

# Money 2000 News



Volume 5, Number 4

Fall 2000

## Dear Friend of Money 2000™:

This is the 20<sup>th</sup> – and final – issue of *MONEY 2000 News*. As you know, this program was designed as a five-year campaign (January 1996 through December 2000) to encourage New Jersey residents to improve their financial well-being. As of June 2000, almost 2,000 participants statewide had saved or reduced their debt by a total of \$5.8 million. We will be collecting impact data for the last time in December 2000.

Of course, Rutgers Cooperative Extension will continue to provide financial education services, such as our new *Investing For Your Future* home study course and class

series. We'll also continue to offer periodic state personal finance conferences, county classes, the PowerPay computer debt reduction program, and personal finance press releases for New Jersey newspapers. We'll also continue to add new features to our MONEY 2000 Web site: [www.rce.rutgers.edu/money2000](http://www.rce.rutgers.edu/money2000).

Starting next year, you'll automatically be placed on the mailing list for our other statewide personal finance newsletter, *Money Matters*. This 8-page newsletter is mailed twice a year in the spring and the fall and it will contain inserts with information about local programs. Back issues

are available online. Go to [www.rce.rutgers.edu](http://www.rce.rutgers.edu) and click on "publications" and "family and consumer sciences."

It has been a pleasure having you as a program participant. Please complete your final report form when you receive it. Not only will this help Rutgers Cooperative Extension report the final impact of this program, but you also become eligible for the drawing for personal finance books.

Be healthy, wealthy, and happy!

Barbara O'Neill, Ph.D., CFP

Editor

## Handling an Inherited IRA

One of the most frequently asked questions regarding Individual Retirement Accounts (IRAs) has to do with the issue of how to handle an inherited IRA. Here are some guidelines.

If you are the beneficiary of an IRA from a spouse, you have several options. If you want to let the money grow tax-deferred, treat your deceased spouse's IRA as your own. You can make contributions to the inherited IRA or rollover the funds into your own IRA. Once you begin taking distributions, this income is taxable. If you begin receiving distributions before you reach age 59 ½, you may be subject to a 10 percent penalty for early withdrawals.

Should you need the money now, and you are not yet 59 ½, don't treat the inherited IRA as your own. This way you can take

the money right away – without the 10 percent penalty. The payout period for taking a distribution depends on the age of your spouse. If your spouse died after reaching 70 ½, you must continue to take distributions from the IRA at least as rapidly as your spouse was receiving them. If your spouse passed away before age 70 ½, the IRA plan will more than likely allow you either of two options:

**Option I** – You may withdraw the funds over your life expectancy. If you choose this option you don't have to begin distributions until December 31 of the year that your spouse would have reached 70 ½ OR December 31 of the year following the year your spouse died, whichever comes later. This often is the best course of action if you want a steady stream of income.

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- Do You Have Unclaimed Money? It Pays to Check
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# Long-Term Care Policies: Compare the Differences

The purpose of long-term care (LTC) insurance policies is to pay for nursing home stays. Many also cover home health care. They can provide other benefits as well, e.g., home-making benefits, if you can no longer care for yourself adequately. However, you should be aware of some of the nuances of these policies in order to end up with the coverage you want. Here are some guidelines to help you compare policies:

If you are getting a quote on two LTC policies, check to see if they both have the same kind of inflation protection. Very often, you'll see two different types of inflation riders. A "simple" inflation rider is figured on the original benefit amount. For example, if inflation runs at five percent a year and you have chosen to purchase a \$200 a day benefit, this "simple" inflation rider will give

you a \$210 daily benefit in year two ( $\$200.00 \times .05 = \$10.00 + \$200.00 = \$210.00$ ), \$220 in year three and so forth. Twenty years later, your benefit would inflate to \$400 a day ( $20 \times \$10.00 = \$200.00 + \$200.00 = \$400.00$ ). However, with a "compound" inflation rider, with the same five percent inflation rate assumed, each year's increase in benefit would be calculated on the basis of the amount paid the previous year. Your coverage still would increase to \$210 the second year, but in the third it would be \$220.50 ( $\$210.00 \times .05 = \$10.50 + \$210.00 = \$220.50$ ). That doesn't seem like much, but after 20 years, the compound inflation protection would make a difference.

A "compound" rider, particularly in an inflationary environment, provides bigger benefits, but it will cost more than a simple one and usually more than double the price of a policy with no inflation rider.

