Dear Friend of Money 2000:

Fall is here and, once again, the seasons are changing. Any season of the year, however, is a great time to set up a regular savings program. By doing so, you’ll have funds to achieve your financial goals, such as a family vacation next summer.

First, identify a specific amount to save each payday. Regular savings in small amounts is generally more effective than setting aside larger sums all at once. To get started, try one or more of the following ideas:

1. **Pay yourself first**—Make savings a “bill,” just like rent or utility payments. When you pay your other bills, pay your savings “bill” by depositing money in a savings account.

2. **Use payroll deductions**—Have your employer deposit your savings directly from your paycheck into a credit union or bank account. If you never see it, you probably won’t miss it.

3. **Collect loose change**—At the end of each day, empty your pockets and wallet and put the change in a jar. Periodically deposit this change into a savings account.

4. **Pay installments to yourself**—Once you pay off an installment loan, con-

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**The 1997 Tax Act: What It Means for Savers and Investors**

All investors have just been given some important tax relief. This is the first major tax break in 16 years that benefits Americans, no matter what their tax bracket. The major components of the Taxpayer Relief Act of 1997 that affect the individual investor are in the areas of capital gains, home sales, retirement savings, education savings and estate planning. Below are some of the highlights:

**Capital Gains:** The new top capital gains rate on profits from the sale of

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**What to Do if You Are Turned Down for Credit**

The general advice for people seeking credit is to shop, shop, shop for the best credit card deals—low interest rates and no annual fees. However, many consumers aren’t able to qualify for those types of cards for a variety of reasons. A secured credit card could be the solution.

Secured credit cards look exactly

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**Topics Covered**

- What to Do if You Are Turned Down for Credit
- Saving With Your Baking
- Use Caution After Divorce
- Saving and Investing Not the Same Thing
- Expert’s Advice: Review Your Credit Report Frequently
- Questions to Ask When Selecting a Bank
- Just How Do Americans Spend Their Money?
Saving With Your Baking

School has started and requests for room mothers and fathers to supply cupcakes and cookies for school activities will soon begin. Time is important to everyone today, so the first thought is to buy these cupcakes or cookies at the neighborhood bakery. A dozen cupcakes or cookies may be priced $4.95 a dozen or $5.95 a pound while a cake mix and a can of cake frosting can be purchased for about $3.00.

A brief time in the kitchen can produce two dozen decorated cupcakes with a savings ranging from $5–7, depending on the sale price of the ingredients. Combining a coupon with a store sale can reduce the price for ingredients even more. You can use a cake mix to produce several dozen cookies and realize a savings ranging from $3–5 depending on the ingredients used, sale prices at the supermarket and your use of manufacturers’ coupons.

Baking may not be your favorite activity, so why not check out your local supermarket and investigate what’s available. Many supermarkets have bakeries, which may feature lower prices for baked items. Check to see if they have a coupon for $.50 to $1.00 off on baked goods or a two for one. You just might save several dollars that way and still produce mom’s or dad’s best for your child’s class.

Some volunteers stock up on a variety of cake mixes and frosting varieties when they go on sale for future use. Assemble recipes so you will be prepared for emergency requests that children bring home. You’ll cut back on extra trips to the store this way and be prepared for those special requests, which are part of every parent’s life.

Requests to provide refreshments can mount up over a year’s time, so keep a record of your expenses when you volunteer. You can deduct expenses for volunteering in the form of mileage, supplies provided, and other expenses you incur. You can use these expenses if you itemize on your federal tax return. Keeping a record like this will surprise you at the end of the year, because you probably spend much more than you think.

Remember, savings come from small habits, which you keep practicing on a regular basis. So when asked to provide those refreshments, think twice on how you will provide them. Don’t forget utility costs if you bake though, because over time it might be an energy user and add to your bill. You just might enjoy baking yourself for a change or using your coupon skills in the supermarket or bakery. Saving is based on examining the costs and benefits.

