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# PERSONAL FINANCE



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PERSONAL

FINANCE

**Felice Primeau Devine**



NEW YORK

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# CONTENTS



<b><i>Introduction</i></b>	xi
<b>SECTION ONE</b>	
<b><i>The Goof-Up—Spending Before You Think</i></b>	1
Rule #1 Get Organized	2
Rule #2 Budget to Build Better Spending and Saving Habits	5
Rule #3 Save First—Spend Second	10
Rule #4 Be Smart about Spending	12
Rule #5 Managing Bills	14
Rule #6 Controlling Debt	16
Rule #7 Your Last Line of Defense: Filing for Bankruptcy	20
Rule #8 Staying Out of Debt	23
Rule #9 Securing Loans	25
Rule #10 Checking Account Do's and Don'ts	27



**SECTION TWO*****The Goof-Up—Breaking the Bank for the Big Day*** 33Rule #11 When You Are Planning a Wedding,  
Money Matters 35

Rule #12 Save Money Wherever You Can 41

Rule #13 Get Your Financial Documents in Order 45

**SECTION THREE*****The Goof-Up—Letting the American Dream  
Become a Nightmare*** 49

Rule #14 Decide If Homeownership Is Right for You 50

Rule #15 Save for the Home You Want and Can Afford 53

Rule #16 Finding the Right Home 56

Rule #17 Become a Mortgage Master 60

Rule #18 Understanding Not-So-Hidden Costs 65

Rule #19 The Mortgage Application 67

**SECTION FOUR*****The Goof-Up—Forgetting to Find the  
Money Available to Attend College*** 71Rule #20 Find Out about the Qualified Tuition  
Program and Start Saving 73

Rule #21 Plan to Get Money 76

Rule #22 Learn How to Find Money 79

Rule #23 Access the Millions of Dollars Available  
in Student (and Parent) Loans 84Rule #24 Apply for Financial Aid and Establish  
Financial Need 89

**SECTION FIVE*****The Goof-Up—Not Saving Smartly for Your Retirement Years***

	93
Rule #25 Understand the Different Kinds of Retirement Savings Plans	95
Rule #26 Learn about IRAs	97
Rule #27 Learn about Roth IRAs	99
Rule #28 Learn about SIMPLE-IRAs	102
Rule #29 Contribute to Your Workplace 401(k) Plan as Soon as You Are Eligible	104
Rule #30 Contribute to Your 403(b) Plan as Soon as You Are Eligible	107
Rule #31 Don't Underestimate the Benefits of an Employer Match—No Matter How Little You Earn	108
Rule #32 Always Contribute to Your Company's Retirement Plan	115

**SECTION SIX*****The Goof-Up—Not Investing Your Money Wisely***

	119
Rule #33 Understand the Different Types of Investments	121
Rule #34 Start with the Basics	123
Rule #35 Rely on a Trustworthy Broker or Financial Planner	125
Rule #36 An Informed Investor Is a Savvy Investor	128
Rule #37 Know Your Risk Threshold	131
Rule #38 Learn about Cash Equivalent Options	135
Rule #39 Don't Be Afraid of the Stock Market	138
Rule #40 Know the Difference between Stocks and Bonds	141
Rule #41 Find Out Why You Should Invest in Mutual Funds	143

x **goof-proof PERSONAL FINANCE**

Rule #42 Know When Insurance Can Work for You as an Investment—and When it Cannot	148
Rule #43 Consider Your Home as an Investment	151
Rule #44 Some Pros and Cons of Investing in Real Estate	154

**SECTION SEVEN**

<b>Resources</b>	159
Appendix A: Online Resources and CD-ROMs	161
Appendix B: Print Resources	167
Appendix C: Glossary	173

## INTRODUCTION



Give yourself a pat on the back! You have made a step in the right financial direction by picking up this book and for that, you deserve hearty congratulations! Making the decision to get your financial life in order is not always easy. But, with a little help from *Goof-Proof Personal Finance*, your finances will be shipshape in no time.

It is not going to be smooth sailing right away, though. To get the most out of this book, you will need to take the time to think critically about how you spend your money, consider your long- and short-term goals, and determine your level of commitment to change.

The following questions are designed to prompt this period of reflection.

1. To me, *budgeting* means:
  - a. Balancing my checkbook.
  - b. Something for finance guys and gals only.
  - c. Keeping track of my household income versus my household expenses.

2. My debt situation is:
  - a. My partner's concern.
  - b. Unknown to me!
  - c. Under control—I know exactly what I owe and it is substantially less than what I earn.
3. When I shop, I:
  - a. Hunt for bargains, but often end up spending more than I'd really like to.
  - b. Buy whatever strikes my fancy.
  - c. Go to the store with a plan for what I will purchase, having given some thought to how much I am willing to spend for the item.
4. When I receive my credit card bill in the mail, I:
  - a. Am totally surprised by how much I can spend in one month!
  - b. Wonder if I am going to be able to come up with the money for a payment.
  - c. Already know the amount due because I have kept track throughout the month.
5. My main financial goals are:
  - a. To pay off my current debt, save for a house, and save for retirement.
  - b. To stop my financial free-falling.
  - c. To save for retirement.

If you circled mostly “a” answers, you are like most people. You have some understanding of your financial situation, but could use a little more guidance. If you had mostly “b” answers, then you really need this book! Your finances are probably in danger of being way out of control. This book will help you rein them in. If you had mostly “c” answers, it is a good bet that your finances are in good shape. But, everyone can benefit from the tips in this book—so do not set it down just yet!

Whether you are starting college or preparing for retirement, this book will offer you budgeting, saving, and planning tips that are easy to implement. Sprinkled throughout the book are *Goof-Proof Money Savers*. These quick lists, like the one on the next page, will give you easy ways to save money painlessly.

## ● GOOF-PROOF MONEY SAVERS ●

1. Grocery shop only once a week and, before you go to the store, make a list and stick to it.
2. Clip coupons for only the items that you would buy, whether or not you had a coupon for it. Buying something that you may not use just because you have a coupon for \$.25 off is not a good way to save.
3. Buy in bulk and freeze what you won't use right away.
4. Investigate generic or house brands. If your grocery store has their own brand, it may be of similar quality yet less expensive than national brands.
5. If there is a sale on an item that you use frequently, stock up!

Now that you have given some thought to your personal finances, you are probably ready to learn how to improve them. Let's get started right away with Section One: The Goof-Up—Spending Before You Think.

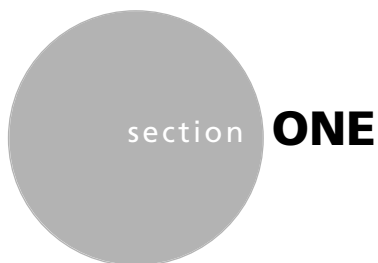


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# PERSONAL FINANCE







section **ONE**

# THE GOOF – UP: SPENDING BEFORE YOU THINK

You can't become a financial wizard unless you first master some of the basics. This section will help you to do just that. The first step is simple—get organized. This step will include pulling together all of your financial documents and tracking your spending. Then, you will evaluate your expenses versus your income and develop a household budget that makes sense to you. Naturally, you will want your budget to include some saving as well as some spending, so this section will cover those topics and help you account for each item in your monthly budget.

Whether you have a handful of monthly bills or an armload, you will benefit from the *Goof-Proof Rules for Managing Bills* and those that cover how to control your debt. This section will provide you with tips and information on securing loans, and will wrap up with *Checking Account Do's and Don'ts*.

## **RULE #1: Get Organized**

*Getting organized involves collecting all of your financial documents and setting up a system that will keep you organized as you move forward toward financial control.*

### ● **GOOF-PROOF IT!** ●

Start by clearing a space for your finances. A desk is ideal but, if you don't have an office and desk in your home, you can use your dining room table, or even a coffee table. The key is to have enough space to spread out your materials. You will also need a place where you can store your personal finance records and materials, once they are organized. If you have a desk, you will be able to store your files there. If not, you should consider purchasing a file cabinet or a portable file bin. If you are really short on space, try an under-the-bed storage container.

### ● **GOOF-PROOF CHECKLIST** ● **TOOLS OF THE TRADE**

As you begin to organize your space and your finances, you will need to gather the following items:

- ✓ notepad
- ✓ pens/pencils
- ✓ calculator
- ✓ files, folders, or binders (with dividers)
- ✓ labels
- ✓ checkbook and ATM receipts (to review expenditures or one month)
- ✓ bank statements
- ✓ investment statements
- ✓ pay stubs for at least the prior month
- ✓ tax returns

- ✓ insurance forms
- ✓ other forms and receipts such as receipts of medical reimbursements, etc.

Once you have all items together, establish file folders or sections within your binders for your main documents. These may include the following:

- ✓ bank statements
- ✓ pay stubs
- ✓ tax returns
- ✓ charitable donation receipts
- ✓ medical expenses
- ✓ insurance
- ✓ investments

### ● GOOF-PROOF RULE OF THUMB ●

As you create your files and begin to sort out your financial documents, you must begin to determine a system that will work for you and your types of expenses and record-keeping needs. If you develop the habit of keeping all like financial documents together, you will find it easier to maintain organization, and you will save time when you prepare your tax returns, apply for loans, and make other financially related transactions. But, if you try to force yourself to use a system with which you are not comfortable, you may drop it before it has time to become a habit. So, think about your style and what will work for you. Some people like to keep all of their documents in binders, other prefer shoeboxes. Still others like to track everything using software.

**● GOOF-PROOF TIP ●**

Using a computer program (such as Microsoft Excel or Quicken) is a great way to keep track of your finances. But, if you don't know your way around those programs, or you are a little rusty, the programs may become more of a hindrance than a help. If that is the case, now is a good time to take a refresher course or to spend a few hours relearning the programs. By doing so, you will save yourself time and frustration down the road.

## **RULE #2: Budget to Build Better Spending and Saving Habits**

*Before you know it, your budget will become an integral part of your personal finance plan.*

### ● **GOOF-PROOF IT!** ●

It's easy to put off creating a budget, but if you want to get your spending under control and start saving, it's really your only alternative. Even a simple budget will help you to stay on track, spending and saving in amounts that will enable you to reach your financial goals without feeling like a pauper along the way. The rest of this rule shows you how to create a budget that is simple and manageable.

### ● **GOOF-PROOF BUDGET: STEP-BY-STEP** ●

#### ● **Step One: Track Your Expenses**

In order to create a proper budget, you need to learn where your money goes. Start by analyzing your spending for a full week. You may think that tracking all of your expenses for a week is a little bit much, but it will be very beneficial if you want to understand where all of your money goes. Use the *Goof-Proof Weekly Expense Tracking Log*, or a notebook if that is what you prefer, to keep track of everything you spend for one week. If you buy a pack of gum, write it down. New jeans? Write it down. Once you begin tracking your spending, you will notice where you are mindlessly spending, and you will see where you may be able to cut back.

After you have completed a weekly log, you can use the information to help develop the monthly expenses part of your budget.

**GOOF-PROOF WEEKLY EXPENSE TRACKING LOG**

ITEM (EXPENSE)	SUN	MON	TUE	WED	THU	FRI	SAT
Breakfast							
Lunch							
Dinner							
Snacks							
Commute (Tolls, Taxis, Subway, Bus)							
Supplies for Work							
Household Items							
Cosmetics/Sundries							
Clothing							
Laundry							
Dry Cleaning							
Medical (Doctor Visits, Prescriptions)							
Entertainment (Movies, Videos, Theater)							
Books, Magazines, Newspapers							
Other							
<b>Total</b>							
<b>Total Expenses for the Week:</b>							

## • Step Two: Look at Monthly Expenses

Multiply your weekly expenses by four, and add any recurring expenses. Some that you may have are:

- rent or mortgage
- student loan
- renter's or homeowner's insurance
- car insurance
- car loan
- internet access
- subscriptions
- health club membership
- utilities
- mobile phone

### **Total Expenses for the Month:**

Now, look over a month's worth of paychecks. What is your total take-home pay for the month? Do you have any other sources of income? If you do, add those to your monthly pay to find your total income.

### **Total Income for the Month:**

## • GOOF-PROOF TIP •

If you live in a climate with a variety of seasons, the coldest part of winter and the hottest part of summer can sometimes cause a big jump in your heating and/or electricity bills. Varying utility bills can make budgeting tough, so call your providers and ask for an estimated bill. They will look at your annual usage and put you on a plan that charges you a uniform fee each month, with periodic meter reading to ensure that you are not under- or over-paying your utilities. This way, you will pay roughly the same amount each month, avoiding unplanned spikes in February and July bills.



### • Step Three: Put It on Paper

Now that you understand how much money you have, and how much you spend, you can create your budget. You probably notice some areas where you can cut down on your spending. For example, if you pick up iced coffee four times a week at an expensive coffee shop, you may be able to cut that out entirely, or reduce it to only once or twice a week.

Either way, look over your weekly expenses and tally how much you would like to spend in each category. You can do this by averaging the amount you currently spend, or by giving yourself a reasonable cap.

#### ***WEEKLY EXPENSE LIMITS***

ITEM	MAXIMUM AMOUNT TO SPEND EACH WEEK
Breakfast	
Lunch	
Dinner	
Snacks	
Commute (Tolls, Taxis, Subway, Bus)	
Supplies for Work	
Household Items	
Cosmetics/Sundries	
Clothing	
Laundry	
Dry Cleaning	
Medical (Doctor Visits, Prescriptions)	
Entertainment (Movies, Videos, Theater)	
Books, Magazines, Newspapers	
Other	
<b>Total:</b>	

These amounts are now your budgeted amounts for each week. You will use them for your monthly budget by multiplying each by four. When you create your budget, you will chunk your expenses into major categories. For example, you may want to use a budget that looks like the following:

***INCOME***

ITEM	PLANNED INCOME	ACTUAL INCOME
Work		
Freelance		
<b>Total:</b>		

***EXPENSES***

ITEM	PLANNED EXPENSE	ACTUAL EXPENSE
Car Loan		
Entertainment		
Food		
Insurance		
Medical		
Personal and Clothing		
Rent		
Savings		
Student Loan		
Supplies		
Transportation		
Other		
<b>Total:</b>		

You will notice that an item for Savings was added to this budget. Make sure to include it in yours!

**RULE #3: Save First—Spend Second**

*Saving is critical. Don't make the mistake of spending first and saving what you can when you get a chance.*

**● GOOF-PROOF IT! ●**

The easiest way to save consistently is to have a set amount of your paycheck deposited directly into your savings account. Once you have determined how much you will save each month, break that amount out by paycheck. Even if that amount is only \$10 per weekly paycheck, it will add up quickly to about \$500 annually.

**● GOOF-PROOF EXAMPLE ●  
SAVINGS MADE SIMPLE**

If your workplace does not offer direct deposit, investigate automatic money-builder accounts at your bank. For example, some banks offer Certificates of Deposit (CDs) that can be established with a set amount (usually \$500 or thereabouts) and build up by automatically transferring another amount from your checking account to the CD. You will earn interest on your CD and you will be required to hold the CD for a set amount of time. For more on CDs and other cash equivalent investments, see Section Six, Rule #38.

**● GOOF-PROOF RULE OF THUMB ●**

Surely you have all heard about living within your means, but these days, it's more common to admit, or even brag, about living above our means. Consistently living above one's means or earnings is a recipe for financial uncertainty in the years that matter most—when you have a family, when you pay for college, when you retire. Make a pact with yourself and your significant

other to start living within your means today. You will be ensuring a secure tomorrow.

● **GOOF-PROOF TIP** ●  
**MONEYSAVERS**

1. Instead of buying costly magazines, take them out from your library. Most local libraries will allow you to borrow magazines for seven days. This is much less expensive than purchasing them for upward of \$3.50 per issue.
2. While you are at the library, find out if you are allowed to borrow CDs, videos, or DVDs; again, the cost of rental far outspends the cost of borrowing, which is free.
3. If you read the newspaper regularly (daily or weekly) consider subscribing, as a subscription is almost always less expense than purchasing single copies. Better still, read the online version for free.

**RULE #4: Be Smart about Spending**

*Spending is a fact of life, you have to pay for what you use.*

**● GOOF-PROOF IT! ●**

By following Rule #1, you have become smart about the way you spend your money by developing a budget. If you were honest when you developed your budget, you will know how much you need to spend each week. You will also know how much you can afford to spend on the little extras, like treating yourself to a pedicure for a special event or going out for happy hour with the guys from work. As long as you are meeting your commitments to your bills and saving, you can afford to spend your money on the goods and services that might not be necessary, but that make you happy.

Before you decide that you have a license to spend your money willy-nilly, remember that all spending should be planned. This doesn't mean that you need to sit down and plan out every double latte that you will buy. However, it does mean that you should give yourself an upper limit on the free spending. Then, take out that amount of money from the ATM once a week. Or, write the amount on a sticky-note and stick it to your credit card. Every time you use your credit card, deduct the amount of your purchase from your total allotment on the note. Either way, the total amount of free spending should be planned.

**● GOOF-PROOF RULE OF THUMB ●**

Be smart about spending your money. Hunt for bargains, but don't go overboard. Yes, finding the lowest price for the highest quality product or service is important, but so is your time. Seek out bargains, but know when convenience—and time saved—is enough of a bargain.

The Internet has been a boon for bargain shoppers. If you are going to make a large purchase, you may want to visit websites

for several different retailers to find a range of prices for the item. This is a much less time-consuming way to search for the best deal than actually going to several different stores. Once you know what the best price is, you can either purchase your item from that store, or maybe even negotiate a better deal from your retailer of choice. And, don't forget online auctions for competitive prices.

● **GOOF-PROOF TIP** ●  
**INTERNET RESOURCES FOR CHILDREN  
AND YOUNG ADULTS**

You can never be too young to start good budgeting, spending, and saving practices. Check out these websites with your children:

- Getting Loaded: [www.gettingloaded.net](http://www.gettingloaded.net)
- JumpStart Coalition for Personal Financial Literacy:  
[www.jumpstart.org](http://www.jumpstart.org)
- Junior Achievement Personal Finance:  
[www.japersonalfinance.com](http://www.japersonalfinance.com)
- National Council on Economic Education: [www.ncee.net](http://www.ncee.net)
- Practical Money Skills for Life:  
[www.practicalmoneyskills.com](http://www.practicalmoneyskills.com)
- Sense & Dollars: [www.mpt.org/senseanddollars](http://www.mpt.org/senseanddollars)
- The Consumer Jungle, a site run by the Young Adult Consumer Education Trust: [www.consumerjungle.org](http://www.consumerjungle.org)
- The Stock Market Game Program: [www.smgww.org](http://www.smgww.org)

## **RULE #5: Managing Bills**

*Bills are best managed by not letting them become unmanageable in the first place.*

### ● **GOOF-PROOF IT!** ●

Pay all of your bills on time and, when possible, pay off your credit card balances instead of carrying them from month to month. Sometimes it is not that simple. If you already have more bills than you can reasonably handle, knowing that you should pay them on time and in full is not enough. If this is the case, you will need a few extra goof-proof tips.

If it seems that every month brings a mounting stack of bills to your mailbox, managing them can seem like a daunting task. Don't be tempted to ignore your bills with the hope that they will go away. They won't. Instead, take the first step to regaining control over your bills: Make a list of each bill, the amount that you owe, the interest rate (if any), and the date the bill is due.

Take a good look at your list. Do you see three department store credit cards and more than one Visa, MasterCard, or American Express? If you are like many people, you probably do. So, what should you do after you have compiled your list? Decide where to cut. Be harsh and get rid of most of your credit cards, especially those with high interest rates or fees. Department store cards often have the highest rates with the least perks (such as frequent flyer miles), so seriously consider canceling all but one or two, in case of an emergency, and cancel the rest. Be sure to cut up your cards, and call the credit card company to cancel your account.

Now, let's think about those other bills—cable, telephone, electricity, rent, cell phone, student loans. Are there any bills that could be consolidated? For example, if you have student loans with two or more institutions, you may be able to consolidate them. The benefit is often a lower overall interest rate and fewer bills to pay. You may also be able to consolidate bills for such services as cable, Internet, and cell phone or pager, by changing

service to one all-purpose provider. Investigate your options for reducing the number of total bills that you pay, and whether or not it makes sense for you to do so.

### ● **GOOF-PROOF EXAMPLE** ● **BILL MANAGEMENT MADE SIMPLE**

If your bank offers free electronic payment services, take advantage of it. Many banks will allow you to set up electronic payments on a set schedule for every month. You will most likely use an online form to sign up for the service, plugging in your account information, date by which you would like your payments made, and the amounts that you would like to pay. Your financial institution takes care of the rest.

This works well for set payments, such as student loans, mortgages, and car loans, but what about credit card bills, or your phone bill? Those bills can change dramatically from month to month. Luckily, most financial institutions account for this. You can set up electronic payments for those accounts that vary and then, when you receive your bill in the mail, simply input the amount to be transferred. You will still have to do some work, but you won't have to write a check and scramble for postage.

Another benefit of electronic payments is that you may be able to reduce your interest rates. For example, Sallie Mae offered a promotion wherein borrowers who opted to participate in their online payment program receive an interest rate reduction of one-quarter percent. This may not seem like much, but any rate reduction adds up. You may want to find out if any of the institutions with which you have loans offer a similar program.



## **RULE #6: Controlling Debt**

*Carrying too much debt? Approached systematically, debt can be reduced in no time.*

### ● **GOOF-PROOF IT!** ●

If you think you are carrying too much debt, you probably are. If that is the case, then you know what an awful feeling owing much more than you can afford to pay can be. In the worst cases, it can lead to bankruptcy and ruin relationships. But, if you dedicate yourself to reducing your debt while managing to control the spending that led to your debt, you can get ahead.

