Dear Friend of Money 2000:

Exciting things are happening at Rutgers Cooperative Extension with respect to the MONEY 2000 program. Below are some examples:

- We recently surveyed county Family & Consumer Sciences Educators regarding MONEY 2000 program progress. Over $700,000 of increased savings and debt reduction has been reported statewide by participants just like you. This is money available to achieve your individual financial goals (e.g., a car, college, or retirement).

- Rutgers Cooperative Extension recently hired a public relations firm to market MONEY 2000 throughout New Jersey. Look for expanded news coverage soon. We’ve also hired Karen Sharp of Newton to make follow-up calls to participants who have not returned their six-month survey. If Karen calls you, please DO NOT hang up on her. All she’ll be asking is the amount of change in your savings and debt level. No long “speeches” and no prying questions. We do not ask about any “sensitive” data about your finances (e.g., income or credit card balances) and the call should take a minute or less.

- Replication of MONEY 2000 has increased (others know a good thing when...

Continued on page 6

Social Security: What You Need To Know

Many people have questions about Social Security. Below is information you need to know to make future financial plans:

- Your Social Security record should be checked every three years to make sure that earnings are recorded properly. Call 1-800-772-1213 to obtain form SSA-7004, “Request for Earnings and Benefit Estimate Statement.”

- People need 40 quarters (10 years) of employment to qualify for Social Security retirement benefits.

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DRIPs: The Perfect Solution for the Small Investor

A broadly diversified portfolio of stocks, purchased through dollar-cost averaging, can help investors overcome the natural tendency to “buy high and sell low.” What is dollar-cost averaging? It is a strategy of investing a set number of dollars on a regular basis, regardless of how many shares those dollars buy. Dollar-cost averaging takes the emotion out of investing. You decide how many dollars you intend to invest on a schedule you set up in advance, (e.g., $100 per month).

Wide diversification of assets and dollar-cost averaging are techniques usually available to people with a lot of money to invest or to investors in mutual funds...

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Topics Covered

- DRIPs: The Perfect Solution for the Small Investor
- Social Security: What You Need To Know
- Pay Credit Cards Quickly to Reduce Interest Costs
- Seven Ways to Reduce Credit Card Costs
- Knowledge of Tax Bracket Helps Make Investment Decisions
- Intergenerational Financial Education
- How to Match Your Investments to Your Goals
- Plan Ahead: Important 1997 Retirement and Tax Numbers
Pay Credit Cards Quickly to Reduce Interest Costs

You’d like to pay your credit cards off but you simply can’t afford it. So you put the bill on the bottom of a stack of mail and, just before the due date, you send in a partial payment. You’ll deal with it next month, or maybe the next month, or maybe the month after that.

Cheer up! There is a way to reduce your debt when you carry a balance on a credit card. First, check the fine print on the statement to see what method the card company uses to compute the interest charged. If you find “average daily balance” listed, plan to make your payments as soon as the bill arrives. You’ll pay less interest because there will be fewer days with a higher balance.

With the average daily balance method, interest is figured on the sum of the daily balances for the billing cycle (the time between a bill and the next one) divided by the number of days in the cycle. For example, your bill is $1,000 and there are 30 days between bills. The credit card company receives your payment on day 20.

If you pay on day 20:
- Balance day 1 = $ 1,000
- Balance day 2 = $ 1,000
- and so on until day 20 = $ 18,000
  (18 x $1,000) = $ 20,000
- $500 payment day 20
- Balance day 21 = $ 500
- Balance day 22 = $ 500
- Balance day 23-30 = $ 4,000
  (8 x $500) = $ 5,000

Total daily balances = $ 25,000
Average daily balance = $25,000 divided by 30 days = $ 833.33
Interest is charged on $833.33, instead of the $500 you still owe. At a 1.65% monthly rate (19.8% annually), the interest charge would be $13.75 ($833.33 x .0165).