Use Caution After Divorce

You feel relieved. The divorce papers are signed. But, don’t assume that it’s all over. You need to tend to all the terms and details of the settlement you worked so hard to achieve. If you received a lump sum, be on guard against people who might pressure you to invest in one way or another. Also, it’s wise to keep your expenses down and avoid running up big bills until you are sure of your finances.

It’s easy and costly to forget to take follow-up steps after a divorce. Whether you are feeling exhausted or exhilarated, it is important to complete all actions. You could literally lose the property you fought for because of errors in divorce paper work or inattention to legal and financial details.

Here are a few tips for completing the business of divorce:

1. **Check details**—A few days after the divorce, meet with your lawyer and financial advisors to go over the details of the settlement. Make a list of who is responsible for completing what items.

2. **Prepare title documents**—Be sure to prepare new title documents to indicate ownership and record them correctly. Real estate titles are recorded in a county clerk’s office. Vehicle registration forms are sent to the Division of Motor Vehicles. Ownership of stocks, bonds and funds may need a name transfer with a brokerage firm.

3. **Update wills and estate papers**—These may need to be redrafted and updated to reflect your new status and wishes.

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Money 2000 News
Saving and Investing
Not the Same Thing

Many people use the words “saving” and “investing” interchangeably to describe places where they put their money. They might say, for example, “I’m saving for retirement in a mutual fund” or “I just invested $3,000 in a CD.”

Although there has definitely been a “blurring of the lines” between financial products in recent years with deregulation, there are still distinct differences between savings and investments. The purposes and characteristics of each are reviewed below, along with tips for making the transition from “saver” to “investor.”

Savings provide funds for emergencies and for making specific purchases in the relatively near future (often within three years). The primary goal of savings is to store funds and keep them safe. This is why savings are generally placed in interest-bearing accounts that are safe (such as those insured or guaranteed by the federal government) and liquid (those in the form of cash or easily changed into cash on short notice with minimal or no loss). Examples of savings products include: bank passbook and money market deposit accounts, short-term CDs, and money market mutual funds.

The downside is that savings products generally have lower yields than longer-term investments. Your principal is safe but it earns a low rate of return.

The goal of investing is generally to increase net worth and work toward achieving long-term goals. Investing involves risk. For example, earnings generally are not guaranteed and you could lose some of your original investment (principal). Examples of investments include: stocks, bonds, real estate, and growth or income mutual funds.

Below are three tips for beginning investors:

• Develop an “investor’s mindset.” Be prepared to accept the uncertainty about investment returns and return of principal that are part of the investment process. You cannot expect the predictability of a CD, for example, when you invest in a growth mutual fund.

• Before you invest, get your financial situation under control with: an emergency fund, savings for short-term goals, adequate insurance, control over credit use, a retirement plan, and possibly, equity in a home.

• If you don’t understand an investment or feel uncomfortable about the risk involved, don’t buy it. Instead, keep learning more about investments and find a more suitable alternative. $
Questions to Ask When Selecting a Bank

For a variety of reasons, people often find themselves needing to select a new bank. Perhaps they’ve moved and they need a bank closer to where they live or work. Or perhaps they’ve stayed put and the management and fees of their bank have changed…for the worse. Another reason for changing banks is a desire to earn more interest on savings or take advantage of specific products and services that some banks offer (e.g., trust department, sale of investment products, senior accounts).

Whatever your reason for selecting a new bank, it is wise to plan ahead. This is especially true if you have paychecks or Social Security checks automatically deposited into your accounts and/or pre-authorized withdrawals (e.g., “check-o-matic” insurance premiums, automatic mutual fund deposits).

So what should you look for in a bank account? Experts advise paying attention to the 3 C’s: cost, convenience, and customer service. To determine the cost of an account, first ask yourself the following questions:

• Approximately how many checks will I write per month?
• How much money can I keep in checking and/or savings?