To start gaining control of your debt you must first stop spending. Not all spending, of course, but any spending that you have not budgeted, or that really is not necessary, should be curtailed. This includes impulse items paid for by credit cards with bulging balances, paying for that extra round of drinks at happy hour, or dining out when you could just as easily have dinner at home.

### ● **GOOF-PROOF RULE OF THUMB** ●

You have slowed your spending to a reasonable pace. Now what? The next step that you should take toward controlling your debt is to pay off all of your high interest credit cards. Look at the list of bills you prepared in Rule #5. Highlight the bills with the highest interest rates and make paying off those completely your highest priority. One way to do this is to pay off the balance of your high interest rate card with one of your lower interest rate cards. On the following page is an example of how to handle out-of-control debt.

● **GOOF-PROOF RULE OF THUMB** ●  
**MOLLY'S LIST OF OUTSTANDING BILLS**

BILL	INTEREST RATE	TOTAL DUE	CREDIT LIMIT	MINIMUM PAYMENT
Rent	N/A	\$650	N/A	\$650 – due in full
Electricity	N/A	\$128.56	N/A	\$128.56 – due in full
Credit Card #1	9.9%	\$3,256.76	\$7,500	\$25.00
Cell Phone	N/A	\$72.38	N/A	\$72.38 – due in full
Credit Card #2	13.9%	\$1,756.43	\$1,500	\$25.00
Credit Card #3	6.9%	\$4,532.45	\$4,500	\$50.00
Department Store	22.9%	\$785.32	\$1,000	\$25.00
Water	N/A	\$32.89	N/A	\$32.89 – due in full
Cable	N/A	\$53.46	N/A	\$53.46 – due in full
Student Loan	8%	\$10,567.23	N/A	\$148.23 – set payment
<b>Total Due for Month:</b>		<b>\$1,210.52</b>		

To get a better handle on her debt, Molly should make paying off her Department Store Credit Card her top priority because it has the highest interest rate. She can do this by transferring the balance from that card to her Credit Card #1, which has a credit limit of \$7,500, a balance of \$3,256.76, and an interest rate of 9.9%—substantially lower than her Department Store Credit Card.

Because her Credit Card #1 charges a lower rate than Credit Card #2, she should also transfer that balance. Unfortunately, Credit Card #3, which has the lowest interest rate, is maxed out.

After transferring the two balances, Molly's Outstanding Bills looks like this:

BILL	INTEREST RATE	TOTAL DUE	CREDIT LIMIT	MINIMUM PAYMENT
Rent	NA	\$650	NA	\$650 – due in full
Electricity	NA	\$128.56	NA	\$128.56 – due in full
Credit Card #1	9.9%	\$5,798.51	\$7,500	\$50.00
Cell Phone	NA	\$72.38	NA	\$72.38 – due in full
Credit Card #3	6.9%	\$4,532.45	\$4,500	\$50.00
Water	NA	\$32.89	NA	\$32.89 – due in full
Cable	NA	\$53.46	NA	\$53.46 – due in full
Student Loan	8%	\$10,567.23	NA	\$148.23 – set payment
<b>Total Due for Month:</b>		<b>\$1,185.52</b>		

Now Molly can focus on paying off Credit Card #1 completely. She can do this by making the required payments for all of her bills and making at least the minimum payment on Credit Card #3. For her Credit Card #1, Molly should make the minimum monthly payment plus as much extra as she can. Ideally, Molly should include the extra payment in her written budget so that she can ensure she has the funds each month. As you can see from the chart, because Molly consolidated her balances, she actually reduced her total due for the month by \$25. So, she can use at least that amount to pay off Credit Card #1.

In this example, Molly decided that she would pay an extra \$150.00 each month to her Credit Card #1. She first stopped paying for unnecessary items with her credit cards. Then, she freed

\$150.00 a month by making the following changes to her spending habits:

- Cut out daily coffee from Fancy Coffee Shop—\$3.10 several days a week, approximately \$37.20 per month
- Reduced spending on take-out dinners from three times per week to one time each week—approximately \$60.00 per month
- Borrowed magazines from the library rather than purchasing them at the grocery store—approximately \$10.50 per month
- Stopped taking extra classes at gym (those not included in base membership fee)—approximately one boxing class (\$5.00 fee) per week, \$20.00 per month
- Saved \$25 from consolidating credit card balances

By making these fairly minor spending changes, Molly reduced her monthly spending by a total of \$152.70, more than enough to cover the extra \$150.00 she planned to send to her Credit Card #1.

Once this card is paid off, Molly should move on to paying off Credit Card #3. It may take her several years to pay off her debt, but by doing so in a consistent and modest manner, she will hardly notice her reduced spending.

Another option when dealing with credit card debt is to shop around for cards with lower rates. When doing so, look for cards that offer permanent lower rates, rather than temporary low rates for a period of six to twelve months. These temporary rates are fine if you believe you will pay off your debt within that period, but if not, you may end up with rates even higher than those you started with.

You can obtain a list of the lowest credit card rates by ordering the Credit Card Optimizer Report for \$5.95 at 877-666-6399. This report contains all pertinent information for credit cards with the lowest rates.

### **RULE #7: Your Last Line of Defense: Filing for Bankruptcy**

*Filing for bankruptcy should be reserved as a last-ditch effort for getting out of debt, not a safeguard for if you accidentally overspend.*

#### ● **GOOF-PROOF IT!** ●

If you find yourself in a position where you absolutely cannot get out from under your debt, and cannot make even the minimum payments due for your bills, then you may want to consider filing for bankruptcy. Don't underestimate the seriousness of bankruptcy—it sounds dramatic because it is a big decision with serious repercussions. However, in certain cases, it is the right step to take.

Two forms of personal bankruptcy exist—Chapter 7 and Chapter 13. If you think you might benefit from filing for bankruptcy, contact a lawyer specializing in bankruptcy filings. He or she will guide you toward the right decision. Just remember, if you do file for personal bankruptcy, you will not be alone. In the first quarter of the year 2003, 290,909 people filed Chapter 7 and 119,387 people filed Chapter 13, according to the American Bankruptcy Institute.

Several websites have useful information for people considering filing for bankruptcy or just trying to regain control over their debt. A few that you may want to visit follow:

- The Coalition for Consumer Bankruptcy Debtor Education: [www.debtoeducation.org](http://www.debtoeducation.org)
- The Family Counseling Service: [www.fcsjax.org](http://www.fcsjax.org)
- Consumer Counseling Centers of America: [www.consumercounseling.org](http://www.consumercounseling.org)

● **GOOF-PROOF CHECKLIST** ●  
**WHEN BANKRUPTCY COULD  
BE THE RIGHT OPTION FOR YOU**

- ✓ **You are incurring new debt in order to pay off your old debt.** If you repeatedly have to borrow money to pay off your creditors, bankruptcy may be the right option for you.
- ✓ **Your expenses are covered by your overdraft account, or cash advances from your credit cards.** If you cannot pay your basic expenses without dipping into your overdraft account, you may want to consider bankruptcy. This is especially true if you find that you are only able to pay off a portion of your overdraft account each month.
- ✓ **You repeatedly skip payments for your credit cards or other bills.** If you cannot afford even the minimum payments that you are required to make each month, your financial straits are probably dire. Consider filing for bankruptcy.

● **WHEN BANKRUPTCY IS NOT** ●  
**THE RIGHT OPTION FOR YOU**

- ✓ **If you haven't truly tried your best to curb your spending.** Deep down, if you know that simple financial planning and belt-tightening will rein in your debt, then you don't need to file bankruptcy. Start managing your debt today.
- ✓ **When you have not pleaded your case to your creditors.** Ask for consolidations and extensions on payments, and make good faith attempts to pay down your debt. Ultimately, your creditors want the money you owe them, so if the minimum payment is not manageable for you, ask them if you can pay a smaller amount. After all, some payment is better than no payment.

- ✓ **When bankruptcy will irrevocably destroy your credit.** Some people think that filing for bankruptcy means a clean financial slate and a chance to start over. While it is true that your debt is wiped out, it is false to think that your financial reputation will not suffer the stigma of bankruptcy. Bankruptcy will follow you around for years, making it difficult to get car loans, mortgages, and student loans in the future. Think very, very carefully before filing for bankruptcy.

## **RULE #8: Staying Out of Debt**

*Avoid the cycle of debt in the future by setting up financial safeguards.*

### ● **GOOF-PROOF IT!** ●

Once you have started to pay off your debt, you will want to ensure that you don't return to your debtor's ways in the future. One way to do that is to build a cushion for emergency expenses, such as car or home repairs, into your budget. This will save you from having to charge large, unexpected expenses on your credit cards, creating another cycle of debt.

Ideally, you will open a separate savings account for this emergency fund. Because it is an emergency fund, and you will want to be able to access it easily, you should consider opening a regular savings account for it. Don't worry about the interest rate on this account—this is not a growth investment. Instead, think of this fund as insurance against life's catastrophes.

How much you put into your fund is up to you, of course. Most experts recommend that you save an amount equal to between three and six month's worth of expenses. Sounds like a lot, right? Well, don't be scared off! It is fine to start small and build your account over time. One way to do this is to ask your employer if you can have a set amount of your paycheck deposited directly into this special account. If this is not possible, establish a date each month when you will transfer a set amount into the savings account from your checking account.

### ● **GOOF-PROOF EXAMPLE** ● **KEITH'S EMERGENCY FUND**

The financial pressure of student loans on top of living in expensive New York City really took its financial toll on twenty-something Keith. The spiral into unmanageable debt was slow, yet steady. But the stress of debt ultimately led Keith to turn his



financial situation around through decreased spending on optional items and increased awareness of his true expenses, along with the goal of managing his growing debt. Keith finally made his way out of debt at age 34, and one of his new financial practices is to keep an emergency fund in case of, well, financial emergencies.

Keith started his special savings account with \$500 from his tax return. He added \$50 to the account each month, winding up with \$1,100 in savings in the first year alone.

Afraid of ever getting into dire financial straits again, especially when so many of his peers were coping with lay-offs, Keith added extra income (flexible spending account reimbursements and expense reimbursement checks) to this account. This tactic helped Keith to build his account at a quick pace. Once his account equaled at least three months of living expenses, he transferred the funds to a money management account in order to earn greater interest. Try to set up an emergency fund for yourself, just in case. You will be amazed at how much better you sleep at night!

● **GOOF-PROOF TIP** ●  
**WARNING FOR WOMEN**

According to the 2000 U.S. Census, a nearly six-year gap in the life expectancy between the sexes exists, with women outliving men. This means that women must be particularly careful about planning for retirement because that retirement will probably include several years of widowhood. In fact, the average age of first widowhood is 56, according to *The Horses Mouth* (March 2002). So, do your best to save and control your debt now. Otherwise, you may end up having to scramble at a point in your life when finances should be your last worry.

## **RULE #9: Securing Loans**

*Having excellent credit is the key to obtaining any type of loan. Take the time to ensure that your credit history is in good shape before you begin your loan application process.*

### ● **GOOF-PROOF IT!** ●

You are responsible for your credit, so you should make a point to know your credit history. If your credit is less than perfect, take the time to improve it before you start shopping for a loan.

When you are ready to start shopping for a loan, realize that shopping is indeed what you will be doing. You need to be patient and look for the best rates, lowest fees, and most flexible arrangements. Loan terms—whether the loan is a mortgage, personal loan, car loan, or anything else—vary greatly. So, do yourself a favor and look for the terms that best suit your needs.

Some institutions will offer you a better deal if you do all of your banking with them. If you have the ability to keep all of your accounts with one institution, do so. Keep this in mind before you even need a loan. Developing a relationship with one institution may help you in the future, when you are applying for a mortgage, need that personal loan, or are searching for trustworthy investment advice.

### ● **GOOF-PROOF CHECKLIST** ● **DO YOUR HOMEWORK**

Before you sign on the dotted line, make sure you conduct adequate research.

- ✓ **Find out what the typical interest rates are for your type of loan, and then look for the best rates in your area.** Basically, you should do a little comparison shopping.
- ✓ **Credit unions tend to have the best rates on loans.** If you belong to one already, stick with it and apply for a

loan there. If you don't belong to one, look into it. You may be eligible and not even know it.

- ✓ **Once you have found an institution to which you intend to apply for a loan, fill out an application and then wait to hear from that bank before filling out an application somewhere else.** You may think it is a good idea to cover yourself with several applications, but that can actually backfire on you. With several banks looking into your credit at one time, you can appear like a risk.
- ✓ **If you are thinking about a loan to purchase consumer items such as furniture, electronics, or appliances, look for financing through the store where you plan to make your purchase.** Many stores have paired up with financial institutions to offer very attractive deals to consumers. Surely you have seen ads touting “No Payments, No Interest Until January 2005!” Well, these could be perfect for you. These deals usually allow you to make a nominal deposit on your purchase, and then you are not required to make any more payments until the end of the special incentive term. These terms generally run from six months to one year. You usually won't have to pay any interest if you pay off your total balance before the end of the term. However, if you do not pay it all off, all of the interest that was waived will accrue and you will owe that, on top of your original balance. So, if you can afford to pay off the balance by the end of the term, then these deals may be right for you.
- ✓ **When you are applying for a loan, be prepared to show recent bank statements, pay stubs, investment information, and any other financial documents that you have.**

#### ● GOOF-PROOF TIP ●

The annual percentage rate, or APR, is the yearly rate of interest. This includes the fees and costs paid to acquire the loan. It is calculated by taking the average compound interest rate over the life of the loan.

## **RULE #10: Checking Account Do's and Don'ts**

*Choosing and managing a checking account means much more than picking out clever printed check patterns and making withdrawals from the local ATM.*

### ● **GOOF-PROOF IT!** ●

If you do not already have a checking account, start with the *Goof-Proof Checking Account Overview* to learn what types of accounts are available. This will provide a good beginning to the research that you must perform before settling on your checking account. Explore many different banks to find the one that is right for you. Look at the fees that the bank charges for its services, as well as whether or not it is convenient and offers the products and services that you will need. Find out about hidden fees such as ATM charges, per check charges, and bounced check fees. These fees can add up, and turn a good deal bad very quickly.

Investigate minimum balances required to avoid or minimize fees. And keep in mind that many banks will allow you to link your accounts (checking, saving, money market) and count the combined balance toward your minimum requirements. If you are unsure, just ask.

### ● **GOOF-PROOF CHECKING ACCOUNT OVERVIEW** ●

There are several common types of checking accounts, some of which may have slightly different names at different banking institutions. This list will provide you with a general overview of the types and features of the most common checking accounts.

- **Basic checking.** A basic checking account is just that, basic. If you plan to use your account mostly for day-to-day expenses and paying bills, this type of account may be for you. Some basic checking accounts have related fees, but these can often be avoided by carrying a minimum balance,

or by signing up for direct deposit of your paycheck into your account.

- **Interest-bearing.** This type of account pays you monthly interest on the money you keep in your checking account. It almost always requires a minimum balance to open, but may require that you maintain a high balance to avoid monthly fees. Similarly, most interest-bearing accounts pay you a higher interest for maintaining a higher balance.
- **Express.** Express checking accounts allow you to do your banking by ATM, telephone, or personal computer, usually allowing an unlimited number of checks, requiring low minimum balance requirements, and charging low or no monthly fees. However, these accounts usually have high fees for banking in person using a teller. If you are the sort of person who feels comfortable doing all or most of your banking electronically or by telephone, this may be a good choice for you.
- **Lifeline.** These accounts are designed primarily for low-income consumers and are required by law in Illinois, Massachusetts, Minnesota, New Jersey, New York, Rhode Island, and Vermont. Banks and credit unions in other states often offer lifeline accounts as well. The accounts typically have associated monthly fees ranging from zero to \$6 but require a low, if any, minimum deposit and balance. There is often a cap on the number of transactions you can make per month before incurring additional fees.
- **Money market.** A money market account is similar to an interest-bearing account. It is a combination of a checking and savings and/or investment account, paying you interest on the money in your account. Money market accounts require a relatively high minimum opening balance, usually between \$1,000 and \$10,000. They also require that you maintain higher balances to avoid fees, and they usually limit the number of transactions that you are allowed to make. If you plan to keep a large balance in your account and make only a limited number of transactions each month, you may benefit from a money market account.

- **Joint checking.** A joint checking account is simply a checking account (interest-bearing, basic, etc.) that is owned and may be equally accessed by two or more people.
- **Senior/student checking.** If you are a student or age 55 or over, you may be eligible for a special account. Banks that offer such accounts will include their own combination of benefits. These may include such things as discounted checks and traveler's checks, free ATM use, or better rates on loans and credit cards.

● **GOOF-PROOF TIP** ●

Yahoo Banking Center at <http://banking.yahoo.com>, offers several useful banking tools, including the Banking Scorecard. The scorecard allows you to compare the functionality, rates, and services of the top 30 banks, quickly and easily. It includes detailed reviews of the institutions, along with overviews of each bank's key benefits and key shortfalls. For more detailed information specifically on checking accounts, you can read Bankrate's Semi-annual Checking Account Pricing Study, available at [www.bankrate.com/brm/news/chk/chkstudy/checkingstudy.asp](http://www.bankrate.com/brm/news/chk/chkstudy/checkingstudy.asp).

● **GOOF-PROOF CHECKLIST** ●  
**CHECKING ACCOUNT DO'S AND DON'TS**

Consider the following goof-proof do's and don'ts to safeguard yourself from paying too much for too little.

● **Goof-Proof Checking Account Do's**

- ✓ **The most important "do" is to keep track of your account.** Your checking account holds your money, so be sure that you are aware of your account activity.

Record your transactions—all checks written, deposits made, and withdrawals taken.

- ✓ **Review your bank statement when you receive it.** Check for errors by reconciling your statement and your account records. If you notice an error, report it to your bank immediately.
- ✓ **Be aware of how much money you have in your account at any given time.** This will help you to avoid writing bad checks—the ones that bounce! Bounced checks lead to high fees and can cause harm to your credit down the road.
- ✓ **Take advantage of online banking, if your bank offers it.** Accessing your checking account online is an easy way to check your balance and transfer funds from one account to another.
- ✓ **Strive to only use ATMs that will not impose a surcharge, or will impose the lowest surcharge.** You should be able to request a list of such ATMs from your bank. According to Yahoo Finance, ATM surcharges are increasing at a rapid pace. In 2001, for example, the average cost of using another bank's ATM was \$2.86. Be aware of this potential and make a point to use ATMs with low or no surcharges.

### • Goof-Proof Checking Account Don'ts

- ✓ **Don't think that a bank is your only option.** You may be eligible to join a credit union, which usually offers members lower fees. These cooperative financial institutions generally have products and services that are comparable to most banks.
- ✓ **Don't fear online bill paying.** Establishing online bill paying can streamline your account management and reduce checking fees. Ask your bank if they charge fees for this service. You will most likely find that they do not.
- ✓ **Don't toss your bank statements.** Hold onto at least your three most recent statements at all times. If you are

applying for a loan, especially a mortgage, you will likely need to supply your lender with at least your last three bank statements.

### ● **GOOF-PROOF MONEY SAVERS** ● **TRADE EXPENSIVE ENTERTAINMENT FOR CHEAP THRILLS**

1. Take a date on a sunset walk.
2. Go hiking at a state park or nature preserve.
3. Visit local museums and art galleries.
4. Check out a new part of town by walking around and finding a spot for a picnic.

### ● **PUTTING IT ALL TOGETHER** ●

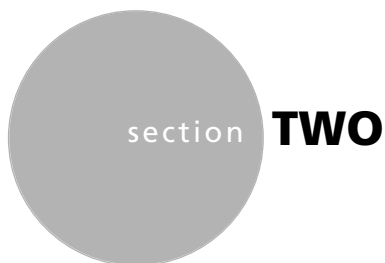
The basics of personal finance are fairly simple. As you have read in this section, by paying attention to where your money comes from and where it goes, you can quickly gain a handle on your own personal finance situation. The following checklist will keep you on track.

### ● **GOOF-PROOF GUIDELINES** ●

- Establish an area in your home where you will manage your personal finances.
- Organize your personal finance documents, using a system that suits your personal needs and style.
- Track your expenses for one full week, using the *Goof-Proof Weekly Expense Tracking Log*. Remember to write down everything that you spend money on, even those packs of gum and lattes.
- Using your weekly expenses as a guide, determine your monthly expenses.



- Add up all sources of income for a typical month to establish a baseline monthly income.
- Develop a monthly budget that you can live with, based on your spending needs and income. Don't forget to include savings in your budget.
- If possible, set up direct deposit of your paycheck.
- Open an automatic savings program, either through direct deposit of your paycheck or a money-builder account at your bank or credit union.
- Always be on the lookout for bargains and ways to save money on your regular expenses.
- Investigate bill consolidation for your credit cards and other debt.
- Look into electronic bill payment.
- Take a hard look at your current debt and develop a plan for reducing it.
- Review your credit history. Resolve to take the steps to improve it, if necessary. If you notice errors on your credit report, address them immediately.
- When looking for a loan, investigate all of your options. Spend time to find the best rates and programs to meet your individual needs.
- Shop around for your bank account. You have several options in terms of the types of accounts that are available. Make sure you do your research before settling on a bank.
- Keep track of your account—your deposits, withdrawals, and the checks that you write.



section **TWO**

## THE GOOF – UP: BREAKING THE BANK FOR THE BIG DAY

According to the Conde Nast Bridal Infobank, the average wedding costs \$22,000. However you look at it, that is a lot of money. In fact, that figure represents approximately five months' of income for the average middle-class American, according to the U.S. Census Bureau. So, how can you deal with the thought of \$22,000 worth of bills looming in your future?