If you pay on day 5:
- Balance day 1 = $ 1,000
- Balance day 2-5 = $ 5,000
  (4 x $1,000) = $ 5,000
- $500 payment day 5
- Balance day 6 = $ 500
- Balance day 7 = $ 500
- Balance day 8–30 = $ 11,500
  (23 x $500) = $ 12,500

Total daily balances = $ 17,500
Average daily balance = $17,500 divided by 30 days = $ 583.33

By paying on day 5, instead of day 20, interest is charged on $250 less! At the same 1.65% monthly rate, the interest charge would be $9.63 or over $4 less ($833.33 x .0165).

Depending on the interest rate charged and the balance carried, paying a credit card bill as soon as it arrives could save hundreds, even thousands, of dollars over time.

The next time you get a credit card bill that you’d normally let sit on your desk for 2–3 weeks before it is due, pay it right away. Paying your bill promptly—early in the billing cycle—will decrease the average daily balance and, hence, the total interest charged.

Source: JoEllen Saumier, Cornell Cooperative Extension

Seven Ways to Reduce Credit Card Costs

Credit card bills got you down? Below are seven ways to reduce the costs of borrowed money:

1. Switch to a low-interest credit card. This is especially important for the approximately 70% of credit card users who carry a balance from month to month. Why pay 18% or 19% interest (or more) when you can probably get a credit card for 12%, or even less, with a short (e.g., 6-month) “teaser rate”? To obtain a list of issuers of low interest credit cards, call RAM Research at 800-344-7714 or Bankcard Holders of America at 540-389-5445.

2. Avoid using high-interest department and specialty store credit

Continued on page 6
Knowledge of Tax Bracket Helps Make Investment Decisions

Many people wonder what tax bracket they are in. This is especially important to know when you’re making a choice between a taxable investment (e.g., corporate bond) or a tax-free alternative (e.g., municipal bond). You want to choose the investment that provides the highest after-tax return.

Below is a list of individual tax rates for 1997. To find your tax bracket, simply select one of the four filing status categories that applies to your household and locate the appropriate income range. Note that these figures are for taxable income, which is the figure that you look up in the tax table after subtracting available deductions, exemptions, and credits.

### Individual Tax Rate Schedules for 1997

<table>
<thead>
<tr>
<th>Taxable Income ($)</th>
<th>Tax Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married Filing Jointly:</td>
<td></td>
</tr>
<tr>
<td>0 – 41,200</td>
<td>15</td>
</tr>
<tr>
<td>41,201 – 99,600</td>
<td>28</td>
</tr>
<tr>
<td>99,601 – 151,750</td>
<td>31</td>
</tr>
<tr>
<td>Head of Household:</td>
<td></td>
</tr>
<tr>
<td>0 – 33,050</td>
<td>15</td>
</tr>
<tr>
<td>33,051 – 85,350</td>
<td>28</td>
</tr>
<tr>
<td>85,351 – 138,200</td>
<td>31</td>
</tr>
<tr>
<td>Single:</td>
<td></td>
</tr>
<tr>
<td>0 – 24,650</td>
<td>15</td>
</tr>
<tr>
<td>24,651 – 59,750</td>
<td>28</td>
</tr>
<tr>
<td>59,751 – 124,650</td>
<td>31</td>
</tr>
<tr>
<td>Married Filing Separately:</td>
<td></td>
</tr>
<tr>
<td>0 – 20,600</td>
<td>15</td>
</tr>
<tr>
<td>20,601 – 49,800</td>
<td>28</td>
</tr>
<tr>
<td>49,801 – 75,875</td>
<td>31</td>
</tr>
</tbody>
</table>

Note that there are also two higher marginal tax brackets, 36% and 39.6%. These are in effect for upper income taxpayers with incomes exceeding the upper limit of the 31% rate.