Then ask the following questions of a financial institution:

• Is checking free (i.e., no monthly charge or per-check charge)?
• If not, what is the cost?
• If yes, what is the minimum balance required to avoid a fee?
• How is the minimum balance calculated (i.e. monthly average balance or the account balance on any one day)?
• What is the minimum balance required to open a savings account and maintain it without paying fees?
• What are the charges for overdrawn accounts, cashier’s checks, stop-payments, and deposited checks “bounced” by others?
• Is interest paid on an account? If so, what is the rate and is there a minimum balance required?

To determine convenience, consider the following questions:

• Where are bank branches located?
• What are the bank’s normal business hours?
• Are ATMs available for “after-hours” transactions?
• Is overdraft protection and direct deposit available?

“Customer Service” is more intangible.

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Just How Do Americans Spend Their Money?

Every so often, people call Rutgers Cooperative Extension to obtain information about how typical families spend their money. Some people are just plain curious while others want to compare their spending patterns with other households. Fortunately, household spending data are readily available and are updated frequently to reflect current living costs.

According to The Statistical Abstract of the United States (1995), average annual expenditures of U.S. households in 1993 totaled $30,692. Of this amount, the following amounts were spent on these specific household expenses:

- Housing (including utilities): $9,636 (31.4%)
- Transportation: $5,453 (17.8%)
- Food Eaten at Home: $2,735 (8.9%)
- Pensions and Social Security: $2,509 (8.2%)
- Health Care: $1,776 (5.8%)
- Clothing: $1,676 (5.5%)
- Food Away From Home: $1,664 (5.4%)
- Alcohol and Tobacco Products: $536 (1.7%)
- Personal (e.g., Life) Insurance: $399 (1.3%)
- Other Expenses: $4,308 (14%)

Surprised at these figures? Remember that they are national averages and reflect different living costs throughout the U.S. Many households are seeking ways to reduce their spending to free up funds for saving and debt reduction. If you are among them, consider these tips from financial experts:

- Carry Less Cash and Plastic—If you have money with you, you’re likely to spend it. Ditto for ATM

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Use Caution

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4. **Review insurance**—Make sure you review and make changes, if necessary, in health, dental and disability policies. Is coverage adequate? Who are the beneficiaries?

5. **Check debts**—Make sure that all joint accounts are closed and you pay debts you agreed to incur. Be sure to notify creditors your ex-spouse agreed to pay and follow up to insure he or she does so.

6. **Check deposit accounts**—Check to be sure accounts (savings, money markets, CDs, etc.) are correctly named and consistent with the settlement agreement.

7. **Create a paper trail**—Follow up all phone conversations with letters.

8. **Keep records**—Record all payments (alimony, child support, cash settlements, etc.) you make or receive in a log book. Make copies of all checks. You may need this for future actions and as documentation for income taxes.

9. **Use a safe deposit box**—The originals of the final judgement of divorce and settlement agreement should be kept in a safe deposit box with copies placed in a home file.

10. **Create a home file**—Keep post-divorce papers in a file at home. If you need papers for investment or tax purposes or experience problems with child support or alimony, the papers will be easy to find.

After a divorce it’s tempting to sit back and relax. That’s a big mistake. The legal and financial chores of the post-settlement phase are as crucial as the pre-settlement phase! $

Expert’s Advice

Continued from page 3

Credit file errors exist for a variety of reasons. Sometimes a clerk makes a typographical error or misreads a hand-written credit application. Or two family members with the same name and/or address get “comingled.” Consumers can also introduce errors into a credit report themselves by obtaining credit under different names (Robert and Bob, for example, or Margaret and Peg). Mistakes can—and do—happen. This is why periodic credit report reviews are recommended. $

Questions to Ask

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• **Track Household Spending**—For an entire month, have everyone in your family record what they earn and spend. At the end of the month, tally up the numbers. You’ll probably be surprised at how small “miscellaneous” items add up. Use these figures as a guide for developing a realistic spending plan (budget).