Another fine point between policies is how they handle homemaker benefits, e.g., cooking, cleaning, and shopping. Frequently, in order to be eligible for benefits under the LTC policy, you must require assistance with at least two of six "activities of daily living" (ADLs), e.g., dressing, walking, bathing, toiling, eating and transferring in and out of bed. It could be that you have suffered a cognitive impairment such as Alzheimer's disease and incur expenses from a licensed caregiver or facility.

Suppose, in the above scenario, a housekeeper can come in and take care of you. Or, what if a wife can take care of her ill husband but needs to hire someone to cook and clean? Will these situations be covered? Probably not. Most policies only cover care that is administered by licensed professionals. However, some policies are beginning to cover homemaking costs by family members.



You will also want to investigate whether the policies you are comparing cover stays in a nursing home but not in an assisted living facility (a facility that offers graduated care levels as needed). That is also changing. It's even possible to find LTC policies that cover assisted living and home care but not nursing home stays. This might be an option for someone who vows never to go into a nursing home.

Another point to compare between LTC policies is how they pay benefits. Is it by reimbursing expenses or through indemnification? For example, if you have a reimbursement policy that pays \$200 a day and you use only \$100 because you use home care instead, you'll receive \$100. On the other hand, with an indemnity LTC policy and a benefit of \$200 a day, that's what you get. You can use the \$200 any way you want. Although the indemnity policy might seem more desirable, it's not necessarily more expensive. Some insurance companies write it into a policy without increasing the cost.

For more information about specific policies available in New Jersey, contact your local CHIME office or county Department of Aging.

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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.

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# Successful Financial Management Takes Planning

Successful financial planning begins with “building blocks” like goal setting and the preparation of financial statements. Two of the most common financial statements are a balance sheet (net worth) and cash flow analysis.

Setting financial goals is a lot like planning your next vacation. In order to develop both a financial plan and a travel itinerary, you must know your starting point and destination and the time frame and cost of the “journey.”

Financial goals should be “SMART” goals. SMART is an acronym for Specific, Measurable, Attainable, Realistic, and Time-related. In other words, financial goals should have a definite outcome, deadline, and be within reach, based on personal income and assets.

Many financial goals, such as “put \$2,000 per year into an IRA or buy a \$15,000 car in 5 years” require saving money. Others, such as “make a list of debts” and “calculate net worth” require only time.

The more specific a financial goal, the easier it is to determine how much savings is required. You simply work backwards to break a large goal into smaller pieces. For example, that \$15,000 car in 5 years will require \$3,000 in annual savings or about \$58.00 per weekly paycheck (\$3,000 divided by 52).

Financial statements combine pieces of financial data and provide a summary of financial status and benchmark to measure progress. Net worth is often described as a financial “snapshot.”

Very simply, it is the difference between what you own (assets) and what you owe (liabilities).



If Jane Smith owes \$100,000 on a mortgage, car loan, and credit cards and has \$250,000 of assets, including her home, IRA, and mutual funds, her net worth is \$150,000. Assets are always priced at fair market value and can be grouped as liquid (e.g., bank account), investment (e.g., bonds), or use (e.g., car) assets.

Cash flow statements link two additional pieces of financial data: income and expenses. To prepare an accurate report, track family spending for a month or two. Get everyone involved and carry a notebook to write down expenses. Then compare spending to take-home pay to determine if cash flow is positive (income greater than expenses) or negative (expenses greater than income). If Jane Smith earns \$3,000 monthly, for example, and spends \$3,100, she has \$100 of negative cash flow.

From cash flow figures, a spending plan can be developed. A spending plan is a written plan for a specific time period for spending and saving money. Savings for future goals is a key component. To “find” money to save, study your cash flow statement to identify expenses that can be reduced (e.g., cutting food costs \$10 per week) or ways to increase income (e.g., changing tax withholding to boost net pay).

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## Credit Tips For Consumers

Despite the 1975 Equal Credit Opportunity Act that forbids discrimination on the basis of gender or marital status, many people still have difficulty borrowing money. This is especially true if they lack a credit history and are “invisible” to lenders. Below are ten tips to obtain and maintain credit at an affordable price:

- ❑ If you lack a credit history, open a savings account in your name. Next apply for a secured loan, using the account as collateral. Make payments promptly. Then apply for a credit card. If you’re turned down, obtain a secured card backed by money sent to the issuer. Later, apply again for a “regular” card after you’ve developed a history of prompt repayment.
- ❑ Check your credit file regularly for errors. New Jersey consumers can obtain a credit report once a year. If you are denied credit, you can get a free report from any credit bureau. Simply write to the bureau that supplied information to the creditor within 60 days of notification. If the information is inaccurate, request a reinvestigation.