The table above only lists tax rates for federal income tax. It does not include New Jersey income tax. To determine your combined (federal and state) income tax bracket, use the following formula:

\[
(100\% - \text{Federal tax bracket}) \times \text{State tax bracket} = \text{Effective state tax bracket}
\]

For example, if you are in the 6% New Jersey tax bracket and the 28% federal tax bracket, your effective state and local tax bracket would be 4.32%.

\[
(100\% - 28\%) \times 6\% = 4.32\%
\]

Next, add your effective state tax bracket to your federal tax bracket to determine your combined tax bracket:

\[
\text{Federal tax bracket} + \text{Effective state tax bracket} = \text{Combined tax bracket}
\]

\[
28\% + 4.32\% = 32.32\%
\]

A fact sheet that compares equivalent taxable and tax-exempt investment yields is available by sending a self-addressed, stamped envelope to Rutgers Cooperative Extension of Sussex County, 3 High Street, Newton, NJ 07860.

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Intergenerational Financial Education

Have you ever heard that we can learn a lot from children? It is true. Children often teach us valuable lessons about life, even aspects about financial goal setting and planning. Often the best classroom settings are focused around modeling adult or parent behavior. So, envision your “home” as a classroom with collaborative learning between adult and child.

Rutgers Cooperative Extension offers financial resource education through Money 2000, a personal finance program. Listed below are some helpful hints to encourage adult-child financial education. Financial education is not only what you learn but how you learn. The benefits of including all family members in financial education include reinforcing education, inviting a relaxed and creative atmosphere, and encouraging interaction.

There is no time like the present to start planning financially. If you have the opportunity to spend time with a child, you can instill “smart” financial planning ideas. It is a time where both parties can contribute to financial issues evoking ownership and responsibility. You probably have heard “Can I have this?” or “I need some money.” or “Just write a check.” Yes, these statements and questions are humorous, yet even as adults these thoughts cross our minds. So, why not take advantage of this teaching opportunity?
How to Match Your Investments to Your Goals

Although there are a variety of specific investment objectives, they usually fit into three broad categories: safety, growth or income. Safety relates to how secure your principal is. The criteria is that there is little or no risk of losing part of the dollars you invest. Growth refers to appreciation in an investment’s value. If its “price” goes up, you can sell it for more than you paid. However, it’s important to remember that time is the ingredient usually needed to achieve investment growth. Income investments, on the other hand, offer regular payments over an extended period of time beginning soon after you make the investment.

It is very likely that your investment goals fall into at least one or two of these camps. If, for example, you are saving for a young child’s college education or building a nest egg for your retirement, you are probably most interested in growth investments. You may even be willing to take on more risk to achieve your goal if you have a long enough time horizon.

However, if you are retired or about to be, and will be depending on the income your portfolio generates to supplement your pension or Social Security, your primary investment objective will be income with safety a close second.

Probably the most important key to successful investing is to make certain that your financial goal matches up with the objective of your chosen investment. This may be a more difficult task for some than others. If you put together a portfolio piecemeal over the years, without any overall strategy, you may have collected a hodgepodge of mutual funds, individual stocks and bonds or annuities that don’t meet your specific needs as well as they should. Too often people purchase the “hot” investment of the moment, are sold unsolicited over the telephone or try to help friends out by buying an investment they are promoting. Thus their portfolios could easily hold to many growth investments when what they really need is income vehicles.

On the other hand, you may, like some investors, take the line of least resistance and simply place all your money into the most convenient and secure vehicle you can find—without any regard to what you are saving for. More often than not, this instrument will be money market funds or certificates of deposits (CDs) that are continually rolled over into new ones as they mature. What you may really be looking for is long-term growth for goals 10 to 15 years away but instead have investments that are set up to generate current income. You would be much better served if you shifted at least part of your assets into growth-type investments, like stocks or stock mutual funds. Then your portfolio would match more closely with your investment goal as well as produce better results. $ 

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Plan Ahead: Important 1997 Retirement and Tax Numbers