Whether you are a parent planning to give your child an extravagant wedding, or a bride struggling to pay for a conservative affair, you should start thinking about finances early in the engagement.

### ● PARENTS ●

It is important to clearly define your role in your child's wedding financing. Remember to balance the upcoming wedding costs with regular expenses (mortgage, college tuition, car loans, retirement contributions, insurance premiums) and figure out where you can save, what you can set aside, or what you may borrow

against. Don't put it off until the reception facility bill comes in the mail. The family has enough stress without a big bill that has been underplanned for. Be proactive, do your research, and get the most for your money.

### ● BRIDES- AND GROOMS-TO-BE ●

Don't panic at prices and stress over costs just yet. Read this section on the financial side of the wedding, but don't forget to enjoy your engagement. You will discover the tools you need to create a budget and stick with it. Worried about how you will afford the wedding of your dreams? Ask yourself which components are must-haves and which are easily substituted with cheaper alternatives. The guidance you need is found in Rule #12. And, don't forget, brides—some documents need to be changed. Don't fret—we already prepared the list for you so that you can concentrate on other things, like a certain dress.

Finally, you need to think about your future as a married couple. Remember the worksheets and advice found in Section One? You need to reevaluate your expenses, spending, saving, budget, and debt management initiatives as a couple, not an individual. Go back and think about how you will manage your money as a couple, and you will be ready to be financially savvy from Day One of your life together. Don't wait until the gift money runs out, or until it's time to apply it to a mortgage, to ensure that your money grows. Consider it together, right away. The sooner you get on the same financial page as a couple, the better off your finances will be for your future.

## **RULE #11: When You Are Planning a Wedding, Money Matters**

*Start thinking about finances early in the engagement.*

### ● **GOOF-PROOF IT!** ●

Before you get too far into planning the big event, sit down and talk. Gather together everyone who will be involved in financing the wedding and talk about expectations. Everyone involved should know what is expected of him or her financially, and they should feel comfortable doing their part. Although many people think that a wedding is a time to splurge, and forget about being practical and frugal, it is not a time to let expenses get out-of-hand. Doing so could saddle you with debt for years to come.

If you talk about the finances of a wedding upfront, you will save yourself from plenty of awkward moments closer to the wedding. This is also the time to convey your thoughts on the style of the wedding. Be open and discuss ideas about how many people will be invited, whether the wedding will be formal or informal, and other aspects that could significantly affect the price of the wedding.

If you are a parent paying for the wedding of your son or daughter, be honest with them about your budget. Tell them how much you are willing to spend, and how much you want to be involved in deciding how to use that money.

If you are a bride or groom and you are paying for your own wedding, sit down with your intended and figure out how much you have to spend. Although you think you know each other well, you may have very different ideas about what a wedding should cost.

Once you have those initial conversations under your belt, you can sit down and hammer out a budget. Use the following worksheet to help get started.

● **WEDDING BUDGET WORKSHEET** ●

***CEREMONY***

ITEM	ESTIMATED COST	ACTUAL COST
Ceremony Location Fee		
Officiant Fee/Donation		
Ceremony Accessories (Chuppah, Candles, etc.)		
<b>Subtotal:</b>		

***RECEPTION***

ITEM	ESTIMATED COST	ACTUAL COST
Location Fee		
Rentals (Tables, Tent, etc.)		
Food and Service		
Beverages and Bartender		
Cake and Cutting Fee		
Toasting Flutes		
Cake Knife and Server Set		
<b>Subtotal:</b>		

***ATTIRE***

ITEM	ESTIMATED COST	ACTUAL COST
The Dress and Alterations		
Headpiece/Veil		
Bride's Accessories (Shoes, Bag, etc.)		
Hair and Makeup		
Groom's Suit and Alterations		
Groom's Accessories (Cufflinks, Shoes, etc.)		
<b>Subtotal:</b>		

***FLOWERS AND DECORATIONS***

ITEM	ESTIMATED COST	ACTUAL COST
Bride's Bouquet		
Bridesmaid Bouquets		
Boutonnieres		
Flower Girl's Bouquet		
Additional Boutonnieres and Corsages		
Ceremony Flowers and Decorations		
Reception Flowers and Centerpieces		
<b>Subtotal:</b>		

***MUSIC***

ITEM	ESTIMATED COST	ACTUAL COST
Ceremony Musicians		
Cocktail Hour Musicians		
Reception Band/DJ		
<b>Subtotal:</b>		

***PHOTOGRAPHY AND VIDEOGRAPHY***

ITEM	ESTIMATED COST	ACTUAL COST
Photographer's Fee		
Videographer's Fee		
Additional Prints or Videos		
<b>Subtotal:</b>		

***STATIONERY***

ITEM	ESTIMATED COST	ACTUAL COST
Invitations and Reply Cards (Plus Maps and Any Other Inserts)		
Calligraphy		
Thank-you Cards		
Placecards		
Other Stationery (Announcements, Save-the-Date Cards)		
Postage (Remember Postage for Reply Cards)		
<b>Subtotal:</b>		

***WEDDING RINGS***

ITEM	ESTIMATED COST	ACTUAL COST
Bride's Ring		
Groom's Ring		
<b>Subtotal:</b>		

***TRANSPORTATION AND LODGING***

ITEM	ESTIMATED COST	ACTUAL COST
Limo/Car Rental		
Guest Shuttle and Parking		
Bride and Groom Hotel Room(s)		
<b>Subtotal:</b>		

***GIFTS***

ITEM	ESTIMATED COST	ACTUAL COST
Bridesmaid Gifts		
Groomsmen Gifts		
Other Gifts (Flower Girl, etc.)		
Favors		
<b>Subtotal:</b>		

***MISCELLANEOUS***

ITEM	ESTIMATED COST	ACTUAL COST
Wedding Insurance		
Guest Book		
Ring Pillow		
<b>Subtotal:</b>		

***ADDITIONAL ITEMS***

ITEM	ESTIMATED COST	ACTUAL COST
<b>Subtotal:</b>		
<b>Total Wedding Budget:</b>		



## What the Experts Are Saying

**Need another** reason to think carefully about wedding finances? According to a national study conducted in 1999 by the Center for Marriage and Family at Creighton University, during the first five years of marriage, the most common and intense source of marital conflict among couples under the age of 30 is debt brought into the marriage. A large part of this debt is likely to have been wedding costs. The Conde Nast Bridal Infobank states that 27% of couples paid for their own wedding in 2002, and an additional 30% paid for part of their wedding.

### ● GOOF-PROOF RULE OF THUMB ●

Wondering where you are going to come up with the money to pay your part of the expenses? Once you know how much you will need, open a savings account specifically for the wedding. You may want to consider opening a term-builder account, as described in Rule #3, or a regular savings account. If you have enough time, consider purchasing a CD in the amount that you already have saved, and then start saving to make up the balance of what you will need. It doesn't matter how you do it, you just should put the money that you will need for the wedding in an account specifically for that event.

**RULE #12: Save Money Wherever You Can**

*No one needs to know how much . . . or, better yet, how little . . . you spent on your wedding.*

● **GOOF-PROOF IT!** ●

Just because the average cost of a wedding is \$22,000 doesn't mean you need to spend that much. There are plenty of ways to save money when planning a wedding and still have a great event. All you need to do is be a little creative.

First, figure out which elements of the wedding and reception are most important to you. Those are the things on which you will spend the most money. Then, balance them by spending less—or not including—the elements that are less important to you.

For example, you may decide to splurge on bridal party bouquets and boutonnieres, but not purchase decorations for ceremony location. This is acceptable! Not everyone has to have a ceremony location that is extravagantly decorated. Most people could get by with little or no extra decorations at their ceremony location.

Here's a quick list of ways that you can save big while still throwing a wonderful wedding:

**MONEY-SAVING TIPS**

<b>INSTEAD OF . . .</b>	<b>TRY . . .</b>
Purchasing engraved invitations	Having your invitations printed using thermography. The look is similar, but much less expensive.
Ordering your invitations from a printer	Ordering them from a catalog. Most wedding invitation catalogs will send you samples so you know the quality of their product.

INSTEAD OF . . .	TRY . . .
Decorating the ceremony location with expensive floral arrangements	Decorating with flowering potted plants. A bonus: You can give the plants to some of your more honored guests, such as parents, godparents, or grandparents.
Hiring someone to design and print ceremony programs	Designing and printing them yourself. Microsoft Publisher and Microsoft Word, for example, both have templates that make designing printed pieces easy.
Spending thousands on a wedding gown from a fancy bridal boutique	<p>Looking for wedding gowns at discount bridal stores, or shops that are a little off the beaten track. You can often find wonderful dresses for a fraction of the cost of those offered at exclusive salons. Some larger cities have designer sample sales and clearinghouses. There is even a place that sells gowns that were purchased and never worn—a new dress for second-hand prices. You can also look for bargains on the Internet or catalogs.</p> <p>Some to consider are Discount Bridal Service (800-874-8794 or <a href="http://www.discountbridalservice.com">www.discountbridalservice.com</a>), JCPenney's bridal catalog (800-527-8345), Pearl's Place (<a href="http://www.pearlsplace.com">www.pearlsplace.com</a>), and RK Bridal (<a href="http://www.rkbridal.com">www.rkbridal.com</a>).</p>

<b>INSTEAD OF . . .</b>	<b>TRY . . .</b>
Buying a veil	Make one yourself. Large craft stores, such as JoAnn Fabrics or Michaels, usually carry all of the supplies you need to make your own veil: tulle, combs, decorative accents, and a glue gun.
Giving each table a disposable camera at your reception	Asking one or two trustworthy friends or relatives to take candid reception photos for you. You will save money on both the cameras and the significant film developing costs.
Hiring a live band	Hiring a DJ. Often, a DJ will be less than half the price of a band.
Having either a band or DJ for the cocktail hour	Playing a mixed CD of special songs. Most reception locations have excellent sound systems that can accommodate this.
Offering a full open bar at your reception	Offer beer, wine, soda, and perhaps a punch.
Relying only on professionals	Finding out if any of your friends and relatives have special talents that they could lend for the event. You might find that you have flutist in your family who would be glad to provide the music for the ceremony.

INSTEAD OF . . .	TRY . . .
Having your wedding at the height of wedding season when the prices for receptions are the highest	Having your wedding during the off-season, usually November through April in most places. Or, consider having your wedding on a Friday evening, when most reception locations charge substantially lower rates than they do for Saturday events.
An evening reception	A brunch or luncheon. You can even consider a high tea or a dessert reception for something truly sweet.
A wedding cake with multiple tiers and fancy piping and other decorations	A simple stacked cake, which is usually much less expensive than a cake with tiers.
Only looking for wedding cakes at bakeries	Investigating local culinary schools or large grocery stores (the ones with bakeries) to find a less expensive—but still yummy!—cake.

● **GOOF-PROOF RULE OF THUMB** ●

As you can see, you can find a less expensive alternative to almost every element. Take some time to investigate your options and keep your eyes out for bargains and ways to save. You may be surprised by how easy it is to throw a champagne wedding on a beer budget!

**RULE #13: Get Your Financial Documents in Order**

*Don't forget to make the necessary name and address changes to ensure access to your money and information, as well as for greater ease of travel.*

**● GOOF-PROOF IT! ●**

With so many items on your to-do list prior to your wedding, don't forget this one. Marriage may involve official changes, such as your residence, your name, and your beneficiary. Review all of your important financial documents and accounts to ensure that they are accurate and that they have your new, correct information.

In today's world, one form of identification may not be adequate proof of identity, and many places ask you to produce a photo ID—one that matches the name on an airline ticket, for example. Spare yourself a hassle by ensuring that any name and address changes are reflected on your identification and are updated with your bank, your work, even your frequent flyer accounts.

**● GOOF-PROOF CHECKLIST ●  
CHANGING ADDRESSES**

If you are changing addresses, phone numbers, and/or names, you should review your cards and accounts for accuracy. Sometimes, things fall through the cracks when you are busy, so use this checklist:

- ✓ Social Security card
- ✓ credit cards
- ✓ drivers license
- ✓ auto registration
- ✓ auto insurance (and adding another driver, your spouse)
- ✓ home or renter's insurance policies

- ✓ bank accounts
- ✓ investment accounts
- ✓ retirement accounts
- ✓ property titles
- ✓ memberships (gym, AAA, library, etc.)
- ✓ voter registration
- ✓ telephone listing
- ✓ employment records
- ✓ will

### ● **GOOF-PROOF RULE OF THUMB** ● **BENEFICIARIES**

If you have an investment portfolio, bank account, retirement account, or life insurance policy, then you have had to name a beneficiary in the event of your death. Perhaps you named a parent or a sibling. When you are a spouse, you must name your spouse as your beneficiary unless you have written permission to name another individual. Make sure that you either make this change or get your spouse's release signature in a timely manner.

### ● **PUTTING IT ALL TOGETHER** ●

Weddings are supposed to be joyous occasions, not occasions that break the bank. Now that you have read the tips and rules for how to save for a wedding, you will have a better idea of how to plan a wedding without going broke. Use the following Goof-Proof Guidelines to help you navigate through the wedding planning process.

### ● GOOF-PROOF GUIDELINES ●

- Call a meeting of everyone who will be involved in the planning and financing of the wedding, and discuss expectations and responsibilities.
- Use the *Goof-Proof Wedding Budget Worksheet* to help create a budget for the event.
- Set up a savings program specifically for wedding expenses.
- Review financial and personal documents that may be affected by name change or marital status.
- Decide which wedding elements are most important to you, and plan your spending accordingly.
- Look for inexpensive alternatives to typical wedding expenses. Use the chart included in this section as a starting point for finding the alternatives.
- Relax, and have fun at the big event!







section **THREE**

# THE GOOF – UP: LETTING THE AMERICAN DREAM BECOME A NIGHTMARE

**Owning a home.** It is the American Dream. For many, buying a home makes sense. For others, renting is the way to go. Only you can tell which option is best for you. If you are thinking about buying a home, however, you may be put off by the almost endless requirements and up-front costs.

You may also worry that you simply cannot afford to buy a home. Maybe you are under the assumption that you must make a 20% down payment, and you think it will take a decade to save that much. Luckily, a number of programs help reduce the amount of down payment you must make to buy a home.

Even if you know you want to buy a home, and you think you will be able to afford it, many parts of the home buying process could trip you up and turn your dream into a nightmare.

This section will help you keep your dream alive. You will learn how to decide whether buying or renting is more appropriate for your situation. Then, you will learn some savings tips so you can actually pay for your home. Last, you will be introduced to the business of mortgages so that you can make informed financial decisions.

### **RULE #14: Decide If Homeownership Is Right For You**

*Tired of renting but not sure you are up to the challenge of maintaining a home? Think about the pros and cons of both renting and buying before you make your final decision.*

#### ● **GOOF-PROOF IT!** ●

Are you really ready to buy a home? Many people fall into the trap of believing that they should buy a house, even though they aren't prepared to do so. Or, they simply aren't interested in the responsibility that goes along with home ownership. Owning a home means that when the toilet overflows, you have to deal with it. When the lawn needs to be mowed, you have to deal with it. When the sidewalk needs to be shoveled, that's right, you have to deal with it. You can hire someone to do these jobs for you, but you will have to pay them.

As a renter, your landlord is responsible for all of the maintenance. On the flip side, you have to rely on your landlord to actually fix the broken toilet, mow the lawn, or shovel the sidewalk. If your landlord is not dependable, this can be frustrating. One frustrating landlord, however, is not necessarily reason enough to buy a home. You have to be prepared. Buying a home is a huge commitment and financial responsibility.

So, do yourself a favor and figure out if you are ready to buy a home. To get started, you might want to consider ordering a "Facts on Buying a Home" package from the Federal Citizen Information Center. You can receive this free publication by going to [www.pueblo.gsa.gov](http://www.pueblo.gsa.gov).

Now, let's take a look at some of the advantages and disadvantages to renting and buying.

***ADVANTAGES***

<b>BUYING</b>	<b>RENTING</b>
<ul style="list-style-type: none"><li>• Over time, the property builds equity.</li><li>• Freedom to decorate, landscape, and remodel as you choose.</li><li>• Tax breaks.</li><li>• You don't have to rely on your landlord for maintenance services.</li></ul>	<ul style="list-style-type: none"><li>• When your lease is up, you can move.</li><li>• Small up-front costs.</li><li>• Your landlord handles maintenance.</li></ul>

***DISADVANTAGES***

<b>BUYING</b>	<b>RENTING</b>
<ul style="list-style-type: none"><li>• You have to come up with a down payment.</li><li>• You are responsible for maintenance.</li><li>• House can decrease in value.</li><li>• If you want to move, you most likely have to sell your house.</li><li>• You could face foreclosure if you run into financial troubles.</li><li>• You are responsible for property taxes.</li></ul>	<ul style="list-style-type: none"><li>• Property will never gain equity—for you. Your landlord, on the other hand, will benefit from equity.</li><li>• No tax breaks.</li><li>• Limited ability to personalize your space.</li><li>• You have limited control over rent increases.</li><li>• You could be evicted.</li></ul>

● **GOOF-PROOF TIP** ●

Buying a home can provide you with valuable tax savings, reducing the amount of income tax that you have to pay to the federal government. This is because your mortgage interest, property tax, and some other payments related to buying a home can be tax deductions. In order to take advantage of this deduction, you must file Form 1040 and itemize your deductions on Schedule A. Visit [www.irs.gov](http://www.irs.gov) for more information.

**RULE #15: Save for the Home You Want  
and Can Afford**

*Buying a home is one of largest financial transactions most people make in their lives. It is a major commitment, which can invoke major anxiety.*

**● GOOF-PROOF IT! ●**

If you are thinking about buying a home, you may be thinking, “How will I ever be able to afford it?” After all, you have to make a down payment, pay closing costs, and then you need to be able make your monthly mortgage payments. How *will* you be able to afford it? Determining the kind of home you want *and* can afford can lessen this anxiety. Feeling that you have made a purchase within your range of affordability will be comforting.

Saving for a house may take you a while, but it can be done. Like anything else, if you develop a plan and then stick to it, you will be able to save enough money to buy your dream house.

Your first step should be to clean up your credit. You learned a little about the importance of spotless credit history in Section One. If you have not checked your credit report, do so as soon as you begin thinking about buying a home. Give yourself plenty of time to check for and correct any errors on your credit report. If your credit report is error-free, but a bit tarnished, clean it up.

## What the Experts Are Saying

**When you apply** for a mortgage, you should have the best credit score possible. Raising your credit score isn't an overnight job—it may take months, even years—but in the end it will be worth it. Kim Lankford from Kiplinger.com has this advice to offer:

Credit scores are based on information from your credit report. The most important factor (accounting for 35% of your score) is your payment history, followed by 30% for the amounts you owe, 15% for the length of your credit history, 10% for new credit and 10% for the types of credit you have. The best thing you can do to raise your score is to pay your bills on time. Keeping your balances low and not opening too many new accounts at the same time can make a big difference, too. Ask your lender what you can do to improve . . .

—[www.kiplinger.com/columns/ask/archive/2002/q0904.htm](http://www.kiplinger.com/columns/ask/archive/2002/q0904.htm)

When reviewing your credit report, take a look at your open credit lines. Do you have many credit cards that, although they have a zero balance they have high credit limits? If so, you may be viewed as a risk to a mortgage lender. This is because the mortgage lender will see your credit limits as potential debt. Because you can charge up those credit cards to your limit, they figure that amount into what you could owe each month. Lenders look at your total debt for a month and compare it to your income. If the ratio is too high, you are too much of a risk and you could be denied a mortgage. So, close any unnecessary credit card accounts and promise yourself you won't open any new ones until well after your mortgage has been approved and you have moved into your new home.

Now, as you set out to begin saving for your home, your best bet is to write out a goal amount. Then, break that down into monthly goals either by determining the maximum amount you can save each month or the amount of time you want to wait

to buy your home. Open up a money market account or a term-builder account that will deduct money from your checking account each month. This is the easiest way to save.

### ● GOOF-PROOF RULE OF THUMB ●

You are well on your way to saving for your down payment and closing costs. But, how much will you need to save? That depends on the costs of the home. How much home can you afford? Well, that depends on a number of things. You can get a quick estimate of how much you can afford to pay for a house by visiting the Affordability Calculator at the Ginnie Mae website: [www.ginniemae.gov/ypth/2\\_prequal/intro\\_questions.htm](http://www.ginniemae.gov/ypth/2_prequal/intro_questions.htm), or the Realtor.com website: [www.realtor.com](http://www.realtor.com). These calculators will provide you with a decent starting point.

### ● GOOF-PROOF EXAMPLE ● MORTGAGES AND EXPENSES

When trying to figure out how much you can afford to pay each month, it helps to keep in mind that taxes, insurance, repairs, and maintenance are necessary expenses, too. Take a sample mortgage, based on what you think you can afford, and figure out what your principal and interest charged will be each month. Then double it to compensate for the other expenses. This is a rough guide, but it is pretty accurate.

