 1999 Social Security retirement benefits are \$9,600 for workers age 62 to 65 and \$15,500 for those age 65 to 69. People who earn over these amounts must forfeit some of their benefits.
- ❑ People should contact Social Security about three months before they plan to retire. An original birth certificate and proof of the prior year's income are required, along with bank account information for direct deposit and military service records, if applicable. Retirement benefit payments are made on a staggered basis on the second, third, or fourth Wednesday of the month according to a person's birthday.
- ❑ Projections are that Social Security will only be able to pay 75% of benefits due starting in 2032. Something needs to be done and politicians are starting to study the issue seriously. Options being discussed to “fix” Social Security include increasing the normal retirement age (again), privatization, investing a portion of the trust fund in stocks, and saving part of current federal budget surplus.

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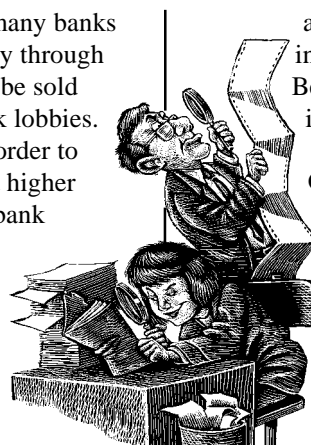
Investments Sold at Banks: Know the Risks

In today's deregulated financial services industry, many banks are selling investments that used to be available only through brokerage firms. It is not uncommon for people to be sold investment products, like variable annuities, in bank lobbies. With interest rates declining in recent years and in order to maintain their lifestyles, many people are seeking a higher rate of return than what is currently available with bank products.

Unfortunately, some new investors don't fully understand the risks associated with investing. Life is good as long as the stock market is rising and interest rates are falling. When the reverse happens

and the value of their investments declines, new investors tend to panic at the first sight of a paper loss. Below are some suggestions for those purchasing investments for the first time:

- ❶ Know that investments purchased at banks do not have the characteristics of deposit accounts. If you buy a CD, you can expect no loss of principal and a fixed rate of return until maturity. Investors, on the other hand, must expect the possibility of loss of principal and unpredictable returns. In exchange for accepting this uncertainty, however, history tells us that investors, especially those with stocks, are



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Tips For Reducing Household Expenses

Want to reduce expenses to free up some money to save or reduce debt? Consider the following suggestions:

- If you typically spend \$10 a week (or more) on lottery tickets, cut back and save the money instead.
- Transfer existing credit card balances to a low-rate card, or call current creditors and request a lower interest rate.
- Avoid credit card “nuisance fees” such as \$15 to \$25 late fees and “over the limit” fees for exceeding your credit line.
- Avoid using credit card advances due to their high interest rates, extra fees, and lack of a grace period.
- If you’re incurring late fees or interest because bills come due before you get paid, ask to have the due date changed.
- Carry less cash and plastic. If you have money with you, you’re likely to spend it. Ditto for ATM cards.
- Bring your own soda to work (and buy it on sale) instead of buying it in a vending machine, and you could save \$125 a year.
- Brown-bag your lunch. Buying lunch

at a deli at \$3.50 per day costs \$910 when multiplied by 260 work days per year.

- Ask your physician for generic drugs, where appropriate. When taking a drug over time, consider using a mail-order pharmacy.
- Take advantage of publicly-sponsored immunizations, clinics, and health fairs to obtain free or reduced-cost medical care.
- Take advantage of free or low-cost community services such as concerts, fairs, parks, beaches, and canine rabies clinics.
- Borrow videos, books, and magazines at the public library instead of paying for rental fees and subscriptions.
- Don’t buy insurance you don’t need. Consider increasing deductibles and take advantage of available discounts.
- Invest the savings from expenses that end. Examples are Social Security (if you earn the maximum taxable income before year-end), a car loan, and child care when a child gets older.
- Ask for discounts (e.g. hotel rooms). Asking “Is this the best you can do?” should save at least \$100 annually.



- Shop “alternative” vendors (e.g. flea markets, garage sales) for inexpensive tools, toys, appliances, and home furnishings.
- Buy car supplies (e.g. oil, anti-freeze, windshield cleaner) at a discount store, rather than a gas station.
- If a store is out of a sale item, request a raincheck and buy it later.
- Sign up for overdraft protection on your checking account to avoid unnecessary fees, and buy checks from mail order firms.
- Register both compliments and complaints to companies. Many send valuable products or cents-off coupons in reply.