Each year, a variety of important numbers used in income tax preparation or retirement planning are adjusted for inflation through a process called indexing. These numbers often determine what people are encouraged or discouraged to do financially. For example, the amount a retiree can earn without a reduction in their Social Security benefits or the amount a worker can save in their 401(k) plan. Below is a list of “key numbers” for 1997:

Retirement Plans—The maximum amount that can be contributed to an employer 401(k) or 403(b) plan in 1997 is $9,500. These numbers remain unchanged from 1996. 401(k)s are a tax-deferred plan for employees of for-profit companies while 403(b)s are designed for school, university, and non-profit employees. The maximum that can be contributed to a Section 457 plan for county or municipal government workers is also the same as 1996: $7,500.

Medicare—The monthly premium for Part B coverage in 1997 is $43.80.

Social Security—The maximum income that can be taxed in 1997 is $65,400. The Social Security (FICA) tax rate is 7.65% for employees and twice that amount (15.3%) for self-employed individuals. Of the 7.65%, 6.2% pays for retirement benefits and 1.45% is spent for health insurance (Medicare). 1997 Social Security benefits were increased 2.9% for inflation.

Income Taxes—1997 is the first year that both spouses in a single-earner married couple can each contribute $2,000

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**Intergenerational**  
*Continued from page 3*

First, planning begins with a thought. Cultivating and growing this thought includes goal setting, prioritizing, determining needs vs. wants, making a decision, and evaluating the process. Here are some hints to encourage financial planning and increase family interaction:

- Determine a tangible goal for you and your child or children based on allowances or part-time jobs.
- List ways to effectively save money, i.e. starting a checking or savings account, investigating the stock market, etc.
- Determine family and individual financial wants and needs.
- Investigate and explore the options listed above e.g., surf the web for information, visit local libraries, interview local bank and lending institutions, view financial videos, role play both positive and negative financial decisions.
- Act out your decisions! Make sure you apply and plan action—planning will go nowhere without movement.
- Evaluate your actions. Be objective and clear. Encourage all members to participate in this process.

After you have completed these steps, you are ready to make a decision. Yes, action is essential! This will then enable you to evaluate your efforts. Evaluation does not have to be time consuming; however, it needs to be precise. Success is not merely when you see growth, but when you learn from all experiences. Incorporating financial education in the family is a useful idea because it creates accountability and generates fun interaction! $  

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**Plan Ahead**  
*Continued from page 4*

to an individual retirement account (IRA). The 1997 personal exemption amount is $2,650, which will phase out after a $121,200 income for singles and a $181,800 income for joint returns. The standard deduction for 1997 tax returns will rise to $4,150 for singles and $6,900 for married couples filing jointly.

Also indexed for inflation this year are the taxable incomes that fall within the five Federal income tax brackets: 15%, 28%, 31%, 36%, and 39.6%. These numbers are increased annually to avoid “bracket creep.” This is where people would otherwise pay higher taxes on incomes that are basically just increasing with inflation. $  

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**Social Security**  
*Continued from front page*

In 1997, a quarter of coverage requires $670 of earnings, or a minimum of $2,680 earned during the year for four quarters.

- The maximum Social Security benefit paid in 1997 is $1,326 per worker. A person’s Social Security benefit is based on their highest 35 years of earnings. The years don’t have to be continuous, however, as many people take “breaks” in their work history for schooling or child-rearing.
- The earliest age workers can receive Social Security retirement benefits is 62. The permanent reduction in benefits at ages 62, 63, and 64 is currently 20%, 13.3%, and 6.6%, respectively, but will increase as baby boomers get closer to retirement age. For retirement between ages 62 and 65, the benefit reduction is calculated at a rate of 5/9 of 1% a month.
- Baby boomers and those born later will need to wait longer to collect a full retirement benefit. Under current law (things could change again), persons born from 1943-1954 will need to be 66 and those born in 1960 and later will need to be age 67.
- Workers who retire after age 65 receive delayed retirement credits for the years when they do not receive a check. These credits are scheduled to increase in future years as an incentive to remain in the work force longer.
- Earnings limits for Social Security recipients in 1997 are $8,640 for those age 62–64 and $13,500 for 65–69 year olds. Recipients who earn more than these amounts have their benefits reduced according to a set formula. After age 70, Social Security recipients can earn any amount of money without affecting their benefits. By 2002, the annual earnings limit for 65–69 year olds will increase sharply to $30,000. Special monthly earnings limit rules apply for people in their first year of retirement.
- New Social Security recipients should apply for benefits about 3 months before receipt of their first check. Information needed includes: an original birth certificate, W2 forms for the past two years, a marriage certificate, a death certificate (for widows), proof of military service, and bank direct deposit information. Direct deposit is now required for all new claims. $  