If you think you can afford a \$120,000 mortgage, you have figured out that your principal and interest payments on a traditional 30-year mortgage will be about \$750 a month. Taxes, insurance, repairs, and maintenance will be another \$750 a month. Now, can you afford \$1,500 a month? Yes, repairs and maintenance may be less some months. But, some months, they may be more. So, by budgeting this way you will save yourself from buying a more expensive house than you can really afford.



**RULE #16: Finding the Right Home**

*Define your dream home, know what's in your price range, and narrow down your choices.*

**● GOOF-PROOF IT! ●**

The next step toward owning a home is to think about what kind of home you would like to buy, where you would like it to be located, and what types of features you are looking for. These three criteria will impact the price of the house, so thinking about your wants and needs in the early stages will help you determine how much to save.

**● HOME BASICS ●**

The following list will help you to start thinking about what you are looking for in a home. Once you have answered these questions, share your answers with your real estate agent.

**● Location**

Where do you want to live? \_\_\_\_\_

How important are schools to you? \_\_\_\_\_

Do you desire a particular school system? \_\_\_\_\_

Do you need to be close to public transportation? \_\_\_\_\_

What conveniences would you like within walking distance from your home? \_\_\_\_\_

Do you want a neighborhood with a community or neighborhood association? \_\_\_\_\_

• **Home Style**

Do you want an older home, or a newer one? \_\_\_\_\_

What types of homes are you interested in buying?

one-story	_____	townhouse	_____
two-story	_____	condo	_____
bi-level	_____	mobile home	_____
tri-level	_____	brownstone	_____
split-level	_____		

What style are you interested in?

contemporary	_____	colonial	_____
traditional	_____	asian-inspired	_____
southwestern	_____	cape cod	_____

How much renovating are you willing to do? \_\_\_\_\_

Do you require wheelchair access? \_\_\_\_\_

Do you have any other physical needs that must be met? \_\_\_\_\_

***LOT***

SPECIFICATION	MUST HAVE	WOULD LIKE TO HAVE
Large Yard		
Small Yard		
Fenced Yard		
One-car Garage		
Two-car Garage		
Carport		
Extra Parking		
Patio/Deck		
Porch		
Pool		
Shed/Barn		

**INTERIOR**

<b>ELEMENTS</b>	<b>MUST HAVE</b>	<b>WOULD LIKE TO HAVE</b>
Bedrooms	#	#
Master Suite		
Bathrooms	#	#
Spa in Bathroom		
Air Conditioning		
Wall-to-Wall Carpet		
Hardwood Floors		
Ceramic Tile		
Eat-In Kitchen		
Formal Dining Room		
Formal Living Room		
Family Room		
Great Room		
Sunroom		
Den or Library		
Basement		
Attic		
Laundry Room		
Fireplace		
Workshop		
"In Law" Apartment		

● **GOOF-PROOF TIP** ●  
**PROTECT YOUR INVESTMENT**

Your home is an investment and, if the time ever comes for you to sell it, you will want to get as much of a return as possible. According to homeweb.com,

In many ways, the selling of your home is similar to the selling of a product. From the moment you make the decision to place your home on the market, you are no longer simply a homeowner and a resident in the property. You must now view yourself as the seller of a unique and valuable commodity. The price of this commodity will be determined in the same way that other products are bought and sold.

Obviously, a well maintained and appealing home will sell faster and at a higher price than others. This is the goal of every seller, to get a high, fast return on your investment. To help guarantee a high return, take care of your home and ensure that it has curb appeal, which will attract people to it. The interior of your home should be equally attractive and well cared for.

Here are some steps to take to protect your investment and make your home attractive on the outside:

- Maintain your lawn and gardens. Plant flowers, trim hedges, and keep your lawn mowed. In colder months and climates, keep your walkways clear of leaves or snow.
- Create an inviting entryway. Keep your front door neat, and repaint it if necessary. Set out a welcome mat on your doorstep.
- Repair any façade problems, such as peeling paint, broken shutters, broken gutters, or cracked columns.
- Repair any roof problems, such as loose or missing shingles.
- If you have a driveway, make sure it is free of potholes, and if it has not been sealed recently, take the time to do so.

**RULE #17: Become a Mortgage Master**

*15-year? 30-year? Fixed rate? Adjustable rate? Who knows! You can—you just need to do a little research and you can master your mortgage.*

**● GOOF-PROOF IT! ●**

In terms of mortgages, the importance of research cannot be stressed enough. These days, a mountain of information is available on the Internet that can help you understand the ins and outs of mortgages. Use all of the resources available and learn as much as you can.

One of the key factors in determining the size, rate, and type of your mortgage is the amount of down payment that you are able to make. If you are able to put down 20% of the purchase price for a home, you will have many benefits. First, your mortgage payments will be lower, and the amount of interest that you will ultimately pay on your loan will be less. In addition, and this is a big one, you will not have to pay Private Mortgage Insurance, or PMI.

PMI is great for people who cannot afford a 20% down payment, but it is insurance that is paid by the buyer. You will pay for it in your monthly payments until the value of your mortgage is reduced to 80% of your home's value. This increases your monthly payments by a fairly substantial amount. That's the downside. The upside is that it enables you to have the opportunity to buy a home when you otherwise might not be able to—if, for example, you were required to put 20% down.

## ● HELP WITH DOWN PAYMENTS ●

If you are worried about making a down payment, there are programs and organizations that may be able to help you. In addition to PMI, you can look into some of the following:

- **Federal Government Loan Programs.** The Federal Housing Administration (FHA), the Department of Veteran Affairs (VA), and the Department of Housing and Urban Development (HUD) all have programs to help homebuyers. They may offer assistance for up-front payments, which could reduce your down payment requirements. Contact them for eligibility requirements and to learn more about programs and services available.
- **State Housing Authorities.** Several states have agencies that offer down payment assistance. As part of these programs, or separately, several cities and urban areas have incentive programs for people buying homes within specific areas. You can usually find this information by contacting your local officials or calling your city hall.
- **Universities.** More and more urban universities are attempting to increase owner occupation of buildings surrounding their campuses. To do so, they have developed incentive programs for people buying—and residing—in homes within set areas. If you have a university or college in the area where you want to live, contact them to find out if they have a home ownership incentive program.

## ● MORTGAGE PROGRAMS ●

There are three basic types of loan programs, fixed-rate, adjustable-rate, and balloon.

- **Fixed-Rate Mortgage.** This is the most common type of mortgage. Fixed-rate mortgages are available for 15-year, 20-year, and 30-year terms. During the term of the loan, the monthly payments of principal and interest stay the same because the interest rate is fixed. It never changes, so your principal and interest payments never change.

With this type of loan, your beginning payments will primarily go toward your interest. As you pay off more and more of your loan, a greater percentage of your payment will be applied to your principal. One benefit of this is that in the first few years of your mortgage, you will have greater federal income tax deductions available because of the amount of interest on your mortgage that you are paying.

- **Adjustable-Rate Mortgage.** This type of mortgage usually begins with an interest rate that is between two and three percent lower than a comparable fixed-rate mortgage. So, why doesn't everyone choose an adjustable-rate mortgage? Well, they are great in the beginning, but the loan rate changes over the course of the term of the loan. If the interest rate goes down, the rate on your mortgage would go down. If it goes up, however, the interest rate on your mortgage would go up. Your payments, therefore, could change dramatically over the course of your mortgage term.
- **Balloon Loans.** This type of mortgage is both similar to and very different from a fixed-rate mortgage. With a balloon loan, your interest rate and, therefore, monthly payments, are fixed over the term of the loan. The difference is that a balloon loan is a short-term loan, usually five or seven years, and the interest rates are often significantly lower than traditional fixed-rate mortgages. However, a balloon loan is not fully amortized over the term of the loan. This can be confusing, but it is actually pretty simple.

A balloon loan may have a five-year term. Your payments throughout the term are fixed but after five years, when your loan matures, you have not paid off the loan. Instead, you will owe the entire remaining principal balance at the end of the term. Generally, people pay off the balance by refinancing, unless the original loan has a conversion program built-in. Balloon loans with a built-in conversion are usually called 7/23 Convertible or 5/25 Convertible. The first number represents the balloon part of the loan and the second represents the converted remainder of the loan.

When a loan is converted it is usually converted at the lender's 30-year fixed-rate, plus an additional  $\frac{3}{8}$  of a percentage point. So you see, even though the loan began with an attractively low interest rate, it could end with something quite high.

### ● GOOF-PROOF RULE OF THUMB ●

Shop around! When you are looking for a mortgage, it is critical that you shop around. Your real estate agent may recommend a specific lender that he or she works with regularly. You can consider them, but don't feel compelled to use them. The same holds for your current financial institution. You should look into their mortgage services, just as you should look into the mortgage services of many other institutions.

Sounds like a lot, right? It is, and it is worth it. Locking into the wrong mortgage is a mistake you don't want to make. So, spend as much time as you can researching your mortgage options.

One resource you can purchase to help you find the best mortgage is the Home Buyer's Mortgage Kit, available for \$26, by calling 1-800-894-0314. This kit includes a list of all of the lenders who offer mortgages in your state. It lists their current fixed and adjustable rate mortgages, fees, points, and closing costs. You also can visit [www.mortgage101.com](http://www.mortgage101.com) to search for the best mortgage rates.



● **GOOF-PROOF TIP** ●  
**DIRECT LENDERS VS. MORTGAGE BROKERS**

As you shop for your mortgage, you will have two primary types of mortgages to consider: those from direct lenders and those from mortgage brokers. The difference between the two is this:

- **Direct lenders** lend you money directly and make the final decision on your mortgage application. Your options are limited by the number of in-house loans they have available.
- **Mortgage brokers** don't lend money directly, rather, they shop around just like you do. They are basically intermediaries who contract for a mortgage on your behalf from a stable of lenders. Brokers are a good option for borrowers who have special financing needs. However, brokers do take a cut of the amount that you borrow.

**RULE #18: Understanding Not-So-Hidden Costs**

*Be prepared to pay several different fees associated with buying a home.*

**● GOOF-PROOF IT! ●**

You may have heard about the closing costs that the buyer pays when purchasing a home, but unless you are familiar with the real estate industry, these costs may be mystifying to you. In this rule you will learn what these costs are, as well as about the additional fees sometimes associated with a mortgage.

**● GOOF-PROOF CHECKLIST ●  
INFORMATION, FEES, AND CLOSING COSTS**

When you are shopping for your mortgage, you should find out the following information about each potential loan:

- ✓ interest rate
- ✓ broker fees
- ✓ points
- ✓ prepayment penalties
- ✓ loan term
- ✓ application fees
- ✓ credit report fees
- ✓ appraisal fees

You may be wondering if these fees are what people refer to as closing costs. The answer is yes and no. They are part of closing costs, which are costs payable at the time of settlement (your closing). Closing costs often include:

- **Fees Paid to the Lender**

- ✓ broker fees
- ✓ points
- ✓ application fees
- ✓ credit report fees
- ✓ appraisal fees

- **Fees Paid in Advance**

- ✓ interest from the closing date to the beginning of the first payment
- ✓ hazard insurance premium
- ✓ mortgage insurance premium

- **Other Charges**

- ✓ title search and title insurance
- ✓ sales commissions (to the real estate broker)
- ✓ attorney fees
- ✓ home inspection fees
- ✓ survey fees
- ✓ property taxes
- ✓ processing, recording, and document preparation fees

- **GOOF-PROOF RULE OF THUMB** •

Don't be afraid to speak up! Ask your broker or your lender about specific costs, research terms on the Internet, and be savvy about how you spend your money. Never pay fees and closing costs without finding out exactly what you are writing out that check for, and understand what fees are being tacked on to the principal of your mortgage.

## **RULE #19: The Mortgage Application**

*Take the time to fill out your mortgage application carefully and completely.*

### ● **GOOF-PROOF IT!** ●

A mortgage has more to it than research and closing costs. The final step is submitting an application. This is actually the easiest part of the process. You want to be sure to submit your information completely and accurately, so take time at the outset to ensure a smooth application process.

When you fill out the application, you will be asked to provide information about your current employment status and your employment history. You will also be asked about your income, your assets and your liabilities. Assets include property, cars, bank accounts, and investments. Liabilities include car loans, student loans, other installment loans, mortgages, credit card debt, and so forth. Think carefully about your assets and liabilities, and get it right the first time.

### ● **GOOF-PROOF CHECKLIST** ● **GATHER YOUR DOCUMENTS**

The most time-consuming part of the application process is gathering your documents. Here is a list of the documents you will need (confirm this list with your lender, in case there is any additional information they need):

- ✓ paycheck stubs (usually stubs for the last three months)
- ✓ bank account statements (again, usually three months)
- ✓ tax returns (for at least the previous year)
- ✓ investment earnings reports
- ✓ current lease or rental agreement
- ✓ any papers relating to a divorce or marriage
- ✓ proof of insurance

### ● GOOF-PROOF RULE OF THUMB ●

If you have problems filling out your application, do not hesitate to call your lender or broker for help. He or she should be able to answer any of your questions or clarify the application requirements.

### What the Experts Are Saying...

**Jordan E. Goodman**, a frequent finance contributor on National Public Radio, recommends the Automatic Rate Cut mortgage. This type of mortgage will adjust its rate down, but never up. You can find out more information on this type of loan, and whether or not you qualify for it, by calling 1-888-ARC-LOAN.

—[www.moneyanswers.com/financial\\_faq.html#ARCLoan](http://www.moneyanswers.com/financial_faq.html#ARCLoan)

### ● GOOF-PROOF TIP ●

Are all of the mortgage terms making you feel like you are trying to learn a second language? A good resource for definitions and explanations of common mortgage terms is [www.interest.com/firsttime/terms.shtml](http://www.interest.com/firsttime/terms.shtml). Here you will quickly find out things like the difference between a balloon mortgage, blanket mortgage, and a guaranteed payment mortgage. Also, be sure to check the glossary in Appendix C for quick definitions.

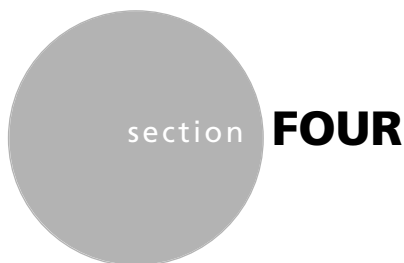
### ● PUTTING IT ALL TOGETHER ●

Now that you understand the importance of approaching a home purchase with great care, you can move ahead with confidence. Use the following guidelines as you go through the process of financing a home.

● **GOOF-PROOF GUIDELINES** ●

- Determine if home ownership is for you.
- Think about your wants and needs for your new home.
- Use affordability calculators to figure out how much home you can afford.
- Review your credit history, and clean it up if you need to.
- Open a special account to save for your home. Save consistently.
- Research mortgage options.
- Look into several different lenders, both direct lenders and mortgage brokers.





section **FOUR**

## THE GOOF – UP: FORGETTING TO FIND THE MONEY AVAILABLE TO ATTEND COLLEGE

Post-secondary education of any kind and duration is expensive. Fortunately, more and more families are planning ahead for college. Earlier, in Section One, you read the rules about saving and instilling good savings values in your children by turning them on to financial websites just for them. This section is specifically for you as a cost-minded parent of a college-bound child. Read this section carefully, even if your child is still in diapers. Planning early has its benefits.

The U.S. government has realized that investing in college is an investment in tomorrow's leaders, so they have instituted tax benefits for special college funds. You will learn about special tax deferments and allowances in Rule #23. Grandparents are getting into the act, too, by diverting parts of their estates to grandchildren and simultaneously taking advantage of tax benefits.

Saving while supporting your family is liable to only take you so far with today's college costs. However, financial aid is available for you and/or your child—you just have to know where to look for it. Though they come in all shapes and sizes, the focus of the Goof-Proof Rules is on three categories or types of financial aid:



1. Grants and scholarships—aid that you don't have to pay back
2. Work/Study—aid that you earn by working
3. Loans—aid that you have to pay back

Like many things in life, you must first find out if you are eligible, which financial records you need to gather, and how to complete and file forms. If you need more motivation, check out the costs of sending your child to college.

***ESTIMATED COST OF ONE YEAR OF COLLEGE  
EDUCATION, INCLUDING ROOM AND BOARD***

SCHOOL YEAR	PUBLIC—4 YEAR	PRIVATE—4 YEAR
2003–2004	\$13,483	\$29,061
2004–2005	\$14,157	\$30,514
2005–2006	\$14,865	\$32,040
2006–2007	\$15,608	\$33,642
2007–2008	\$16,388	\$35,324
2008–2009	\$17,207	\$37,090
2009–2010	\$18,067	\$38,945
2010–2011	\$18,970	\$40,892
2011–2012	\$19,919	\$42,937
2012–2013	\$20,915	\$45,084
2013–2014	\$21,961	\$47,338
2014–2015	\$23,059	\$49,705
2015–2016	\$24,212	\$52,190
2016–2017	\$25,423	\$54,800
2017–2018	\$26,694	\$57,540
2018–2019	\$28,029	\$60,417
2019–2020	\$29,430	\$63,438
2019–2020	\$30,902	\$66,610
2019–2020	\$32,447	\$69,940

Source: Metlife.com. Reprinted with permission.

**RULE #20: Find Out about the Qualified Tuition Program and Start Saving**

*If your children are heading to college, tuition funds may be right for you.*

**● GOOF-PROOF IT! ●**

Under the Qualified Tuition Program (QTP), also known as the 529 Plan, it is now easier and more beneficial for families to save for college tuition or take part in prepaid tuition programs. Families are able to take advantage of tax-deferred accumulation as well as more favorable tax on qualified withdrawals than on regular savings or gifts. Don't make the mistake of thinking that you don't have to pay taxes on your college fund, however. Tax-deferred accumulation simply means that you don't pay taxes on the money in the fund until the money is withdrawn. This is helpful because you don't pay federal taxes at the outset, which allows money to accumulate faster, tax-free. (State taxes vary, so check with your state tax board for further information.)

It is important to remember that a 529 Plan is a lot like your retirement fund. It is usually comprised of mutual funds managed by a corporation who makes growing your money their business. Like all investment options, make sure you have all the facts before signing on, and shop around to guarantee the best deal for you and your family.

Be sure to ask prospective fund managers about:

- Contribution limits—how much you can contribute as well as how little can be added regularly
- Fees associated with managing the fund
- Line of credit and other options that may be of interest to you
- Penalties and rules regarding withdrawals and disbursements

## ● GOOF-PROOF CHECKLIST ●

### GAINING TUITION MONEY, GETTING TAX BREAKS

Here's an overview of how you and your family are looked on favorably, tax-wise, when saving for college. Find out more specifics from your financial planner.

- ✓ **Investment earnings.** When used for qualified higher education expenses, investment earnings can be distributed to tuition funds free of federal income tax.
- ✓ **Gifts.** Contributions are considered completed gifts and are usually excluded from the account owner's estate, meaning that it costs him or her no taxes to disperse wealth to the college candidate. In 2003, the cap on tax-exempt gifts is the lump sum of up to five times the annual gift tax exclusion in a single year. An individual can contribute up to \$55,000 per beneficiary free of gift taxes in one lump sum, to as many beneficiaries as desired. Once you make this maximum gift, however, you cannot make any other gifts to that beneficiary for five years. Alternatively, you may make annual contributions of up to \$11,000 per beneficiary and qualify for the gift tax exclusion.

## ● GOOF-PROOF RULE OF THUMB ●

### HOW AND WHERE YOU CAN SPEND THE MONEY

Going off to college means a lot more financially than paying tuition. You may wonder what costs associated with college qualifies under the 529 Plan. In addition to tuition, college fees, room and board, books, and other school supplies are covered.

Furthermore, the 529 Plan does not only apply to four-year institutions. In fact, the 529 Plan applies to any accredited post-secondary institution in the country, including vocational, technical, and professional schools, as well as undergraduate and graduate programs.

● **GOOF-PROOF TIP** ●  
**COLLEGE KIDS**

Many savings funds designed to accrue money for a child, such as a minor's trust (2503c trust), and turn control of the fund over to the child when he or she reaches a certain age, such as 21. The issue with these funds is that perhaps the beneficiary will not put the money—totally or partially—toward college. With the 529 Plan, the control rests with the parent as holder of the account. In addition, the account holder can even change beneficiaries without penalty during the course of the fund. Let's say #1 son gets a full football scholarship to college. You can use #1 son's fund for #2 and #3 sons when they go off to college. Learn more about the built-in flexibility of the plan before deciding on where to invest your money in your child's future.

**RULE #21: Plan to Get Money**

*Don't miss out on being eligible for financial aid due to poor planning.*

**● GOOF-PROOF IT! ●  
GATHERING FINANCIAL RECORDS**

Your financial need for most grants and loans depends on your financial situation. Once you have determined if you are considered a dependent or independent student, you will know whose financial records you need to gather for this step of the process. If you are a dependent student, then you must gather not only your own financial records, but also those of your parents because you must report their income and assets as well as your own when you complete the Free Application for Federal Student Aid (FAFSA). If you are an independent student, then you need to gather only your own financial records (and those of your spouse if you are married). Gather your tax records from the year prior to the one in which you are applying. For example, if you apply for the fall of 2004, you will use your tax records from 2003.