• **Withhold Taxes Correctly**—If you’re constantly getting large (over $1,000) tax refunds, you’re giving Uncle Sam a very attractive interest-free loan. Instead, adjust form W-4 with your employer and keep some of this money as you earn it.

• **Give Children an Allowance**—It’s generally cheaper than being “nickeled and dimed” and can teach children important money management skills (e.g., goal-setting). Be sure to set ground rules about what an allowance does or does not cover (e.g., lunch money) or you’ll still be “nickeled and dimed.”

• **Use Equal Payment Plans**—Put irregular expenses (e.g., utilities, car insurance) on an equal payment plan by dividing the annual expense by 12. This will avoid large irregular bills that people sometimes have no choice but to pay with a loan or credit card. Some companies (e.g., fuel oil merchants) will set up an equal payment plan for you. $

Americans

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cards that give you access to cash. Studies also show that people with credit cards spend about a third more than those using cash. Avoid the use of “plastic” for disposable items like vacations and meals, unless it is for convenience and bills are promptly repaid.

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The 1997 Tax Act
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stocks, bonds, property and most other investments is 20%, reduced from 28%. For individuals and families in the 15% bracket, the new lower capital gains rate is 10%. These changes are effective retroactive to May 7, 1997. Another change to pay careful attention to is the lengthening of the holding period from 12 months to 18 months on assets to qualify for the lower capital gains rate.

Home Sales: Effective May 7, 1997, profits on the sale of a principal residence are exempt from taxation up to $500,000 for married couples filing jointly and $250,000 for singles.

Saving for Retirement: It has just became easier. A new individual retirement account (IRA) choice has been created—the Roth IRA. The maximum $2,000 contribution is not deductible but, if assets are held for 5 years, earnings are not taxed. The eligibility for participation phases out for couples who earn $150,000–$160,000 and singles who earn $95,000 to $110,000. In addition, the income level for traditional IRAs will gradually be raised to $2,500—to “secure” his credit and makes on-time payments.

However, consumers must still “shop” for secured cards. A list of issuers is available from RAM Research at 800-344-7714 or Bankcard Holders of America at 540-389-5445 for a minimal charge. Some of the criteria to look for in selecting the best secured credit card include:

- A top line of credit. Since the line of credit is based on a percentage of the deposit, a credit line up to 100-150% of the deposit is ideal.

- The issuer reports the activity to a credit bureau. If it doesn’t get reported in the first place, it won’t show up on the customer’s credit report—which is the point and the way to build a credit history.

- Payment of interest on the deposited amount.

- Low Fees. There usually is an annual fee and additional application and processing fees. Therefore, it is important to shop for the lowest expenses you can find.

Once a consumer establishes a responsible track record and proves credit worthiness using the secured credit card (in many cases 1–2 years), he/she can reapply for a regular credit card. $  

Dear Friend
Continued from front page

tinue to make “payments” to your savings account. This is a good way to save for the down payment on your next car once the old car is paid for.

5. Break a habit—Every time you bring a snack from home or skip a vending machine purchase, place the money saved in a bank account instead.

6. Save lunch money—Make your own lunch instead of buying it. Lunch purchased at a deli can start at $3.50. That’s $910 for 260 work days per year. Save the money that you would otherwise have spent.

7. Avoid credit card "nuisance fees"—Examples are late fees, which run $15 to $25 and can be charged when a payment is only a day late, and “over the limit” fees for exceeding your credit line.

8. Save coupon money—Earmark the money you save by using coupons at the supermarket. Generally, this amount is printed right on your receipt. Put the “savings” (the money you did not spend) into a bank account.

9. Use a “Crash Budget”—A crash budget works like a crash diet. You try to cut out all unnecessary spending and save as much as possible for a given period of time.

10. Take advantage of Rutgers Cooperative Extension programs and services—This includes our statewide MONEY 2000 conference on November 8 and one PowerPay debt-reduction computer analyses. Enroll in MONEY 2000 and save or reduce debt by at least $2,000 by the year 2000. $  

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Money 2000 News