- ❑ Also check your credit file to make sure that joint accounts are reported in both your name and your spouses. If they aren’t, advise the creditor accordingly.
- ❑ Obtain a low-interest credit card especially if you revolve a balance from month to month. For a list of low-interest credit card issuers, call RAM Research at 800-344-7714 or check the Website [www.cardtrak.com](http://www.cardtrak.com).
- ❑ Negotiate with existing creditors to obtain a lower interest rate or annual fee. Roleplay your request with a friend to practice sounding assertive.
- ❑ Avoid high-cost credit card features including \$15 to \$20 late charges, over-the-limit fees for exceeding your credit line, cash advances, skip-a-payment options, and credit cards that use a two-cycle average daily balance calculation.
- ❑ Always pay more than the minimum payment. Otherwise, you could carry a four-figure credit card balance for decades. Also pay credit card bills as soon as they arrive. This re-

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# Tips For Beginning Investors

Many people have recently started to invest for the first time. Below are some tips for successful investing:

- Develop an “investor’s mindset” when switching from savings products (e.g., CDs) to investments (e.g., growth funds). Savers can expect no loss of principal and regular interest payments. Investors must accept a potential loss of principal and irregular payouts.
- Match the time frame of financial goals to investment characteristics. Stocks have historically outperformed other investments over long time periods and are recommended for long-term goals like retirement. On the other hand, stocks are very volatile and often lose value during short time frames. If a financial goal is less than three to five years away, select alternative investments such as Treasury securities.
- Dollar cost average investment purchases to reduce the average cost. Mutual funds are ideally suited for dollar cost averaging. Simply invest

a fixed amount (e.g., \$100) at a regular time interval (e.g., monthly).

- Take advantage of tax-advantaged investments. Examples include individual retirement accounts (IRAs), rental real estate, tax-deferred employer retirement plans (e.g., 401 (k)s), annuities, and the purchase of a home.
- Review your tolerance for investment risk. Consider how much loss of investment principal (e.g., 20%) you could stand without losing sleep. Never invest in products you don’t understand or feel comfortable with. If you can’t explain an investment simply to a friend, you probably don’t understand it well yourself.
- Invest in tax-exempt securities, such as municipal bonds, if they provide a higher after-tax return than taxable securities. Divide the available tax-exempt rate by 1 minus your tax bracket (e.g., 15%, 28%). This provides its taxable equivalent. For example, a 5% tax-exempt bond provides the equivalent of 6.94% (5 divided by .72) to persons paying the

28% tax rate. If taxable investments pay less than 6.94%, buy a tax-exempt product.

- Diversify your investment portfolio. Purchase different types of investments (e.g., stocks, bonds) or shares of unit trusts or mutual funds that contain many securities.
- Increase your investment knowledge with periodicals like *Money* and *The Wall Street Journal*. Other information sources include certified financial planners, adult education courses, and investment clubs.
- Review your investments regularly and replace poor performers. Repositioning of assets should also be considered when financial goals are achieved and to adjust to changes in the economy or personal circumstances (e.g., marriage, divorce).



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# Tips For Times of Financial Distress

**D**ivorce and widowhood are life-changing events. Consequences of decisions made at these times of emotional distress can last for decades. Recommended financial coping strategies are listed below:

- ◆ Postpone major decisions in the early stages of loss. It’s okay to take your time. Many people feel they must invest insurance or settlement proceeds immediately. Others hastily sell their home, change jobs, or make large gifts or purchases. Place money that is received in short-term CDs or a money market fund initially. Reinvest it only when you’ve had time to thoroughly explore investment options.
- ◆ Plan for a reduced income following death or divorce. Develop a spending plan based on your income and expenses alone, plus the financial needs of children. Include income provided by transferred assets and spousal support. Explore ways to increase income and reduce spending.
- ◆ Consider whether you can afford to maintain the family home. Despite a strong emotional attachment and desire to avoid disrupting children’s lives, many people simply don’t earn enough alone to finance a home that formerly required two paychecks. Base your decision on the numbers. Other options include selling the house and investing the proceeds or, in the case of divorce, selling your share or trading it for

another marital asset (e.g., pension).

- ◆ Maintain health insurance following loss of spousal coverage. Under the COBRA law continued group insurance can be purchased for up to 3 years if your ex-spouse’s company has at least 20 employees. Purchase an individual policy as soon as possible, though, in case you become ill (and uninsurable) during this time.