**● GOOF-PROOF CHECKLIST ●  
GATHER YOUR DOCUMENTS**

To help you fill out the FAFSA, gather the following documents:

- ✓ U. S. Income Tax Returns (IRS Form 1040, 1040A, or 1040EZ) for the year that just ended and W-2 and 1099 forms
- ✓ records of untaxed income, such as Social Security benefits, Aid to Families with Dependent Children (AFDC) or Aid to Dependent Children (ADC), child support, welfare, pensions, military subsistence allowances, and veterans' benefits
- ✓ current bank statements and mortgage information

- ✓ medical and dental expenses for the past year that were not covered by health insurance
- ✓ business and/or farm records
- ✓ records of investments such as stocks, bonds, and mutual funds, as well as bank Certificates of Deposit (CDs) and recent statements from money market accounts
- ✓ Social Security number(s)

### ● GOOF-PROOF RULE OF THUMB ●

Even if you do not complete your federal income tax return until March or April, you should not wait to file your FAFSA until your tax returns are filed with the Internal Revenue Service (IRS). Instead, use estimated income information and submit the FAFSA, as noted earlier, just as soon as possible after January 1. Be as accurate as possible, knowing that you can correct estimates later.

## What the Experts Are Saying

### Maximizing Your Eligibility for Loans and Scholarships

**Loans and scholarships** are often awarded based on an individual's eligibility. Depending on the type of loan or scholarship you pursue, the eligibility requirements will be different. eStudentLoan.com ([www.estudentloan.com](http://www.estudentloan.com)) offers many tips and strategies for improving your eligibility when applying for loans and/or scholarships:

- Save money in the parent's name, not the student's name.
- Pay off consumer debt, such as credit card and auto loan balances.
- Parents considering going back to school should do so at the same time as their children. The more family members in school simultaneously, the more aid will be available to each.
- Spend student assets and income first, before other assets and income.
- If you believe that your family's financial circumstances are unusual, make an appointment with the financial aid

administrator at your school to review your case. Sometimes the school will be able to adjust your financial aid package to compensate.

- Minimize capital gains.
- Do not withdraw money from your retirement fund to pay for school. If you must use this money, borrow from your retirement fund.
- Minimize educational debt.
- Ask grandparents to wait until the grandchild graduates before giving them money to help with their education.
- Trust funds are generally ineffective at sheltering money from the need analysis process, and can backfire on you.
- If you have a second home, and you need a home equity loan, take the equity loan on the second home and pay off the mortgage on the primary home.

**RULE #22: Learn How to Find Money**

*Know about the financial aid options that get your child the best kind of money for his or her college tuition . . . the kind that does not have to be paid back.*

**● GOOF-PROOF IT! ●**

Grants and scholarships are the best kinds of financial aid because you don't have to pay them back—they are yours for the asking (and qualifying). Work-study programs are another great way to earn money toward tuition and college costs while earning a degree. Here is a list of the most common and broad-ranging types of grants and scholarships, along with an overview of how work-study programs work for you.

**● GRANTS ●**

Grants are normally awarded based on financial need. Even if you believe you won't be eligible based on your income, check them out anyway, as some grants are awarded for academic performance and other criteria. The two most common grants, the Pell and Federal Supplemental Educational Opportunity Grant (FSEOG), are both offered by the federal government.

**● Federal Pell Grants**

Federal Pell Grants are based on financial need and are awarded only to undergraduate students who have not yet earned a bachelor's or professional degree. For many students, Pell Grants provide a foundation of financial aid to which other aid may be added. How much your child can get depends not only on Expected Family Contribution (EFC), but also on the cost of attendance, whether one is a full-time or part-time student, and whether the full academic year is attended. In addition, some



private and school-based sources of financial aid will not consider your eligibility if you haven't first applied for a Pell Grant—so look into it.

- **Federal Supplemental Educational Opportunity Grants (FSEOG)**

FSEOGs are for undergraduates with exceptional financial need—that is, students with the lowest EFCs. They give priority to students who receive Pell Grants, but there is no guarantee that every eligible student will be able to receive a FSEOG. Students at each school are paid based on the availability of funds at that school, and not all schools participate in this program. To have the best chances of getting this grant, apply as early as you can after January 1 of the year in which your child plans to attend school. For more on Pell Grants and FSEOGs, go to [www.ed.gov/prog\\_info/SFA/StudentGuide/2002-3/fseog.html](http://www.ed.gov/prog_info/SFA/StudentGuide/2002-3/fseog.html).

- **State Grants**

State grants may be specific to the state in which your child receives his or her education or in which state you reside. Check out both avenues via your state's department of higher education.

- **SCHOLARSHIPS** •

Scholarships are almost always awarded for academic merit or for special characteristics (for example, ethnic heritage, personal interests, sports, parents' career, college major, geographic location) rather than financial need. As with grants, these are award funds that do not get paid back. Scholarships may be offered from federal, state, school, and private sources.

To find scholarship money on the Internet, use one of the free search tools available, such as [google.com](http://google.com) and [fastweb.com](http://fastweb.com). After entering the appropriate information about your child, a search

takes place that ends with a list of those prizes for which your child may be eligible. Another method is to try [www.fastap.org](http://www.fastap.org), which bills itself as the world's largest and oldest private sector scholarship database. A couple of other good sites for conducting searches are [www.college-scholarships.com](http://www.college-scholarships.com), <http://scholarshipgrantguide.com>, and [www.gripvision.com](http://www.gripvision.com). To find private sources of aid, spend a few hours in the library looking at scholarship and fellowship books or consider a reasonably priced (under \$30) scholarship search service.

If you already know which school your child will attend, check with a financial aid administrator (FAA) in the financial aid department to find out if you qualify for any school-based scholarships or other aid. Many schools offer merit-based aid for students with a high school grade point average (GPA) of a certain level or with a certain level of Scholastic Achievement Test (SAT) exam scores in order to attract more students to their school.

- **Hope Scholarship Credit**

A program benefiting mainly middle-class families is the Hope Scholarship Credit. Eligible taxpayers may claim a credit to defray the cost of tuition and fees. To find out more about the Hope Scholarship credit, log onto [www.sfas.com](http://www.sfas.com).

- **The National Merit Scholarship Corporation**

This program is offered to high school seniors with excellent grades and high scores on college entrance exams. Students may also be eligible to receive a scholarship from their state (again, the state you reside in or go to school in) or school. Check with the higher education department of the relevant state or states, or the financial aid office of the school you will attend.

## ● WORK-STUDY PROGRAMS ●

When applying to a college or university, your child can indicate that he or she is interested in a work-study program. The college employment office will have the most information about how to earn money while in school.

### ● School-Based Employment

If your child is interested in school-based employment, he or she can access details about the types of jobs offered (they can range from giving tours of the campus to prospective students, to working in the cafeteria, or supervising the dorm of underclassmen) and how much they pay (always at or above minimum wage).

### ● Federal Work-Study (FWS) Programs

You may also want to investigate the Federal Work-Study (FWS) program, which can be applied for on the FAFSA. The FWS program provides jobs for undergraduate and graduate students with financial need, allowing them to earn money to help pay education expenses. It encourages community service work and provides hands-on experience related to your course of study, when available. The amount of the FWS award depends on when the application is received, level of need, and funds available at your child's particular school. An advantage of working under the FWS program is that your child's earnings are exempt from Federal Insurance Contributions Act (FICA) taxes if he or she is enrolled full-time and is working less than half-time. For more information about National Work Study programs, visit the Corporation for National Service website ([www.cns.gov](http://www.cns.gov)).

### ● GOOF-PROOF RULE OF THUMB ●

Even if you think you or your child will not qualify for aid, grants, or scholarship, it never hurts to try anyway. You may be surprised, and you will thank yourself later!

## What the Experts Are Saying

**It is a common misbelief** that scholarships are only for brainy kids, super athletes, or that small percentage who become National Merit Scholars. And yes, they get their share. But don't overlook the fact that there are scholarships out there for everyone, yes, everyone!

FACT: every year billions of dollars (around 30 billion) are given to people like you to attend college, regardless of their ethnicity, financial situation, or background. In fact, there are scholarships that TARGET minorities, students without incomes, and everyday people just like you.

FACT: The number two reason that most students do not get the money they need is because they are unable to find the right scholarships for which they should apply. This is because they don't know where to look, or they are too numb from looking at thousands of web pages on the Internet.

FACT: Scholarship money is not handed out to "special" students. It is awarded to those who seek out the scholarships and apply for them. You don't have to be in the top 10% of your class. You don't have to have stellar grade point averages. You don't have to have poor parents! However, many scholarships are awarded to those who write great essays.

—<http://scholarshipgrantguide.com>

### **RULE #23: Access the Millions of Dollars Available in Student (and Parent) Loans**

*If you don't qualify for a free ride to college via scholarships and grants, get started on the student and parent loan process now.*

#### ● **GOOF-PROOF IT!** ●

Although scholarships, grants, and work-study programs can help to offset the costs of higher education, they usually don't 100% cover tuition. Most families and/or students who can't afford to pay for their entire education rely at least in part on student loans. The largest single source of these loans, and for all money for students, is the federal government. However, you can also find loan money from your state, school, and/or private sources.

#### ● **GOOF-PROOF TIP** ● **FEDERAL AID**

Try these three sites for information about the United States government's programs, then find out about some of the most popular federal loan programs:

- **www.fedmoney.org** This site explains everything about the application process, from eligibility requirements to the different types of loans available.
- **www.finaid.org** Here, you can find a calculator for figuring out how much money your education will cost (and how much you will need to borrow), and you can receive instructions for filling out the necessary forms.
- **www.ed.gov/offices/OSFAP/students** The Federal Student Financial Aid Homepage. The FAFSA can be filled out and submitted online.

You can also get excellent detailed information about different sources of federal education funding by sending away for a copy of the U.S. Department of Education's publication, *The Student Guide*. Write to: Federal Student Aid Information Center, P.O. Box 84, Washington, DC 20044, 800-4FED-AID.

## ● FEDERAL LOAN PROGRAMS ●

Federal student loans are administered and disbursed through two different programs, and you will find out directly from your school as to which program they participate in, either the Federal Family Education Loan Program (FFELP), which provides loans to students via a network of commercial lenders or the Ford Direct Lending Program (FDLP), wherein your lender is the federal government itself.

### ● Federal Perkins Loans

A Perkins loan has the lowest interest (currently, it's 5%) of any loan available for both undergraduate and graduate students, and is offered to students with exceptional financial need. In a nutshell, you repay your school, which lends the money to you with government funds. The amount you can borrow depends on when you apply, your level of need, and the funding level of the school. You have up to ten years to pay off the entire loan.

### ● PLUS Loans

Parent Loan for Undergraduate Students (PLUS) loans enable parents with good credit histories to borrow money to pay education expenses of a child who is a dependent undergraduate student enrolled at least half-time. Unlike most other forms that are filled out by your child with your child being the accountable party, you as parents must submit these completed forms to the school. The yearly limit on a PLUS Loan is equal to the cost of attendance

minus any other financial aid received. For instance, if your cost of attendance is \$6,000 and you receive \$4,000 in other financial aid, you can borrow up to, but no more than, \$2,000. The interest rate varies, but it is not to exceed 9% over the life of the loan. Unlike Perkins loans, which you begin to repay nine months after you leave school, parents must begin repayment while you are still in school. There is no grace period.

### • **Federal Stafford Loans**

Stafford loans are low-interest loans that are given to students who attend school at least half-time. The maximum amount a student can borrow is \$15,000 per year. The lender is the U.S. Department of Education. Stafford loans fall into one of two categories:

- **Subsidized loans** are awarded on the basis of financial need. Interest starts when you begin repayment and is suspended during authorized periods of deferment. The federal government “subsidizes” the interest during these periods.
- **Unsubsidized loans** are not awarded on the basis of financial need. Interest is charged from the time the loan is disbursed until it is paid in full.

These loans have many borrowing limit categories, depending on whether your child gets an unsubsidized or subsidized loan, which year in school your child is enrolled, how long the program of study is, and if your child is independent or dependent. Your child may qualify for both kinds of Stafford loans at the same time, but the total amount of money loaned at any given time cannot exceed \$15,000. The interest rate varies, but should not exceed 8.25%. An origination fee for a Stafford loan is approximately 3% or 4% of the loan, and the fee is deducted from each loan disbursement received. There is a six-month grace period after graduation before loans must begin to be repaid.

## • State Loans

Loan money is also available from state governments. Check with your state department of higher education, and remember that you may be able to qualify for a state loan based on your residency or the location of the school.

### • GOOF-PROOF CHECKLIST • QUESTIONS TO ASK BEFORE YOU TAKE OUT A LOAN

In order to get the facts regarding the loan you or your child is about to take out, ask the following questions. Make sure that your child understands the obligations he or she is undertaking, even if it's you who is sorting through the red tape and possibly planning on paying back the loans for your child:

- ✓ **What is the interest rate and how often is the interest capitalized?** The college's FAA should be able to tell you this.
- ✓ **What fees will be charged?** Government loans generally have an origination fee that goes to the federal government to help offset its costs, and a guarantee fee, which goes to a guaranty agency for insuring the loan. Both are deducted from the amount given.
- ✓ **Will the student have to make any payments while still in school?** Usually no, and, depending on the type of loan, the government may even pay the interest while your child is in school.
- ✓ **What is the grace period—the period after schooling ends—during which no payment is required?**
- ✓ **When is the first payment due and approximately how much will it be?** You can get a good preview of the repayment process from the answer to this question.
- ✓ **Who exactly will hold the loan? To whom will I be sending payments?** Whom should I contact with



questions or inform of changes in my situation? Your loan may be sold by the original lender to a secondary market institution, in which case you will be notified as to the contact information for your new lender.

- ✓ **Will I have the right to prepay the loan, without penalty, at any time?** Some loan programs allow prepayment with no penalty, but others do not.
- ✓ **Will deferments and forbearances be possible if I am temporarily unable to make payments?** You need to find out how to apply for a deferment or forbearance if you need it.
- ✓ **Will the loan be canceled (forgiven) if I become totally and permanently disabled, or if I die?** This is always a good option to have on any loan you take out.

### ● GOOF-PROOF RULE OF THUMB ● GENERAL GUIDELINES FOR LOANS

Before you and your child commit to any loans, be sure to keep in mind that they need to be repaid. Estimate realistically how much your child will earn when he or she leaves school, remembering that you will have other monthly obligations such as housing, food, and transportation expenses. Also, make sure you can repay any loans, such as the PLUS loans, that you have received.

## **RULE #24: Apply for Financial Aid and Establish Financial Need**

*Cut through the red tape to get access to federal student aid money.*

### ● **GOOF-PROOF IT!** ●

When applying for federal student aid you need to complete the FAFSA; the information you report is used in a formula established by the U. S. Congress. The formula determines your Expected Family Contribution (EFC), an amount you are expected to contribute toward your child's education. If your child's EFC is below a certain amount, he or she will be eligible for a Pell Grant, assuming all other eligibility requirements are met. There is no maximum EFC that defines eligibility for the other financial aid options. Instead, your EFC is used in an equation to determine your financial needs.

$$\text{Cost of Attendance} - \text{EFC} = \text{Financial Need}$$

A financial aid administrator calculates your cost of attendance and subtracts the amount you and your family are expected to contribute toward that cost. If there is anything left over, you are considered to have financial need.

### ● **GOOF-PROOF CHECKLIST** ● **APPLYING FOR FINANCIAL AID**

Now that you are aware of the types and sources of aid available, apply as soon as possible.

- ✓ **The Free Application for Federal Student Aid (FAFSA)** is the form used by federal and state governments, as well as school and private funding sources, to determine your eligibility for grants, scholarships, and loans. The easiest way to get a copy is to log onto

[www.ed.gov/offices/OSFAP/students](http://www.ed.gov/offices/OSFAP/students), where you can find help in completing the FAFSA, and then submit the form electronically when you are finished. You can also get a copy by calling 1-800-4-FED-AID, or stopping by your public library or your school's financial aid office. Be sure to get an original form, because photocopies of federal forms are not accepted.

- ✓ **Apply for financial aid as soon as possible after January 1.** If you want to begin school in the fall of 2005, then you should apply for financial aid as soon as possible after January 1, 2005. It is easier to complete the FAFSA after you have completed your tax return, so you may want to consider filing your taxes as early as possible as well. Do not sign, date, or send your application before January 1 of the year for which you are seeking aid.
- ✓ **Send your completed application in the envelope that came with the original application.** The envelope is already addressed, and using it will make sure your application reaches the correct address. Many students lose out on thousands of dollars in grants and loans because they file too late. Don't be one of them. Pay close attention to dates and deadlines.
- ✓ **Create a financial aid calendar.** Using any standard calendar, write in all of the application deadlines for each step of the financial aid process. This way, all vital information will be in one location, so you can see at a glance what needs to be done and when. Start this calendar by writing in the date you requested your FAFSA. Then mark down when you received it and when you sent in the completed form. Add important dates and deadlines for any other applications you need to complete for school-based or private aid as you progress through the financial aid process. Using and maintaining a calendar will help the whole financial aid process run more smoothly and give you peace of mind that the important dates are not forgotten.

- ✓ **You must reapply for financial aid every year.** However, after your first year, you will receive a Student Aid Report (SAR) in the mail before the application deadline. If no corrections need to be made, you can just sign it and send it in.
- ✓ **Watch out for the SAR.** After you mail in your completed FAFSA, your application will be processed in approximately four weeks. Then, you will receive a SAR in the mail. The SAR will disclose your EFC, the number used to determine your eligibility for federal student aid. Each school you list on the application may also receive your application information if the school is set up to receive it electronically.

### ● GOOF-PROOF RULE OF THUMB ●

Take advantage of the financial aid office of the college your child has chosen, or seek advice from your child's guidance counselor. These professionals can also offer plenty of information, and can help to guide you through the process. If your child is not yet in school, look to the Internet for up-to-the-minute information. A number of great sites exist at which you can fill out questionnaires with information about yourself and receive lists of scholarships and other forms of financial aid for which you may qualify. You can also apply for some types of federal and state aid online. See Appendix A to get started.

### ● PUTTING IT ALL TOGETHER ●

So, now you are in on the secrets, rules, tips, and advice for student aid and college tuition. Use the following guidelines as you go through the process for financing your child's college education.

### ● GOOF-PROOF GUIDELINES ●

- Set up a savings program for your child as soon as possible and make saving for the future a habit.
- Check out the Qualified Tuition Program and see if it's the right plan for your family.
- Look into and apply for grants, scholarships, and work-study programs.
- Explore your options as soon as possible once your child has decided on a college.
- Find out what the school requires and what financial aid they offer.
- Complete and mail the FAFSA as soon as possible after January 1.
- Complete and mail other applications by their deadlines.
- Gather loan application information and forms from the college financial aid office.
- Forward the certified loan application to a participating lender: bank, savings and loan institution, or credit union, if necessary.
- Carefully read all letters and notices from the school, the federal student aid processor, the need analysis service, and private scholarship organizations. Note whether financial aid will be sent before or after you are notified about admission, and how exactly you will receive the money.
- Report any changes in your financial resources or expenses to your financial aid office so they can adjust your award accordingly.
- Reapply each year.



section **FIVE**

## THE GOOF – UP: NOT SAVING SMARTLY FOR YOUR RETIREMENT YEARS

You have learned about saving and spending smart and how to plan for major costs, like a wedding or a home purchase. You are planning carefully for when your children go off to college. Now it's time to turn your thoughts to saving for your retirement years.

Many people utilize savings plans through their workplaces, opting for pretax and/or tax-deferred plans administered by their human resources department that are considered qualified retirement plans by the IRS. This makes saving easy. However, many other members of the workforce are self-employed, and not all businesses offer such benefits. In addition, there can be waiting periods of up to a year before an employee can participate. In this economy, employees' best-laid plans and retirement funds can have some stops and starts due to job and career changes, layoffs, relocations, and so forth. Therefore, many others choose to save on their own, through Individual Retirement Arrangements (IRAs). You will learn about each of these in this section.

Still, not everyone fully grasps the many benefits of retirement funds. The Goof-Proof Rules will decode many of the

different tax-benefit options from the government, and show you how to find out if you qualify to take part in them. Some plans are set up on your own, via a financial planner, whereas others are offered through your workplace, as mentioned previously. You will learn the differences, and discover which plan is right for you. Some of the plans presented are the following:

- Individual Retirement Arrangement (IRA)
- traditional IRA
- Roth IRA
- SIMPLE IRA
- 401(k) plan
- 403(b) plan

Also, you will learn the benefits of contributing to your employer's plan no matter how modest it may seem and no matter how modest your salary. Trust the Goof-Proof Rules, and you will thank yourself later.

## **RULE #25: Understand the Different Kinds of Retirement Savings Plans**

*You can always save for your retirement on your own, but why not take advantage of tax-free savings now and plan ahead?*

### ● **GOOF-PROOF IT!** ●

You know you should do it. You may even feel guilty about not doing it, or not doing enough. Most people vow to start contributing or to contribute more next year. Everybody talks about it, but why are many Americans neglecting to take advantage of the reduced-tax and sometimes *tax-free* money the U.S. government is willing to allow them to put toward their retirement?

The answer is that many people find planning for their retirement to be confusing, annoying, time-consuming, or something to put off until later; they even find it depressing. The truth is, to be in good financial health in your later years, you need to start planning and saving now—whether you are 21, 31, 41, 51, or 61 years old.

### ● **GOOF-PROOF CHECKLIST** ● **TYPES OF RETIREMENT PLANS**

Here are the two main options for tax-free retirement savings:

- ✓ Individual Retirement Arrangements (IRAs)
- ✓ Retirement plans offered through your workplace (401(k) plan or 403(b) plan)



## What the Experts Are Saying

**Question:** If you are offered a qualified retirement plan, such as a 401(k) plan through work, should you contribute to it or set up a personal retirement savings plan?