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Strategies for Building Wealth Over Time

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- have more wealth and better health than singles.
6. “Take Care of Yourself”—Yes, this means all the things that our mothers told us to do: eat right, exercise, get enough sleep, etc. As the authors note, “What is the advantage of accumulating lots of wealth if you destroy your health in the process?” Specific examples of ways to both improve health and save money

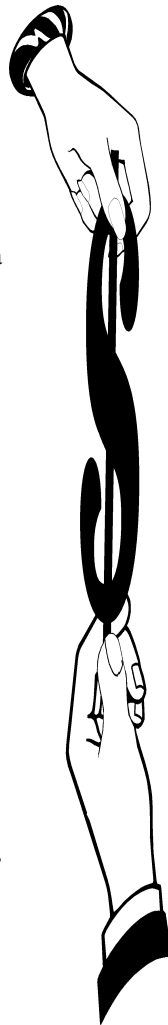
include not smoking and dealing with obesity.

7. “Take Prudent Risks”—Readers are encouraged to invest in stocks for long-term goals. The authors recommend index funds for their low-maintenance approach, diversification, and low expenses.
8. “Strive for Balance”—The importance of following personal principles and

having a positive attitude is discussed. Also, the importance of “giving back” to others once one achieves financial success also is explored. The authors admit at the end of the book that their eight rules are a tall order and that “we have both fallen down on several of the rules from time to time.” In other words, use the rules as a guide, but don’t expect perfection.

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Stretching Investment Income in Retirement



Probably the most serious concern of people entering retirement is “will I have enough income to sustain my lifestyle now and in the future?” Yes, there may be income coming from Social Security and a pension, but it might not be enough. Many retirees need to draw on their savings and investments to supplement their income once they are no longer in the workforce. Here are some tips to help you make the most of your retirement income and generate more, if needed:

- Consider selling assets such as the family home. Often retirees find themselves “house rich and cash poor.” To free up money that can be invested to produce income, downsizing a home, perhaps moving to a condo or rental apartment, maybe the answer. Also consider moving to a state that has lower housing costs. For example, according to *Worth Magazine*, a \$150,000 per year lifestyle in Manhattan or a high-priced metropolitan suburb may be duplicated in Fort Meyers, Florida for \$50,000.
- Reposition a portion of your assets to provide more income. Perhaps you have investment dollars in “growth” mutual funds that only produce capital appreciation. Instead, move the money into “equity-income” or “growth and income” funds that will give you dividend income as well as some growth. Do not reinvest dividends and capital gains any longer but take them in cash.
- Consider a reverse-equity mortgage. The upside of this type of mortgage is that it provides monthly and periodic payments, or a line of credit, to seniors (age 62 and above) with a paid-up home, based on their age and the home’s value. A reverse mortgage does not have to be repaid until the owner sells the home or dies, or it is no longer a primary residence. The downside of the arrangement is that borrowing costs are high and you are using up your home’s equity (and your children’s inheritance). Knowing all the facts before you commit is imperative.
- Move money out of passbook accounts. Liquid assets, such as dollars languishing in low-yield passbook accounts or no-interest checking accounts, could be transferred to a higher paying money market mutual fund or CD. Information about top-yielding funds is readily available in monthly personal finance magazines (e.g., *Money*, *Kiplinger’s Personal Finance*) as well many weekend business sections of newspapers.
- Have the right investment mix for your risk tolerance. Throughout retirement, try to keep at least 50% of your money in a diversified portfolio of stocks or stock-owning mutual funds. Having 60%-75% early on is better. You can decrease your initial stock allocation one percentage point per year without seriously affecting your ability to withdraw funds over 30 years.
- Know which money to spend first. Rely on Social Security, pension benefits, and money produced by taxable accounts before tapping tax-sheltered accounts. Dollars drawn out of a taxable account go much further than cash pulled out of a tax-deferred account. Why? You have already paid at least part of the taxes on assets in a taxable account. Money coming out of a tax-deferred account all comes out as taxable income.