## Strategies at Divorce:

- ◆ Consider the tax consequences of settlement options before signing a binding agreement. Alimony is taxable to the recipient while child support is not. Exemptions for children usually go to the custodial parent, unless waived. Factor taxes and sales expenses into the valuation of assets.
- ◆ Require your ex-spouse to maintain life and disability insurance to insure continuation of support payments. Request that notice of premium nonpayment be sent to you to avoid lapsing the policy.

## Strategies for Widows:

- ◆ Contact Social Security to apply for benefits. Widows are entitled to payment at age 60 or at any age with children

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**Money 2000 News**

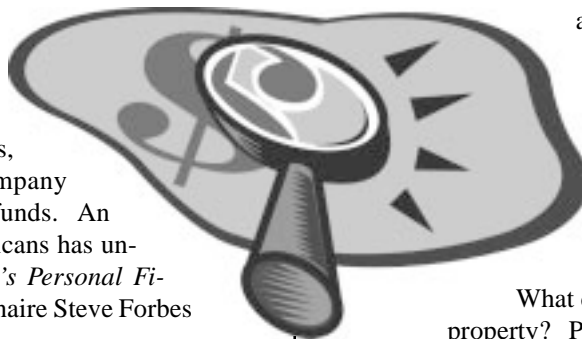
# Do You Have Unclaimed Money? It Pays to Check

It is estimated that some \$300 billion in personal financial assets are “missing” nationwide. This figure includes wages, insurance proceeds and dividends, bank accounts, stock and bond payments, utility company deposits, pension benefits, and tax refunds. An estimated one out of every eight Americans has unclaimed property. In 1998, *Kiplinger’s Personal Finance Magazine* found that even millionaire Steve Forbes was due some money.

How does so much money get “lost” by so many people? There are a number of reasons:

- ◆ People neglect to retrieve a utility security deposit after moving
- ◆ Stock dividends or other payments are sent to the wrong address and never forwarded
- ◆ People move or switch banks and fail to close out all their accounts
- ◆ People change jobs and former employers don’t know where to send pensions or final wages
- ◆ Clueless heirs are unaware that they are entitled to life insurance or cash left by a deceased relative
- ◆ “Snowbirds” lose mail between their summer and winter homes

The good news is that, thanks to the Internet, it’s easier than ever to search for unclaimed property. A relatively new Web site, [www.missingmoney.com](http://www.missingmoney.com), run by the National Association of Unclaimed Property Administrators, allows people to easily conduct



a search. Other helpful Web sites are [www.ifast.com](http://www.ifast.com) and [www.state.nj.us/treasury/taxation/ucpfaq.htm](http://www.state.nj.us/treasury/taxation/ucpfaq.htm) (New Jersey unclaimed property agency). For those without Internet access, the state unclaimed property office can be contacted at P.O. Box 214, Trenton, NJ 08646 or by phone at 609-292-9200.

What does the state have to do with unclaimed property? Plenty. By law, after a certain period of time (generally 5 to 10 years), unclaimed assets must be turned over to the state through a process called escheat. Hundreds of millions of dollars are escheated to states each year. Companies that don’t comply can be assessed fines.

States keep this money until a rightful owner shows up to claim it. It is advisable to conduct a search of New Jersey, every other state you (or a deceased relative) have lived in, and New York and Delaware, because that’s where a lot of financial institutions are incorporated. If you are due money, you’ll be sent an abandoned property claim form, which should be returned with proof of identity.

Another source of missing money is the Internal Revenue Service (IRS) at 800-829-1040. Last year, the IRS got back almost \$72 million in undeliverable tax refunds from over 100,000 taxpayers. You can also check with the Pension Benefit Guaranty Corporation at <http://search.pbgc.gov> for missing pensions.

Will you become wealthy from unclaimed property? Probably not. While there are some exceptionally large payments that occasionally make headlines, most claims are less than \$1,000. Nevertheless, a dollar is a dollar. Why not check to see if there’s hidden treasure with your name on it?

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## Handling an Inherited IRA

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**Option II** – You may choose to withdraw the entire account balance by the end of the fifth year following the year of your spouse’s death. This choice is best if you want or need a lump sum payout.

By using the above options, money in an inherited IRA is not subject to the 10 percent penalty for early withdrawal if you’re not yet 59 ½. You may, however, be subject to this penalty if you treat the IRA as

your own.