**Answer** (according to the Motley Fool): “Use a 401(k) or similar plan to get the maximum employer matching contribution available. Beyond that level, compare your before-tax and after-tax investment options and select the one that provides the highest after-tax return. But remember this: If you choose an alternative to the 401(k), then you must be just as dedicated and disciplined within that investment as you would have been within the 401(k). That means you must make your deposits in that investment each and every payday without fail. It also means your deposit must increase at the same time and at the same rate as your pay does. Fail to adhere to that regimen, and you will neither equal nor beat the 401(k). The 401(k) demands these contributions and increases via automatic payroll deduction, so to keep pace with or to better that vehicle you must apply the same technique in any alternative.”

—[www.fool.com/retirement](http://www.fool.com/retirement)

### ● GOOF-PROOF TIP ●

Unsure of how much in social security benefits you will receive when you are retired? You can get an estimate of your social security benefits by visiting [www.ssa.gov](http://www.ssa.gov). Once you learn how much the government expects you will receive in retirement, you can make changes to your current savings plan. Most likely, this information will probably serve as a wake-up call for you to start saving more for your retirement.

**RULE #26: Learn about IRAs**

*If you are self-employed or motivated to set aside money for retirement with tax advantages on your own, a traditional IRA may be right for you.*

**● GOOF-PROOF IT! ●**

A traditional Individual Retirement Arrangement (IRA), is a special type of personal savings plan that allows you to set aside money for retirement while offering you certain tax advantages. Currently, in order to contribute to a traditional IRA, you must be under the age of 70½ at the end of the tax year during which you contribute, and you must have taxable compensation, such as wages, salaries or net income from self-employment in order to be eligible.

In addition, if you are covered by a qualified retirement plan (such as a 401(k) or 403(b) plan), your IRA deduction may be reduced or eliminated, depending on the amount of your income and filing status.

If you are married, you can't own an IRA together as a couple, which is what the "I" stands for in "individual." You are, however, able to open an IRA in your spouse's name if he/she does not have an income. Certain rules and restrictions may apply. And, even though this is an individual plan, your spouse's retirement contributions may also come into play here regarding your contribution limit, so be sure to seek the advice of a financial planner before allocating funds toward your IRA. Also, bear in mind that in the event of your death, the money in your IRA is paid to your beneficiaries after taxes.

Investing money in your future is always a good idea, but securing your financial future for your later years and getting tax breaks at the same time is one of the smartest investments you can make. Start researching your options now.

## ● GOOF-PROOF CHECKLIST ● TAXES AND TRADITIONAL IRAS

Information on retirement funds and tax laws can be confusing. Here are a few basic points to bear in mind about taxes.

- ✓ You may deduct some or all of your contribution from your federal income tax.
- ✓ Money in your IRA, as a general rule, is not taxed until it is disbursed to you, allowing money to accrue while the contribution is in trust for your retirement.
- ✓ You may withdraw from your IRA, but any and all withdrawals are subject to taxes.
- ✓ If you withdraw money from your IRA before age 50, there may be an additional tax penalty.
- ✓ Tax penalty exemptions are allowed for disability, qualified medical expenses, qualified education expenses, qualified first time home purchases, qualified health insurance expenses, or death.
- ✓ You cannot take out loans against your account.

Go to [www.irs.gov](http://www.irs.gov) for more information.

## ● GOOF-PROOF RULE OF THUMB ●

Do IRAs sound too good to be true? Perhaps. But consider this: There is a cap on the amount of your yearly contribution. Currently, the most you can set aside in your IRA is the lesser amount of \$3,000 or your taxable compensation for the year. If you are 50 years old or older, however, that amount is increased to \$3,500. You must begin disbursement of funds when you are age 70½. As with all tax codes, this amount is subject to change. Check with your financial planner or accountant to ensure that you are getting the best tax break and the most mileage for your retirement money.

**RULE #27: Learn about Roth IRAs**

*Discover what a Roth IRA is all about, and find out if it works for you.*

**● GOOF-PROOF IT! ●**

In 1998, the IRS created a special type of IRA, the Roth, after Senator William Roth of Delaware. Different from a traditional IRA, the Roth IRA allows *tax-free* income, rather than *tax-deferred* income to be contributed to your retirement fund. If tax-free sounds good to you, keep reading.

Currently, in order to contribute to a Roth IRA, you must have earned income, at least in the amount of the Roth IRA contribution. Unlike the traditional IRA, there is no maximum age for contribution. As long as you are earning income at least as much as your Roth IRA, you can participate. The contribution limit is \$3,000 annually. There are many more potential advantages to the Roth IRA plan, so you should research the IRS website and talk to your financial advisor for benefits that may be unique to your situation or age.

**● GOOF-PROOF CHECKLIST ●  
TAXES AND ROTH IRAS**

Information on retirement funds and tax laws can be confusing. Here are a few basic points to bear in mind about the Roth IRA and taxes. Go to [www.irs.gov](http://www.irs.gov) for more information.

- ✓ Contributions to Roth IRAs are *not* tax-deductible.
- ✓ If you have had your Roth IRA for more than five tax years, and if you make a withdrawal after you are 59½, the earnings in the account will be *tax-free*.
- ✓ If a withdrawal is made on account of death or disability, the earnings in the account will be *tax-free*.

- ✓ If a withdrawal is made for a qualified first time home purchase, the earnings in the account will be *tax-free*.
- ✓ Qualified contributions to a Roth IRA can be withdrawn at any time without income tax or penalty; however earnings that do not meet the qualifying criteria may incur a penalty.
- ✓ You cannot take out loans against your account.

### ● GOOF-PROOF RULE OF THUMB ●

Like many tax laws, for married taxpayers, the rules governing the Roth IRA are different. Go to the IRS website or talk to your financial planners for details on how nonworking spouses may be able to contribute to a Roth IRA.

### ● GOOF-PROOF TIP ● CONVERTING ACCOUNTS

If you have a traditional IRA account, you may be eligible to convert it into a Roth IRA. There are several good reasons for doing so, but if you are married, you must weigh the pros and cons of conversion. The major requirement is that your modified adjustment gross income (MAGI) cannot exceed \$100,000, and, for married taxpayers, that a joint return be filed. (In the case of married taxpayers, the \$100,000 income limitation is for the couple's joint income.) On the plus side—the early withdrawal penalty on the traditional IRA will not be imposed on the conversion. Another plus is a reduction in taxes on estates for the beneficiary. Find out which IRA works best for you by entering some basic information into the Roth IRA *vs.* Traditional IRA calculator at Fair Isaac. ([www.myfico.com/myfico/CreditCentral/Calculators/RothvsRegular.asp](http://www.myfico.com/myfico/CreditCentral/Calculators/RothvsRegular.asp))

## What the Experts Are Saying

**While a large** number of taxpayers and their families would benefit from a conversion to a Roth IRA, there are some taxpayers who should not convert. One example is a taxpayer who wishes to leave his or her IRA to a charity at death. Such a taxpayer should leave the IRA as a traditional IRA, and name the charity, or a charitable trust, as the beneficiary of the IRA.

—[www.rothira.com](http://www.rothira.com)

**RULE #28: Learn about SIMPLE-IRAs**

*Just when you thought you had IRAs all figured out, the IRS comes up with another category. See if the SIMPLE IRA is right for you.*

**● GOOF-PROOF IT! ●**

When the IRS brands something as simple, do you get suspicious? Actually, a SIMPLE-IRA is an acronym for Savings Incentive Match Plan for Employees Individual Retirement Arrangement. It is an employee and employer contribution plan designed for small companies and their employees—sort of like a 401(k) plan with a corporate match designed exclusively for small businesses. If your company offers the SIMPLE-IRA plan, find out how to take advantage of retirement savings and tax breaks.

**● GOOF-PROOF CHECKLIST ●  
WHO QUALIFIES FOR A SIMPLE-IRA  
AND HOW DOES IT WORK?**

There are several different kinds of IRAs available today. You may be offered a SIMPLE-IRA through your small business:

- ✓ Small businesses with 100 or fewer employees can participate.
- ✓ Employees can elect to defer part of their salary toward the plan.
- ✓ Each employee is always 100% vested in *all* contributions to their SIMPLE—there is no term in which an employee is partially vested.
- ✓ Employees may not have an alternate retirement plan.
- ✓ Employers can choose whether or not to match or partially match employee contributions.
- ✓ If the employer matches, it can match up to 3% of employee salary or install a 2% nonelective contribution per eligible employee.

- ✓ Employees may withdraw from the SIMPLE-IRA, but all withdrawals are subject to taxes.
- ✓ Employees may withdraw money from the account before age 59½, but there may be an additional tax penalty.
- ✓ Employees may not take out a loan against a SIMPLE-IRA.

**● GOOF-PROOF RULE OF THUMB ●**  
**CONTRIBUTION LIMITS**

As with the traditional IRA, limits to how much an individual can contribute per year apply. Currently, according to the IRS, employees are limited to \$7,000 with annual increases in \$1,000 increments through 2005. If the employee is over 50 years old, an additional contribution amount is allowed; in 2004—\$1,500; 2005—\$2,000; and 2006—\$2,500.



### **RULE #29: Contribute to Your Workplace 401(k) Plan as Soon as You Are Eligible**

*Retirement plans can be confusing, so if a 401(k) plan is available to you, take advantage of the administrative burden being lifted from you, as well as increased savings.*

#### ● **GOOF-PROOF IT!** ●

When you join your workplace 401(k) plan, you are allowed to defer a portion of your salary to receive later, when you are of retirement age. Here's how it works: Instead of receiving that amount in your paycheck, you delay getting that money until you need to access it in your retirement. Under most circumstances, this money does not get taxed until it is distributed, when you retire at a certain age. The benefits, then, are twofold—you are able to save in taxes as you save for your golden years.

However, there are limits to how much you can contribute annually. Currently the limit is \$11,000, with incremental increases until 2006. If you are over 50, however, you may qualify to contribute a greater “catch-up” amount. All plans are different, so see your company's human resources person or plan administrator for the details on your company plan.

#### ● **GOOF-PROOF CHECKLIST** ● **THE COMPANY PAYS . . .**

Here are some fees and fringe benefits that your employer does for you when you contribute to their plan. So, before you think that don't want to contribute because with no employer match you get nothing, think again. You receive the following:

- ✓ **A break on administration fees.** The cost of plan administration is covered by your employer, saving you money.

- ✓ **Virtually no paperwork.** The plan administrator does this for you so that you can concentrate on work and contribute without thinking about it each month once you are enrolled.
- ✓ **Automatic payroll deductions.** These are handled by the program administrator, eliminating the hassle of remembering to make regular payments toward a plan.
- ✓ **More money in your paycheck.** You have the option of allowing your contribution to come out of your paycheck on a pretax basis, which allows you to see more money in your net pay.

### ● **GOOF-PROOF RULE OF THUMB** ● **FLEXIBILITY AND ADDITIONAL CONTRIBUTIONS**

You may be able to contribute more money annually to a 401(k) plan than under IRA plans because 401(k)s have fewer restrictions. And, unlike some IRAs, you can have more than one retirement plan at the same time, such as a 401(k) and a Roth IRA. In addition, you may be able to borrow against your 401(k) plan and make withdrawals (subject to a penalty depending on your age).

### ● **GOOF-PROOF TIP** ● **ABOUT VESTING**

Vesting refers to the right an employee acquires over time through length of service with a company in order to receive employer-contributed benefits from a retirement fund, pension plan, or other qualified plans or trusts.

As an employee, your salary contribution is always 100% vested in the plan. However, vesting comes into play with the employer match: If there is an employer contribution, it is subject to vesting on a graduated basis. See your plan information to find out about your company's vesting schedule.

However, vesting is federally regulated, so an employee automatically becomes 100% vested after five years of service or 20%

per year beginning the third year of employment and 100% after seven years.

### ● SIMPLE 401(K) PLAN ●

A new subset of the 401(k) plan is the SIMPLE 401(k) Plan. Just like the SIMPLE-IRA, this is a plan that may be offered to you at work if you are an employee of a small business with 100 or fewer employees. Under a SIMPLE 401(k) Plan, you can elect to defer some of your pay toward a retirement fund. But unlike a regular 401(k) plan, the employer *must* make either a matching contribution of up to 3% of each employee's pay, or a nonelective contribution of 2% of each eligible employee's pay. As a plan participant, you are automatically 100% vested, so there is no waiting until your fourth- or fifth-year anniversary with the company to be entitled to your matching contribution. And, there is the option for withdrawals and loans, which are subject to taxes and other penalties if you are under age 59½. Finally, like the SIMPLE-IRA, there are contribution limits, so talk to your plan administrator before you invest in your retirement.

**RULE #30: Contribute to Your 403(b) Plan  
as Soon as You Are Eligible**

*If you work for a nonprofit, find out if you can participate in a sheltered annuity program.*

**● GOOF-PROOF IT! ●**

The 403(b) plan, also known as and sometimes called a tax-sheltered or a tax-deferred annuity program, is very similar to the 401(k) plan. You may qualify for a 403(b) plan if you work for:

- a public school, college, or university
- a church or religious organization
- a public hospital
- a tax-exempt charitable entity

Just as with a 401(k) plan, a 403(b) plan lets employees defer some of their salary to use at retirement age. In this case, your deferred money goes to a 403(b) plan sponsored by a qualifying employer. This deferred money generally does not get taxed by the federal government or by most state governments until distributed. As with a 401(k) plans, you can have other retirement plans. However, investment options, such as the variety of mutual funds offered, may be fewer than those offered in typical 401(k) plans.

**● GOOF-PROOF RULE OF THUMB ●  
PLAN PERKS AND LIMITATIONS**

Like a 401(k) plan, you are able to borrow against your annuity and you may withdraw funds (subject to penalties if under age 59½).

Again, like the 401(k) plan, there are contribution limits. Currently, the lesser of \$12,000 in 2003, or 100% of total compensation.

**RULE #31: Don't Underestimate the Benefits  
of an Employer Match—No Matter  
How Little You Earn**

*Always do your best to contribute as much income as possible to your employee retirement plan to take advantage of the employer match.*

● **GOOF-PROOF IT!** ●

Whether your work offers a 401(k), 403(b), or SIMPLE-IRA, sign on as soon as you are eligible. Don't make excuses, and don't procrastinate. Even saving as little as 2% of a modest income with a company match of 1% will have an impact on your savings when you reach retirement age, due to favorable tax benefits.

Wondering whether you should join? Think about it: If you participate in your company's plan, and that plan has a match, you will be receiving extra money from your employer, pretax and tax deferred, for your future. Here's a better question: Why would you NOT participate? Not participating equals turning down money from your employer, and that amounts to not being smart about personal finance.

● **GOOF-PROOF EXAMPLE** ●

Hailey, a 25-year-old executive assistant, earns a salary of \$30,000. On her one-year anniversary, she was able to contribute to her company's 401(k) program. Her company matches employee contributions by half. Because she is young and saddled with college loans, she was just barely able to do the 2% minimum, but she figured that getting 1% tax-free from her employer was a bonus she could not refuse. The following chart shows how much Hailey's first-year contribution will grow by the time she retires.

• **To 401K or Not 401K?\***

AGE	EARNINGS	EMPLOYEE DEDUCTION 2%	EMPLOYER MATCH 1%	WITH INTEREST	CUMULATIVE W/INTEREST
25	30,000	600	300	927	927
26				56	983
27				59	1,042
28				62	1,104
29				66	1,170
30				70	1,241
31				74	1,315
32				79	1,394
33				84	1,477
34				89	1,566
35				94	1,660
36				100	1,760
37				106	1,865
38				112	1,977
39				119	2,096
40				126	2,222
41				133	2,355
42				141	2,496
43				150	2,646
44				159	2,805
45				168	2,973
46				178	3,151
47				189	3,340
48				200	3,541
49				212	3,753
50				225	3,979
51				239	4,217
52				253	4,470
53				268	4,739
54				284	5,023
55				301	5,324
56				319	5,644

• **To 401K or Not 401K?\*** (continued)

AGE	EARNINGS	EMPLOYEE DEDUCTION 2%	EMPLOYER MATCH 1%	WITH INTEREST	CUMULATIVE W/INTEREST
57				339	5,982
58				359	6,341
59				380	6,722
60				403	7,125
61				428	7,553
62				453	8,006
63				480	8,486
64				509	8,995
		600	311	8,995	8,995

\*Based on general estimates

Hailey's colleague, Michelle, also 25, earns \$30,000 as well. She opted not to join the company's 401(k) plan because she feels that she doesn't have enough money as it is, with rent, student loans, car payments, and so forth. Maybe she will join next year, when she gets a raise, she thinks. You can see by looking at the chart tracking Hailey's retirement fund growth what Michelle is missing out on in just one year.

Maybe you have a good salary but are not taking full advantage of the maximum amount that you can contribute toward your retirement fund. Run the numbers. Usually, if you have your contribution taken out of your salary pretax, upping your percentage by just one point is hardly noticed in your net pay. It may be just a few dollars, so say no to the double iced mocha latte once a week and you won't feel a thing (. . . maybe a little less jittery). Now, let's look at what Matthew contributes.

**● GOOF-PROOF EXAMPLE ●**

Matthew, 45, earns \$80,000 per year at his job. He contributes 8% of his salary to his company's 401(k) plan. His employer matches the employee contribution by half, which means Matthew is getting 4% of his annual salary in matched contribution to his plan. However, the maximum percentage Matthew can contribute is 15%, and the maximum company contribution is 6%. In the following charts you will see how much Matthew is contributing now, and how it will grow in the next 20 years versus how much more he would be earning if he contributed 12% of his salary, maximizing the 6% company match, versus a full 15% of his salary along with the 6% company match. All three charts use an annual interest rate of 6%.



## • Matthew's Contribution Options\*

### Scenario One

AGE	YEAR	EARNINGS**	EMPLOYEE DEDUCTION 8%	EMPLOYER MATCH 4%	WITH INTEREST	CUMULATIVE W/INTEREST
45	1	80,000	6,400	3,200	9,888	9,888
46	2	80,000	6,400	3,200	10,481	20,369
47	3	80,000	6,400	3,200	11,110	31,497
48	4	80,000	6,400	3,200	11,777	43,256
49	5	80,000	6,400	3,200	12,482	55,740
50	6	80,000	6,400	3,200	13,232	68,972
51	7	80,000	6,400	3,200	14,026	82,998
52	8	80,000	6,400	3,200	14,868	97,866
53	9	80,000	6,400	3,200	15,760	113,626
54	10	80,000	6,400	3,200	16,706	130,332
55	11	80,000	6,400	3,200	17,708	148,040
56	12	80,000	6,400	3,200	18,770	166,810
57	13	80,000	6,400	3,200	19,897	186,707
58	14	80,000	6,400	3,200	21,090	207,797
59	15	80,000	6,400	3,200	22,356	230,153
60	16	80,000	6,400	3,200	23,697	253,850
61	17	80,000	6,400	3,200	25,119	278,969
62	18	80,000	6,400	3,200	26,626	305,595
63	19	80,000	6,400	3,200	28,224	333,819
64	20	80,000	6,400	3,200	29,917	363,736
			128,000	64,000	363,736	363,736

\*Based on general estimates

\*\*These simplified charts are based on uniform salary, and do not reflect inflation. It can be assumed that as salary increases over the years, so does inflation. To figure out your potential retirement account savings, talk to your company's 401(k) provider for details pertaining to your age and employment situation.

**Scenario Two**

AGE	YEAR	EARNINGS	EMPLOYEE DEDUCTION 12%	EMPLOYER MATCH 6%	WITH INTEREST	CUMULATIVE W/INTEREST	DIFFERENCE
45	1	80,000	9,600	4,800	14,400	14,400	4,512
46	2	80,000	9,600	4,800	14,400	28,800	8,431
47	3	80,000	9,600	4,800	14,400	43,200	11,721
48	4	80,000	9,600	4,800	14,400	57,600	14,344
49	5	80,000	9,600	4,800	14,400	72,000	16,260
50	6	80,000	9,600	4,800	14,400	86,400	17,428
51	7	80,000	9,600	4,800	14,400	100,800	17,802
52	8	80,000	9,600	4,800	14,400	115,200	17,334
53	9	80,000	9,600	4,800	14,400	129,600	15,974
54	10	80,000	9,600	4,800	14,400	144,000	13,668
55	11	80,000	9,600	4,800	14,400	158,400	10,360
56	12	80,000	9,600	4,800	14,400	172,800	5,990
57	13	80,000	9,600	4,800	14,400	187,200	493
58	14	80,000	9,600	4,800	14,400	201,600	(6,197)
59	15	80,000	9,600	4,800	14,400	216,000	(14,153)
60	16	80,000	9,600	4,800	14,400	230,400	(23,450)
61	17	80,000	9,600	4,800	14,400	244,800	(34,169)
62	18	80,000	9,600	4,800	14,400	259,200	(46,395)
63	19	80,000	9,600	4,800	14,400	273,600	(60,219)
64	20	80,000	9,600	4,800	14,400	288,000	(75,736)
			192,000	96,000	288,000	288,000	

### Scenario Three

AGE	YEAR	EARNINGS	EMPLOYEE DEDUCTION 15%	EMPLOYER MATCH 6%	WITH INTEREST	CUMULATIVE W/INTEREST	DIFFERENCE OVER SCENARIO 1	DIFFERENCE OVER SCENARIO 2
45	1	80,000	12,000	4,800	17,304	17,304	7,416	2,904
46	2	80,000	12,000	4,800	18,342	35,646	15,277	6,846
47	3	80,000	12,000	4,800	19,443	55,089	23,610	11,889
48	4	80,000	12,000	4,800	20,609	75,698	32,442	18,089
49	5	80,000	12,000	4,800	21,846	97,544	41,805	25,544
50	6	80,000	12,000	4,800	23,157	120,701	51,729	34,301
51	7	80,000	12,000	4,800	24,546	145,247	62,249	44,447
52	8	80,000	12,000	4,800	26,019	171,266	73,400	56,066
53	9	80,000	12,000	4,800	27,580	198,846	85,220	69,246
54	10	80,000	12,000	4,800	29,235	228,080	97,749	84,080
55	11	80,000	12,000	4,800	30,989	259,069	111,030	100,669
56	12	80,000	12,000	4,800	32,848	291,917	125,107	119,117
57	13	80,000	12,000	4,800	34,819	326,737	140,030	139,537
58	14	80,000	12,000	4,800	36,908	363,645	155,848	162,045
59	15	80,000	12,000	4,800	39,123	402,767	172,615	186,767
60	16	80,000	12,000	4,800	41,470	444,237	190,387	213,837
61	17	80,000	12,000	4,800	43,958	488,196	209,227	243,396
62	18	80,000	12,000	4,800	46,596	534,791	229,196	275,591
63	19	80,000	12,000	4,800	49,391	584,183	250,364	310,583
64	20	80,000	12,000	4,800	52,355	636,538	272,802	348,538
			240,000	96,000	636,538	636,538		

**RULE #32: Always Contribute to Your Company's Retirement Plan**

*Even if your company offers no match, you should take advantage of the pretax and hassle-free retirement fund growth that you are entitled to as an employee.*

**● GOOF-PROOF IT! ●**

You already know that you should contribute to your company retirement fund plan in order to get tax benefits. What you may be forgetting about are all the fees and incidentals that the company absorbs for you. Refer back to Rule #29 to refresh your memory on the administrative breaks you are given as an employee. In this rule, you will see how quickly your money grows, tax free, even without a company match.