Give a “Financially Sound” Graduation Gift

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- “no-load” stocks) so that even the first share of stock bought is commission free. This is an easy way for the new grad to continue investing and building a stock portfolio with small dollar amounts. You could also include with your gift a copy of *Buying Stocks Without a Broker* by Charles Carlson (McGraw-Hill, 1996).
- Take a little pressure off of your graduate and make a gift of a monthly payment or two on the graduate’s student loan. The recipient will appreciate the breathing room as the reality of “life after college” sets in.
 - A gift certificate for career clothing is very practical for the new grad. After all, for four years the student has worn practically nothing but jeans and sweats and probably doesn’t have a stitch of proper attire for job-seeking or the work world.
 - A comprehensive personal finance book will answer many of the financial “need to knows” of graduating seniors. Two good choices are *Making the Most of Money* by Jane Bryant Quinn (Simon & Schuster, 1997) and *Everyone’s Money Book* by Jordan Goodman (Dearborn, 1998).
 - Present your grad with a financial-planning organizer kit for all those important papers that will soon be accumulating and need to be filed. One such kit is “Home-File”, available at many office supply stores.

Four (or maybe more) years ago, your high school graduate took on the challenge of college—and made it! Reward your college graduate’s perseverance and hard work with a gift that keeps on giving: the power of smart money management.

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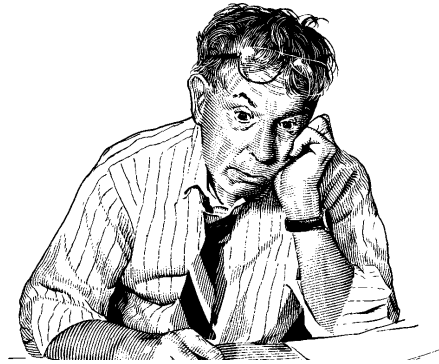
Steps to Take If You Lose Your Job

Job loss can happen to anyone today and, when it does, it can be devastating. The aftermath of unemployment is much like that of surviving other tragedies (e.g., death). There are stages of grief that must be worked through—from initial disbelief and anger—to grief and sorrow.

Persons losing a job may want to hide their feelings of shame, hurt, loss of self-confidence, and self-esteem. They know it is not their fault, but they cannot help but feel victimized by the unfairness of it all. They need space, support, and reassurance. They need to let family and friends know they welcome and appreciate their help.

Career counselors advise unemployed individuals to clarify their situation, take advantage of benefits due them, cut expenditures in keeping with income, and begin a job search quickly. Rather than questioning their capabilities and prospects, unemployed individuals must believe in themselves and persist in their efforts.

More frequently than not, jobs go to those who not only put their best foot forward, but are in the right place at the right time. A good way to proceed is to keep saying to yourself: “somebody is going to get a job today; why shouldn’t it be me?”



Loss of income can escalate the use of credit to make ends meet. Cutting expenses significantly from the very beginning and getting back to work as soon as possible can help greatly to head

off mounting debt. Many people wait too long to cut back on large expenses that they can no longer afford.

A variety of “resiliency factors” (e.g., a positive attitude, emergency savings) can help people cope better with the loss of a job. A study of unemployed workers conducted by Sylvia Yuen, Barbara DeBaryshe, and Ivette Rodriguez Stern in 1994-95 discovered the following about those who weather the experience of unemployment the best:

- Attitude was very important in maintaining family unity and staving off potential problem behaviors.
- Families used a combination of emergency assistance, help from family members, and frugal living to cope with intense financial pressures.
- Re-employment was not affected by age, ethnicity, or former job status.
- The most successful unemployed persons weighed their options, planned ahead, and took decisive action.

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Investments Sold at Banks: Know the Risks

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② You can’t be a successful investor with a “CD mentality.” If you absolutely can’t stand to see any loss of principal or fluctuation in return, you are probably better off keeping your money in cash assets. Otherwise, the stress and worry of seeing your principal drop in value, even if only for a short time, will cause you undue concern.

③ All banks that advertise the availability of investment products must include fine print that indicates these investments are not FDIC-insured and

that investors can lose money (e.g., the purchase of variable annuities with stock fund subaccounts during an extended market downturn). Take this warning seriously!

④ One way to earn a higher rate of return with no additional risk is to purchase a ladder portfolio of Treasury securities (e.g., bills and notes) with different maturities. The interest rate is slightly higher than many bank CDs, and earnings are not subject to state income tax.

⑤ Always know what you’re buying. Give your investments “the four year old test.” If you can’t explain them simply to others, it probably means you don’t understand them yourself. Ask questions until you do, or enroll in an investment course to increase your knowledge.

In today’s financial services environment, the lines have blurred. CD’s are sold by brokerage firms, and mutual funds and annuities are sold by banks. Regardless of where you purchase investments, be sure you understand the risks.