If you inherit an IRA from someone other than a spouse, the rules are similar to those above except for two points: 1) You can’t roll the inherited IRA into your own IRA account. 2) You don’t have the choice of waiting until the deceased would have reached 70 ½ before you must begin taking distributions. You must begin distributions no later than December 31 of the year

following the year of the owner’s death. Once you begin receiving payments, you may still choose from Option I or II as described above, to receive funds from the account. That is to say, either withdraw the funds over your life expectancy OR withdraw the entire balance of the IRA by the end of the fifth year following the death of the holder.

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# Book Describes Wealth-Building Strategies



Although big lottery winners and the *Who Wants to Be a Millionaire?* game show get lots of media attention, most wealthy Americans accumulate their assets slowly over time. In the book *Eight Steps to Seven Figures*, author Charles Carlson describes common traits of 170 millionaire investors. Like previous books such as *Getting Rich in America* and *The Millionaire Mind*, these keys to success boil down to patience and discipline. Below is a brief summary of the eight steps:

- 1. Start Investing Now**— Time is an investor's greatest ally. Many of the millionaires that were profiled started investing in their twenties or thirties. The longer a person waits to get started, the more they need to invest to accumulate \$1 million by age 65. For example, a 30-year old would need to invest \$202 per month while a 40-year old would need to set aside \$629 monthly.
- 2. Establish a Goal**— Carlson notes that, without goals, maintaining a regular investing program is like maintaining a regular exercise program— difficult to sustain. Goals provide motivation and direction. Specific goals with a time deadline and a price increase commitment and allow investors to dissect a goal into a series of

“mini goals” that increase one's sense of accomplishment.

- 3. Buy Stocks and Stock Mutual Funds**— Stocks provide the best chance for growing money over time. To find out how long it takes for a sum of money to double, choose a rate of return and divide it into 72. Since 1926, the average annual return on stocks has been around 11%. Using the Rule of 72, this means stock returns, on average, double every 6.54 years (72 divided by 11). Bonds and cash assets, on the other hand, take much longer.
- 4. Swing for Singles**— Many millionaires are not great stock or mutual fund pickers. Instead of trying to pick the latest “hot” investment, they pick quality investments and hold them long term. They also stay away from investments they don't understand and purchase no-load mutual funds and low-cost stock index funds to reduce investment expenses.
- 5. Invest Every Month**— Well over half of the millionaires that were studied invested at least once a month. This enables investors to take advantage of “time diversification.” In other words, by spreading investments over time, you limit the risk of buying at peak prices and lower the average cost of shares. Another good strategy to

follow is dollar-cost averaging. This means investing a regular dollar amount at a regular time interval (e.g., monthly).

- 6. Buy and Hold**— Three-quarters of the surveyed millionaires hold stocks for more than five years. Infrequent trading reduces taxes, transaction costs, and “reinvestment risk” (the risk associated with putting money somewhere else). Many people try to be “market timers” and pull their money out of stocks when the market drops. They run the risk of not owning shares when prices go up.
- 7. Take What Uncle Sam Gives You**— Millionaire investors take full advantage of tax breaks such as the 20% tax rate on long-term capital gains, Roth IRAs, and tax-deferred 401(k) plans.
- 8. Limit Shocks to Your Finances**— “Shocks” are events that tend to decrease wealth and include frequent job hopping, moving and investment trading, very large families, and divorce. According to Carlson, many millionaires tend to have stable lifestyles. Carlson says that their wealth increases because “interruptions kill investment programs.” They rob a portfolio of time and compounding.

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## Tips For Times of Financial Distress

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under 16. If your spouse was a veteran, apply for veterans' benefits (e.g., burial at a national cemetery).

- ◆ Contact your spouse's current and past

employers about spousal pension benefits, continued health insurance, 401(k) plan distributions, and final salary payments. If your spouse had life insurance, contact the issuer in writing and apply for benefits.

- ◆ File your spouse's will promptly for probate. Consider hiring professional help for preparation of estate tax forms. Obtain sufficient death certificates to transfer the title of assets and claim benefits (e.g., life insurance).

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## Credit Tips for Consumers

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duces the average daily balance on which interest is charged.

- Be wary of “enhanced” credit cards that offer rewards such as frequent flyer miles and product rebates. If

you carry a balance, the interest and fees will probably outweigh the bonus.

- Don't overload yourself with debt. As a rule, credit card and car loan payments should not exceed 15% of take-home pay.

- If you can't pay your bills, contact creditors immediately. Request (in writing) a reduced payment schedule. Send everyone something to avoid harassing notices and negative remarks in your credit file.

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