**● GOOF-PROOF EXAMPLE ●**

It makes sense to contribute. Here is what Jake's contribution looks like. He is 40 years old, earns \$50,000 year, and contributes 5% to his company 401(k) plan. His company does not match his contribution. However, in 25 years and using an interest rate of 6%, Jake has racked up a considerable savings, as shown in the following chart.

- **Jake's Retirement Fund Growth\***

AGE	YEAR	EARNINGS**	EMPLOYEE	EMPLOYER	WITH	CUMULATIVE
			DEDUCTION	MATCH		
			5%	0%		
45	1	50,000	2,500	0	2,575	2,575
46	2	50,000	2,500	0	2,730	5,305
47	3	50,000	2,500	0	2,893	8,198
48	4	50,000	2,500	0	3,067	11,265
49	5	50,000	2,500	0	3,251	14,516
50	6	50,000	2,500	0	3,446	17,961
51	7	50,000	2,500	0	3,653	21,614
52	8	50,000	2,500	0	3,872	25,486
53	9	50,000	2,500	0	4,104	29,590
54	10	50,000	2,500	0	4,350	33,941
55	11	50,000	2,500	0	4,611	38,552
56	12	50,000	2,500	0	4,888	43,440
57	13	50,000	2,500	0	5,181	48,622
58	14	50,000	2,500	0	5,492	54,114
59	15	50,000	2,500	0	5,822	59,936
60	16	50,000	2,500	0	6,171	66,107
61	17	50,000	2,500	0	6,541	72,648
62	18	50,000	2,500	0	6,934	79,582
63	19	50,000	2,500	0	7,350	86,932
64	20	50,000	2,500	0	7,791	94,723
			50,000	0	94,723	94,723

\*Based on general estimates

\*\*These simplified charts are based on uniform salary, and do not reflect inflation. It can be assumed that as salary increases over the years, so does inflation. To figure out your potential retirement account savings, talk to your company's 401(k) provider for details pertaining to your age and employment situation.

### ● **GOOF-PROOF TIP** ●

Want to save faster? Up your percentage every time your lifestyle changes.

- Quit smoking? Put the money you save from not buying cigarettes into your retirement fund.
- Work from home two days a week? Put the money you save by not commuting into your retirement fund.
- Dieting? Put the money you save from not buying treats into your retirement fund.
- Summer's over? Put the money you save from not getting weekly pedicures or passing up weekly rounds of golf into your retirement fund.

You get the idea. Contribute. It is a Goof-Proof way to ensure financial security in your golden years.

### ● **PUTTING IT ALL TOGETHER** ●

It is a very good idea to contribute to a qualified retirement plan, and it is never too soon to start thinking about retirement. Research your options, talk to professionals at your workplace, consult your accountant, and share your goals with your financial planner. Use the following guidelines to get a great start toward a comfortable retirement.

**● GOOF-PROOF GUIDELINES ●**

- Learn all your retirement savings plan options to find which one is right for you.
- As soon as you are eligible, start participating in your workplace's qualified retirement plan.
- Always work toward increasing your contribution to your company's retirement plan.
- If your company doesn't match your contribution, join anyway—it's worth it.
- If your company doesn't offer any retirement plans, set up an IRA.
- Research and find the IRA that's right for you, and get started!



section **SIX**

## THE GOOF – UP: NOT INVESTING YOUR MONEY WISELY

The final component to healthy personal finance is sound investing. Whether you choose to invest in the stock market or a savings account, real estate or insurance, read this section carefully to help you make informed decisions.

As you will read, each investment type has an upside and a downside. Some have higher risk associated with them, but also a higher potential for a greater return on investment. An important part of your approach to investing is to balance the investments in your portfolio. For many investors, it's a good idea to have a mix different types of investments in their portfolios. This is called asset allocation. Only you will know what kind of asset allocation is appropriate for you. Having a well-thought-out asset allocation strategy can help you capitalize on the periodic risks and returns on different investment types, in effect balancing the volatility potential of your total portfolio. You will learn all about investment types, risk, allocation, and more in Section Six.

First, you will learn about the various categories of investments and how to get started. Next, complex issues such as risk are explained, and steps to take in setting up accounts are goof-



proofed to ease you into the role of successful investor. In addition to breaking down cash investments, stocks, bonds, and mutual funds, two other types of investments are covered in this section: insurance and real estate. Though all of these investment categories are sound, the first group will be the focus of this section, followed by overviews and rules about insurance and real estate.

As you read and determine which investment opportunities are right for you, remember to think carefully and critically, and access the advice of those you trust. This section will help you get started and advise you as you collect information, but the only person qualified to make investment decisions is you. Good luck!

### **RULE #33: Understand the Different Types of Investments**

*An investment means different things to different people; learn your options and make careful and informed investment decisions.*

#### ● **GOOF-PROOF IT!** ●

*To invest* means to commit something, such as money or other financial capital, in order to gain a financial return. Notice that this is the verb form, the actual action of investing. An *investment* is property or another possession acquired for future financial return or benefit. In other words, investing is what you do with the capital you have earmarked for helping you gain a financial return in the future.

Not so intimidating, right? *To invest* can also mean to spend or devote time for future advantage or benefit, as in investing time and money to get a college education. This should make sense. After all, you invested time and money in this book to help you get started on the road to financial security!

Depending on your personal situation, one or a mix of a few kinds of investments may be right for you. If you are saving for the long term, it is important to understand that investments will fluctuate, and rather than focusing on a stock's daily performance, you should instead concentrate on your total portfolio and long-term investment goals.

#### ● **GOOF-PROOF CHECKLIST** ● **INVESTMENT CATEGORIES**

There are five main categories for investments:

- ✓ cash and cash equivalents (money market funds, certificate of deposit (CDs), and U.S. Treasury bills (T-bills))
- ✓ equity (stocks and stock funds)

- ✓ fixed income (bonds, preferred stock)
- ✓ insurance policies
- ✓ real estate

The first three options will come up over and over in this section. Insurance and real estate will be discussed at the end as some other good investment options for some individuals.

● **GOOF-PROOF TIP** ●

Spend time at the outset of your investing program—figuring out what you want, what your goals are, and understanding each type of investment—and you will save time and money in the long run.

## What the Experts Are Saying

**According to** Robert C. Doll, President and Chief Investment Officer at Merrill Lynch, different investment categories have different risks associated with them. For example, equities have a higher potential of return but also have a higher risk of losing principal. On the other hand, cash has a very low risk of losing principal but does not generate much in the way of returns. Diversifying among different types of stocks, bonds and cash allows investors to control investment risk over time.

—www.MerrillLynch.com

**RULE #34: Start with the Basics**

*Set up a brokerage account at a reputable financial institution.*

**● GOOF-PROOF IT! ●**

If you know that you are going to invest some of your money for the long term, you should think about getting involved in the stock market. Stocks, bonds, and mutual funds vary widely, and many are good, solid investments for your future. In the past two years, stocks have gotten a bad name as corporate scandal rocked Wall Street and fast-rising tech stocks tanked on the NASDAQ, wiping out many consumers' savings. However, informed investing can lead to wealth, even in today's bear market. The most important thing to remember is to stay informed and in control of your investments. After all, it's your money, right?

**● GOOF-PROOF CHECKLIST ●  
SETTING UP AN ACCOUNT**

Setting up a brokerage account is easy:

- ✓ Gather information, either online or by requesting brochures
- ✓ Choose a reputable brokerage firm
- ✓ Decide among the different types of accounts offered at the firm you choose and know the transaction or monthly fees associated with the account. Find out:
  - If there is a minimum investment, usually \$5,000
  - About margin of credit and borrowing against your account (is there a minimum?)
  - About a debit card attached to your account
  - If there is a fee waiver if you make a certain amount of trades per year
  - If you have access to the firm's research

## What the Experts Are Saying

**According to** Schwab.com's advice and planning division, you should follow these suggestions as you prepare for your financial consultation by thinking about what you want to get from your consultation:

- organize your finances and prioritize your goals
- discuss your tolerance for risk
- determine the type of advice and support you need
- decide how involved you want to be in your investments

—www.schwab.com

### • GOOF-PROOF RULE OF THUMB •

Choose a firm that is going to put your financial interest before their own. It's your money, and you have choices. If you have questions, ask them. If you are dissatisfied, tell them. If they can't or won't help you the way you want them to, pick another firm.

### **RULE #35: Rely on a Trustworthy Broker or Financial Planner**

*When it comes to your money, it's important to sign on with a person you can trust and with whom you can speak openly and honestly about your financial status and financial goals.*

#### ● **GOOF-PROOF IT!** ●

Let's consider what investing is. It's about building wealth for your future, either your short-term or long-term plans. Unless you have a finance background, the thought of preparing to confide in a professional about your current financial status and long-range plans can be daunting. You may be embarrassed by how little (or anxious about how much) capital you have to work with, or you may be nervous about turning your savings over to someone you don't know. Either way, the best course of action for you is to research your options and arrive at an informed decision on who is the best advisor for you. You need to have absolute trust in the person who is going to help you secure your financial future.

#### ● **GOOF-PROOF CHECKLIST** ● **FINDING YOUR PARTNER IN FINANCIAL SUCCESS**

Here are five simple steps to take to find the right prospective broker/financial planner for you:

- ✓ **Narrow down your list of firms to contact.** Review websites, send for brochures, and consult trusted family members or friends for recommendations.
- ✓ **Make appointments.** Speak to a few brokers/planners in person about a portfolio consultation, and get a sense of what they can offer you and how comfortable you feel with them.

- ✓ **Take a quiz.** Some firms have you fill out a questionnaire to help match you with a broker/planner. Take advantage of this opportunity to find your match.
- ✓ **Do your homework.** Based on your research and taking into consideration your gut feeling, choose the person who you feel will make the best partner in your financial future.
- ✓ **Define your goals.** Develop a long-term strategy with your broker or planner, even if you think what you are looking for is only short-term financial gains. The sooner you start saving for the future, the better.

### ● GOOF-PROOF RULE OF THUMB ●

Some accounts, such as money market funds, can be handled by either a bank or a brokerage firm. There are pros and cons for each option, but bear this in mind: Banks are insured by the Federal Deposit Insurance Corporation (FDIC); brokerage firms do not have federal backing. Therefore, your money is protected by the federal government only if it is in a bank, not if it is in a brokerage account.

### ● FINDING A FINANCIAL PLANNER ●

What does “financial planner” mean, anyway? Financial planners and specialists can pursue many certifications. If you look for someone with one or more of the following designations, you can feel confident that they have had to prove their knowledge either through tests or coursework:

- Certified Financial Planner (CFP)
- Certified Fund Specialist (CFS)
- Chartered Mutual Fund Consultant (CMFC)
- Chartered Financial Analyst (CFA)
- Certified Public Accountant (CPA) with a Personal Finance Specialist (PFS) designation

You can use the Internet to help you find a planner. Some sites worth visiting are:

- [www.fpanet.org](http://www.fpanet.org)
- [www.cpapfs.org](http://www.cpapfs.org)
- [www.aicpa.org](http://www.aicpa.org)

● **GOOF-PROOF TIP** ●  
**NEVER INVEST IN A “COLD CALL” STOCK**

Have you ever been solicited by a telemarketer trying to get you to switch long distance phone service providers? If so, it's likely that you find them annoying and that you are not likely to take advantage of their offer. The same goes for stocks. Brokers just starting out have yet to build a client list. They start at the bottom, making phone calls from a list, just like the telemarketer who is trying to sell you a phone service. The pitch you hear might sound enticing, but don't make a rash decision over the phone, no matter how sweet the deal may sound. Call your financial planner and get his or her take. Remember, this is your money and your future that these brokers are trying to get hold of—make sure you always have all the facts from an established source before making any investment commitments.



### **RULE #36: An Informed Investor Is a Savvy Investor**

*Resist the temptation to ignore your investment portfolio once you place your money with a firm or bank.*

#### ● **GOOF-PROOF IT!** ●

Pay attention to your assets. Proper management of your investment portfolio is one of the most important ingredients to financial security and future wealth. Try to find a healthy balance between checking your online account hourly and stashing your printed statement in a drawer, unopened. Perhaps checking your account each day after the stock market closes works for you, or maybe checking your account on Friday afternoon is the way to go. If you are not looking to make a change or withdraw money in the short term, you may be content with reading your monthly statements when they arrive in the mail.

#### ● **GOOF-PROOF CHECKLIST** ● **MANAGE YOUR MONEY**

The goals of a properly managed portfolio are building, maintaining, and—when necessary—transferring wealth to where it is needed. Here are some secrets to savvy investing:

- ✓ **Monitor your accounts.** Whether you check your online account regularly or review your monthly printed statement, always ensure that the information listed is correct and note any changes.
- ✓ **One change deserves another.** Have you changed? Big life changes, such as marriage, divorce, having a baby, sending a child off to college, a lay-off, or a retirement should trigger a change in investment strategy. Plan for life changes with your financial planner or broker so that you are prepared for each new stage of your life.

- ✓ **Consider your risk level.** Along with life changes, risk tolerance evolves. As we age, many of us tend to become more conservative in our investment strategies. As retirement age looms, gambling with investments becomes a thing of the past. Check in with yourself periodically and learn where your risk tolerance lies. See Rule #37 for more on risk.
- ✓ **Know your net worth.** This may sound easy, but as you diversify your holdings and generate wealth, it's easy to lose track of some of the pieces of your financial pie. Knowing what you retain and what you sell will make it easier to communicate with your hired professionals at the bank or investment firm.
- ✓ **Diversify.** Ever hear the saying, “don't put all your eggs in one basket?” Well, this aphorism certainly holds true for investing. Whether you diversify by investment category (a mix of stocks, CDs, and insurance policies) or within a category (blue chip stock, tech stock, and pharmaceutical stock) you are protected from volatility—the chance that one or more of your investments will be unproductive for the short- or long-term and send you into a financial downturn.
- ✓ **Use technology.** From online accounts to tracking programs, technology can help you access your data, analyze trends, and make communication with your financial professional simpler. Also, online accounts may save you money by reducing the fees associated with a real-time broker. (The money you save can go immediately into another investment, so you are ahead of the game already!)

## What the Experts Are Saying

### Perform an Annual Portfolio Review

**According to** A.G. Edwards, “like an annual physical exam, you should perform an assessment of your portfolio’s financial health at least once every year. Just like a physical for your health, a portfolio review by your financial consultant can help find problems that may be putting your portfolio in jeopardy.” They suggest scheduling a review annually as well, if:

- there has been a significant movement (upward or downward) in your portfolio’s value
- there have been prominent market swings
- you own too much of one particular stock
- you own too many stocks in one particular industry

—www.agedwards.com

### ● GOOF-PROOF TIP ● READ!

Learn about investing to learn the how-to’s, the lexicon, and sound strategies by reading magazines, journals, newspapers, and periodicals. Many are also available online:

- *Money Magazine*: [money.cnn.com](http://money.cnn.com)—log on for business news and information, as well as finance, market, and investment strategies
- *SmartMoney Magazine*: [www.smartmoney.com](http://www.smartmoney.com)—great for stocks and mutual fund information and recommendations
- *Fortune*: [www.fortune.com](http://www.fortune.com)—all the magazine’s renowned content and business rankings found online
- *Wall Street Journal*: [www.wsj.com](http://www.wsj.com)—interactive online version of the leading daily for breaking worldwide business news
- *Forbes*: [www.forbes.com](http://www.forbes.com)—international business news and features from *Forbes* magazine and its affiliates

**RULE #37: Know Your Risk Threshold**

*When it comes to your investment, know the amount of risk you can handle . . . and what you can't.*

**● GOOF-PROOF IT! ●**

What is risk, anyway? Taken out of context, risk usually applies to being in danger or in a hazardous situation. In terms of investment, risk means the variability, or the unpredictability of the return from an investment. No one can say for certain how a stock or mutual fund will perform, or for that matter, a piece of real estate for investment. One enters into the investment hoping for a gain, based on thorough research, but the market has many variables that are impossible to predict.

In other words, you have no control over how a commodity will perform over time, but you do have control over how you maintain or change your investment allocation and strategy in response to the market conditions. In order to negotiate the ups and downs of your investments, you must find out your risk tolerance. Essentially, this means how will you react when your investment depreciates—will you try to sell, will you get anxious, or will you remain calm? And, if your investment appreciates, will you take your earnings and get out of the market right away, unwilling to handle a gamble, will you hold on for better or worse, or will you sell shares to chase the next hot stock in the hopes of making a quick buck?

The best policy is to try your best to balance your risk: risk from the market, from inflation, and the general risk that is a part of these uncertain times. You should explore your options with your broker or financial planner, and be candid about your ability to handle risk. Your financial partner can better advise you if he or she knows your tendencies and feelings regarding risk as well as your goals. Take the following quiz to find out your risk threshold.

**QUIZ**

1. How old are you?
  - A. 21–30
  - B. 31–40
  - C. 41–50
  - D. Over 51
  
2. Are you:
  - A. single
  - B. married
  - C. divorced
  - D. widowed
  
3. Which personality type fits you best?
  - A. laid back
  - B. middle-of-the road
  - C. Type A
  - D. A worrier
  
4. What is your income level?
  - A. Under \$40,000
  - B. 41,000–70,000
  - C. 71,000–100,000
  - D. over \$100,000
  
5. How long have you been a member of the full-time workforce?
  - A. Under five years
  - B. 5–10 years
  - C. 11–25 years
  - D. 25-plus years
  
6. How many dependents do you have?
  - A. 0
  - B. 1
  - C. 2
  - D. 3 or more

7. Do you have any major costs pending, such as a wedding, new home, or college tuition?
  - A. Nothing in the near future.
  - B. Yes, but five years down the road.
  - C. Yes, this is a major factor in my financial situation.


### • Answer Key

If you answered all or mostly A's, then you likely have a high tolerance for risk in your investments. Younger investors have the chance to take more gambles early on, so if you are not the type to get overly stressed out about your investments on a day-to-day basis, this may be the time to discuss aggressive investment strategies with your financial planner.

If you answered mostly B's, then you have an average or middle-of-the-road approach to risk. Talk to your financial advisor and decide what strategies can work for you at this stage in your life, then set up a timeframe for reevaluating your portfolio and investment strategy as your lifestyle moves in a new direction.

If you answered mostly C's and D's, then you are likely to be more risk-averse. This could be because you are getting older or you have dependents that rely on you financially. Don't worry, though, many investment strategies can work for you for both the short- and long-term. Discuss these options, and be frank about your fears with your financial planner.

## What the Experts Are Saying



**Lynn O'Shaughnessy** sums up risk nicely: "Remember that not all risk is bad. Actually, risk is a lot like cholesterol. There is good cholesterol and then there is the bad stuff that can choke your arteries . . . If you blindly walk into an investment, whether it's a limited partnership, a variable annuity, or a zero-coupon bond, that's a bad risk."

—*The Unofficial Guide to Investing*

### ● GOOF-PROOF RULE OF THUMB ● DIVERSIFICATION AND RISK

A smart strategy to balance risk is to diversify. Don't be afraid to invest in an array of options, but don't be fickle and sell at the first sign of a loss or when the next big investment makes the headlines. Consider your tolerance for risk along side of, rather than apart from, your overall investment time frame and your financial goals. Remember, the bigger the risk, the bigger potential for investment returns—and the bigger potential for losses. Figuring out how much risk you can handle will define your investment strategy and the best ways to manage your portfolio.