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**DRIPs**  
*Continued from front page*

funds. If you tried to make small regular purchases of stock in several individual companies through a broker, you could pay almost as much in commissions than the value of the stock you bought. The quandary for many people is how to achieve diversification and use dollar-cost averaging on a limited budget.

The answer to the small investor’s prayer is purchasing stock through company-sponsored dividend reinvestment plans (DRIPs) that also permit optional cash investments. DRIPs let you re-invest your dividends and invest extra cash directly through the company for little or no charge. Hundreds of companies allow investors to purchase from as little as $10 to as much as $10,000 worth of stock every month without any brokerage commissions or fees. In order to participate though, you must already own one share of stock which, in many cases, you would purchase through a broker.

However, there is a way to avoid brokerage commissions altogether. A growing number of companies let you buy your initial share of stock directly from the company. More than 180 companies have created Direct Purchase Plans (DPPs) that allow anybody and everybody to buy stock directly. Most DPPs have low initial minimums (usually $50–$250) and it’s easy to get started. Simply contact the company or bank that runs the plan and request an enrollment form. Complete the application, add your check and drop it in the mail. Done!

You can get a free list of companies that offer DPPs by writing to the “DRIP Investor,” 7412 Columet Ave., Hammond, Indiana, 46324. To get more detailed information about each plan, a good reference is Charles Carlson’s book, *No-Load Stocks*, published by McGraw-Hill.

However, DPPs also have a potential drawback if you are in a rush to buy or sell your shares. Most plans process all buy orders on a set day or days of the month (listed in the prospectus) and it usually takes five to ten days to sell shares. In other words, you can’t pinpoint your buy and sell prices. That usually works out fine for people who are investing for the long term.

The bottom line is: no broker’s commission means more profits stay in your pocket. You really can build a diversified stock portfolio on a shoestring! $  

**Dear Friend**  
*Continued from front page*

they see it too!). As of June 1997, nine other state Cooperative Extension programs and an air force base in Alaska are implementing the MONEY 2000 program. Nationwide, potential impact is in the billions of dollars.

- Perhaps, the most exciting news of all, Rutgers Cooperative Extension will host our first statewide MONEY 2000 conference, “Countdown to 2000: Financial Strategies For Your Future,” on Saturday, November 8. MONEY 2000 participants will enjoy a discounted registration fee of $15 (all others pay $20). A brochure is enclosed with this newsletter. Note that we have two speakers of national stature: Richard Eisenberg, executive editor of MONEY magazine, and Brenda Buttner, host of CNBC’s personal finance show, “The Money Club.” A choice of workshops, exhibits, lunch, and door prizes complete the day. I hope that you can join us. Have a great summer and remember to always “Pay Yourself First.” $  

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

**Seven Ways**  
*Continued from page 2*

1. Seek cheaper sources of money  

Many alternatives might include borrowing against a cash value life insurance policy or 401(k) plan, family loans, and borrowing from a credit union.

2. Negotiate a discount from lenders.  

Many credit card issuers will reduce annual fees and/or interest rates upon request. Call them on their toll-free number and hint that you will switch to another credit card unless your request is honored. $  

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

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**Money 2000 News**