Let's say that the majority of your asset allocation is in company stock. If the company's stock plunges, so does the majority of your portfolio. However, if, for instance,  $\frac{1}{4}$  of your asset allocation is company stock, you are protected should the company stock slide. On the other hand, if your company stock rises, you will see a smaller return on your investment than someone who has  $\frac{1}{4}$  of her portfolio in company stock.

Neither you nor your colleague is right; your colleague simply has a higher risk tolerance than you do. Maybe that's because she's single, owns a condo, and has no college loan debt. Maybe you have a dependent elderly parent, two kids, a second mortgage, and graduate school loans that you are still paying off. You are each doing what's right for your circumstances.

One final word on risk: You may hear all kinds of conflicting advice when market conditions change. The best practice is to trust your judgment, your financial advisor, and your asset allocation—don't change it based solely on what the financial flavor of the week is advising.

**RULE #38: Learn about Cash Equivalent Options**

*Cash doesn't just refer to the bills in your wallet or the balance in your checking account. Find out about cash equivalents, and make your money work for you.*

**● GOOF-PROOF IT! ●**

This investment category includes short-term CDs, U.S. Treasury bills, and money market funds, as well as the cash in your savings account. After all, the stock market isn't the right option for everyone. Many people, especially those with a lower tolerance for risk, are drawn to the cash equivalent sector for the bulk of their portfolio. Like all investments, though, it isn't foolproof. Inflation can have an adverse affect on investment returns, so choose wisely and be prepared for lower yields based on economic factors over which you have no control.

**● GOOF-PROOF CHECKLIST ●  
WHAT CASH EQUIVALENTS ARE  
AND HOW THEY WORK**

- ✓ **Cash.** The most basic investment type is the savings account that you open at your local bank. The good news is that your cash is insured by the FDIC, and that it is available to you any time you need it. The drawbacks of investing a large part of your portfolio in a savings account is that it yields very little interest and earnings. Other ways you can grow your cash investments faster include short-term CDs, T-bills, and certain types of money market funds.
- ✓ **Certificate of Deposit (CDs)** are investments issued by banks and through brokerage firms that are based on timed deposits for a specified term. Your principal and accrued interest are insured by an agency of the federal government for up to \$100,000 per issuer in an individual



account, regardless of whether your investment is through a bank or a brokerage firm. Additional insurance for your investment may also be available. Unlike money market funds, which have an interest rate that fluctuates and compounds, the interest rate on CDs is fixed at the time of purchase and is paid either monthly or semiannually and does not compound. One drawback of a CD is that you must be sure that you are not going to need to access the money invested until the specified term is up or your bank or brokerage firm will likely charge a penalty for early withdrawal or liquidate the CD.

- ✓ **U.S. Treasury bills (T-bills)** are short-term securities issued by the U.S. government. They are a special kind of bill that is traded at a discount rate and does not yield interest during the specified term. When purchased, they mature at a specified date, between 91 days and one year from the date issued. Once they have reached the maturity date, the investor receives the face value of the T-bill. So, when investing in a T-bill, you know at the outset that you will yield a gain of the difference between the discounted amount you paid for it and its face value. So why isn't everyone investing in T-bills for a quick gain? The minimum face value on a T-bill is \$1,000, and you usually have to buy at least ten T-bills at a time, not everyone has that minimum amount to invest.
- ✓ **Money market funds** are a specific type of mutual fund that is expected to provide interest income—better than that of a regular savings account—on your liquid funds, or money. As part of a money market fund, you join with other investors who pool their money to invest in a select group of securities chosen by the fund manager. Based on the value of the original investment, members of the fund share equal percentages of the interest earned on the fund, or share the losses equally. However, the Securities and Exchange Commission (SEC) tightly regulates money market funds, so the likelihood of your investment dropping below the \$1 share value is slim. Your

money tends to grow slowly but surely in a money market fund.

When offered through a bank, the money market fund is backed by the FDIC for up to \$100,000. Corporations also offer money market funds along with their array of mutual funds. A drawback to these funds is that they are NOT insured by the FDIC, which may increase your risk. Regardless of the company or bank with which you invest, most mutual funds have in common that they are designed to earn interest daily and that they usually have a minimum investment amount.

### ● **GOOF-PROOF RULE OF THUMB** ●

Are cash equivalents the right choice for you? Only you can answer that. Weigh your choices, contact the experts, and poll your friends and family to help you decide.

**RULE #39: Don't Be Afraid of the Stock Market**

*Stocks are individual shares of ownership in a publicly held company. Investing in a company means that you own a small percentage of it, plain and simple.*

**● GOOF-PROOF IT! ●**

Put simply, a stock is a share of ownership in a company. Companies issue shares of stock in order to raise money. If you choose to invest in a company, you are doing so in the hope that the stock rises from the price you buy it at to a higher price when you sell it. In the meantime, you hope to receive interest on your investment in terms of dividends, which you can cash in and spend or reinvest in the stock. Although no one can 100% predict the future of a stock based on past performance and market indicators, you can make educated decisions about stock investments based on the research you conduct and by paying attention to the financial climate and the advice of your broker. Stocks are identified by a unique identification symbol given to every corporation whose stock is traded on a stock exchange, such as the New York, American, or Chicago Stock Exchanges or on the NASDAQ, an over-the-counter trading network.

An excellent place to gain familiarity with the stock market is to investigate the Standard & Poor's 500 Stock Index (S&P 500), which is a benchmark used to determine the performance or stock price movements of the overall U.S. stock market. The index is made up of 500 stocks, including 400 industrials, 40 utilities, 20 transportation, and 40 financial issues. You can get a sense of how certain categories of stock are faring in the market in general and use that information to invest in some of the S&P 500 stocks or a similar stock in the same category.

● **GOOF-PROOF CHECKLIST** ●  
**FACTORS TO CONSIDER**  
**WHEN CONSIDERING STOCKS**

Are stocks the right investment opportunity for you? As you work toward answering this key question, take into account some important decision-making factors:

- ✓ **Your age.** Financial stability is an ever-increasing goal as one begins to think of retirement. Younger investors typically focus on portfolios containing a mixture of high-yield stocks and tend to gamble a bit on the latest growth sector. Middle aged investors are more apt to diversify their portfolios with fewer stocks and more mutual funds. The stocks they go for tend to be blue chip stocks, or stock in companies with strong histories of above average return on investment. Older investors may not choose to invest in stocks, opting instead for more predictable options, like bonds and real estate.
- ✓ **Your dependents.** If you are single, you may be able to afford to take on more risk; if you have a partner, children, and/or elderly parents who count on you for financial stability, you may need to make more conservative choices.
- ✓ **Your investment strategy.** Figure out what your long- and short-term goals are for your investments, and choose stocks appropriately.
- ✓ **Your preferences.** Decide what types of stocks are going to make up that part of your portfolio. You have many types of stocks to choose from:
  - Size of company: small-, medium- or large-sized companies
  - Location of company: domestic, international, or global companies
  - Category/classification of company stock: blue chip, value, or growth stocks

- Stocks from different sectors: pharmaceutical, telecommunications, retail, technology, energy, durable goods, nondurable goods, etc.

## What the Experts Are Saying

**If you are** going to invest in a strong foundation of stocks for your portfolio, A.G. Edwards financial experts advise, “selecting a mixture of stocks, ideally between 20 and 30, from six to eight sectors to help offset risk in your portfolio. Your financial consultant can help you select the appropriate mix of stocks for your portfolio.”

—www.agedwards.com

### • TYPES OF INDEXES •

- CBOE 10-Year Treasury Yield Index
- Dow Jones Industrial Average
- Dow Jones Transportation Average
- Dow Jones Utilities Average
- NASDAQ Composite Index
- NYSE Composite Index New
- Russell 2000 Index
- S&P 400 MidCap Index
- S&P 500 Index
- S&P 600 SmallCap Index
- Value Line Index—Geometric
- Wilshire 5000 Total Market Index

## **RULE #40: Know the Difference between Stocks and Bonds**

*Because they are often mentioned together, don't make the mistake of thinking that stocks and bonds are interchangeable terms or that they offer the same type of investment.*

### ● **GOOF-PROOF IT!** ●

In Rule #39, you learned about stocks. Here is the scoop on bonds. A bond is a certificate of debt issued by a government or corporation that guarantees payment of the original investment *plus* interest by a specified future date. In other words, they use your investment immediately, and in return, you get back your original investment, plus interest, at some point in the future. As long as you can hold out until the specified date for your money, you will recoup your investment, plus interest. There's the catch—you can't change your mind and get your entire investment back short of the maturation date because that's how bonds work—within a specified term. The other potential drawback is that you are stuck with the interest rate you sign on at; other investments, such as a well-performing stock, *could* yield a higher return on your original investment for the same period of time. Then again, a stock could just as easily tank while a bond stays its course. That's the uncertainty of investing.

### ● **GOOF-PROOF CHECKLIST** ● **THE MAIN CATEGORIES OF BOND ISSUERS**

Several different varieties of bonds exist, and the most common types are issued by the federal, state, local government, federal agencies, or by a corporation.

- ✓ The **U.S. Treasury** issues T-notes and T-bonds in addition to the short-term T-bills discussed in Rule #38.
- ✓ **Federal agencies**, such as the Federal National Mortgage Associate (Fannie Mae), the Federal Home Loan Mortgage

Corporation (Freddie Mac), and the Government National Mortgage Association (Ginnie Mae) are all bond-issuing government entities.

- ✓ **State and local government** organizations issue municipal bonds, known as munis.
- ✓ **Corporations**, in an effort to raise cash, are able to issue corporate bonds as an alternative to issuing more stock.

● **GOOF-PROOF RULE OF THUMB** ●  
**TERM INVESTMENTS**

In addition to the differences regarding bond issuers, bonds differ in their function as part of a sound investment portfolio. They can be short-, intermediate-, or long-term bonds, and their yields can be conservative, moderate, or high. Talk to your financial planner to decide if bonds are the right investment for you, as well as about which types of bonds suit your goals.

### **RULE #41: Find Out Why You Should Invest in Mutual Funds**

*If you are interested in balanced yet diverse investments, the convenience of mutual funds may be right for you.*

#### ● **GOOF-PROOF IT!** ●

In Rule #38, you learned about money market funds, a type of mutual fund. Essentially, when you invest in a mutual fund, you choose a preselected mix of securities offered by a bank or financial institution. Your choice in funds is based on factors such as how long you expect to stick with the investment before you need to access your money, how much risk you are willing to take on the investment, and the track record of the fund manager. You join other investors like you who have invested in the fund. As members, you share the income from the fund in proportion to the amount of shares you hold. The income you receive consists of dividends and interest paid on the components of the fund, as well as the net capital gains accrued when a security is sold. Conversely, if there are losses associated with the fund, you share in the losses, as well. A mutual fund can consist of stocks, bonds, or cash equivalents, and likely contains a combination of all of these types of assets to become an appealing investment product with a clear investment objective.

Fund managers—professionals at the bank or financial institution you choose—buy and sell components of the fund not only to keep it profitable for you, but to steer the fund toward its investment objective (aggressive growth, income, conservative, etc.).

For example, if the goal of the fund is to provide steady income and to preserve the original investment for the short term, the securities the fund manager buys are going to be the kind of securities that will help maintain a steady stream of dividends and provide a steady increase in profits for you and all members, as opposed to buying high-risk securities that could radically reduce profits in the short term.



If the fund manager feels that certain securities are pulling down the value of the fund, the securities are likely to be sold or traded for other, more fruitful ones. This is how the mutual fund works: Securities are traded in an effort to maintain a strong performance on the fund as a whole, over time.

So why would you relinquish control of your investments to someone else? One of the anxieties many investors have with managing their portfolios is lacking the information, dedication, or understanding to track and manage their investments. They worry over being too quick or slow to sell, too quick or slow to buy, as well as when to just be patient and ride out the rough patches of the market. Basically, the fund manager assumes the day-to-day worry over your investments so you don't have to. Plus, you don't have to pour over the hundreds of individual investment options—the fund manager has already picked a balance selection for the fund. They employ a whole research department to gather market data, so chances are that they are better informed and are able to spend much more time on your investment than you are. In effect, the fund manager has to know when to buy and when to sell, and when to wait and see, not you. The expertise of the fund manager, therefore, is a very important factor when considering which mutual fund to join. Be sure to conduct research to find out which funds are performing well and how the goals of the fund intersect with your own investment strategy. This is the best kind of information you can obtain to find out if mutual funds are the right investment for you.

### ● GOOF-PROOF CHECKLIST ● DIFFERENT TYPES OF MUTUAL FUNDS FOR DIFFERENT KINDS OF INVESTORS

Mutual funds may be comprised of stocks, usually for long-term growth:

- ✓ **large cap**—invest in large companies
- ✓ **small cap**—invest in smaller companies
- ✓ **aggressive growth**—invest in lesser-known companies

- ✓ **growth**—invest in established companies with strong track records but low dividends, as money is reinvested in the company rather than paid out to shareholders
- ✓ **growth and income**—invest in established companies with strong track records and produce solid dividends
- ✓ **sector**—investing in just one industry
- ✓ **international**—invest in companies overseas
- ✓ **global**—invest in companies with worldwide locations
- ✓ **emerging markets**—invest in companies in the Far East and Third World
- ✓ **regional**—invest in companies in just one particular region
- ✓ **single-company**—invest in just one company
- ✓ **value**—invest in bargain stocks in hopes that they will rebound or gain
- ✓ **closed-end funds**—traded on the stock exchange and bought at a discount—the riskiest type of mutual fund
- ✓ **bonds**—Mutual funds may be made up solely of bonds for short- to long-term growth, with short-term growth being the less risky proposition
- ✓ **taxable**—if they are not part of a retirement account, you could face hefty taxes, depending on your tax bracket
- ✓ **tax-free**—if they are in a retirement account, they are non-taxable and probably a good option for a part of your retirement account
- ✓ **cash**—Mutual funds can include cash equivalents
- ✓ **money market funds**—see Rule #38 for more information
- ✓ **combination**—Mutual funds are often a combination of all types of securities
- ✓ **balanced**—a fairly even split between stocks and bonds
- ✓ **asset allocation**—a balanced fund plus cash equivalents

### ● GOOF-PROOF RULE OF THUMB ●

Make sure you understand the goal of the mutual fund you invest in. This holds true for retirement funds as well. Go back to Section Five to review Retirement funds.

## What the Experts Are Saying

**Many financial institutions** offer web-based tools for finding information. Try Vanguard Group's "Narrow Your Fund Choices" tool, which helps you negotiate the array of mutual funds they offer, or use a similar tool at your brokerage firm's website.

By choosing the categories that most closely describe your investment needs, you are steered toward appropriate mutual fund choices. For example, if your investment goal is to put your money in a fund for several years in order for it to really grow, there are funds for you that provide a big picture of your wealth/growth potential for a long-term plan. However, if you are interested in a fund that provides income, then you are given options that provide funds in addition to those invested via dividends. Or, if you are looking for a fund where you will preserve your original investment while gaining income, then there are other options for you. Then, you answer a few more questions regarding risk tolerance and investment time frame. A category of funds is then offered for you to select from, along with links to find out more about each type of mutual fund.

—[www.flagship3.vanguard.com/VGApp/hnw/FundsStocksOverview](http://www.flagship3.vanguard.com/VGApp/hnw/FundsStocksOverview)

## What the Experts Are Saying

### Long-Term Goals, Long-Term Gains

**Chuck Jaffe**, senior columnist for CBS MarketWatch advises, “Your goals are long-term, so judge your funds that way. Making decisions based on quarterly or annual results is like determining the time by looking only at a clock’s second hand. Worry less about what a fund has done lately than over what it has the potential to do over the next decade or more.”

—www.cbs.marketwatch.com

### ● GOOF-PROOF TIP ● MUTUAL FUNDS CAN BE CHEAPER!

If you trade a lot of stocks, commissions and capital gains can add up quickly, reducing your net gain. In a mutual fund, the fund manager is doing the buying and selling in massive quantities, passing along the bulk savings to you as a member.

**RULE #42: Know When Insurance Can Work for You as an Investment—and When it Cannot**

*If you think life insurance is an outmoded investment option, think again—it could be right for you.*

**● GOOF-PROOF IT! ●**

Insurance is something you buy so that in the event of a debilitating accident or death, your beneficiaries receive money meant to replace your diminished or terminated earning potential, or to cover the cost of your burial. So how does it work as an investment, you may wonder? In terms of some types of life insurance, the answer is that part of your annual premium pays for the death benefit plus administrative and tax fees, but the rest goes toward an investment, usually at a fairly modest rate of return. The interest generated throughout the term of your policy grows, tax-free. When you die, your heirs/beneficiaries can use this money to pay any taxes that would normally be applied to their inheritance. So, even though it doesn't really benefit you, it does benefit those you choose to benefit from it.

Insurance is a good investment if you have dependents, and if you start on a policy early in life, you may get in on a very low premium set for years, which has a decent yield. However, there may be many reasons why insurance isn't the right investment for you. If you are single with no dependents, there may not be reason to choose insurance as an investment over a higher-yielding, low risk investment, such as a conservative mutual fund.

**● GOOF-PROOF CHECKLIST ●  
TOP INSURANCE CHOICES**

Life insurance can come in many different packages. Here are some general descriptions of insurance options. (For more specific information, contact an insurance agent).

- ✓ **Term Life Insurance.** This is the cheapest and most basic plan. You insure your life for various amounts of years. You pay a premium that is formulated based on how old you are when you begin the policy, and the amount you pay per year can be made uniform (level rate) or you can opt to increase the amount you pay as you get older (teaser rate). Your beneficiaries receive a set amount when you die.
- ✓ **Cash Value (whole life, universal, variable).** In addition to death benefits, part of the premiums you pay are invested in securities order to produce interest and gains. This is an investment opportunity that works best for people approaching retirement age, and it is less appropriate for younger investors.

You may use money from the policy's cash account (from interest and gains) in order to pay your premiums. You can even borrow against your cash account to secure loans. If there is cash in this account when you die, it goes to your beneficiaries; if there isn't, they simply get the standard death benefit.

  - **Whole Life.** You pay a fixed, level premium, thus paying more in the earlier years than the policy is worth and less in your later years, all the while accruing interest, growing your investment at a modest rate via fixed-income securities, and sheltering money from taxes.
  - **Universal.** Similar to the whole-life plan, except you can adjust your premium, withdraw cash, and change your death benefit by adjusting the amount paid out to your beneficiaries.
  - **Variable.** Unlike whole-life and universal policies, the investment of your premium is made in securities with varying degrees of risk and potential yield. You pick where you want the money invested and wait and see what return you get. You may need to pay higher premiums if your investment isn't growing as expected, so this type of policy can be more volatile.
- ✓ **Disability.** By taking out a policy, you are investing in your future in the case that an accident or injury prevents

you from working and earning an income. If you have no money coming in, then the money you need to live on has to come out of your savings or investments. This counters your entire investment strategy, so if you don't have a policy at work as part of your benefits package, or if that policy isn't enough coverage for you, then you may want to consider disability insurance to prevent an untimely drain on your capital.

### ● GOOF-PROOF RULE OF THUMB ●

If you opt to invest in insurance, always go over the fine print carefully with your insurance agent before signing on. Also, you may not need much insurance as an agent wants to sell you. Bear in mind that agents work on commission, so they may try to entice you with a larger policy than you truly need in order to secure a larger commission. Do your research, be savvy, and protect your investment capital.

### ● GOOF-PROOF TIP ● QUOTE SERVICES

It is a good idea to do some independent research on different insurance policies. If you shop around, you are liable to get a competitive rate. There are many online quote services out there. They provide you with free quotes in the hope that you will use them to broker your policy through them, rather than directly through an agent. To get a quote, you will be instructed to first fill out an online questionnaire, and then compare prices, features, and benefits on the many policies that are suitable to a person in your situation. Here are a few quote services, and there are many others to be found on the Internet:

- **Accuquote:** [www.accuquote.com](http://www.accuquote.com)
- **InsuranceQuote Services:** [www.insurancequote.com](http://www.insurancequote.com)
- **Quick Quote:** [www.quickquote.com](http://www.quickquote.com)

**RULE #43: Consider Your Home as an Investment**

*Don't overlook the largest asset: your home. Think of your home as an investment—one that can appreciate, one that may be used as collateral for a loan, and one that has a built-in tax credit. In short, a tangible asset for now and the future.*

**● GOOF-PROOF IT! ●**

One of life's biggest decisions is buying a home, and in many cases, this is also one's most expensive purchase. After doing the homework and legwork associated with buying a home—in addition to physical upkeep—financial maintenance is a high priority for the homeowner. Make sure that you are getting the best rate on your financing, and do your best to keep up with payments to ensure a good credit rating.

In addition, your home is your best source of collateral for another loan. If you have good credit, borrowing against your home is a built-in perk of home ownership. Borrow in a careful manner, and you will be able to afford home improvements, family needs, and be ready for unplanned financial drains.

**● REFINANCING ●**

In the past few years, mortgage rates have gone from low to even lower, to the lowest in history. Many people took advantage of the low interest rates to buy first homes, even second homes. Many more people refinanced their homes. Is refinancing your home a sound financial decision? Many banks offer an online refinancing tool that allows you to enter your information and make calculations in order to find out if refinancing is the right option for you. When you refinance, you are simply opting to change the mortgage type, term, or interest rate on your existing mortgage. Once the paperwork is complete, there is no additional payments to make or keep track of—you have just improved the quality of your payment in terms of what works best for you financially.



## ● COLLATERAL ●

Your home is a major financial asset, so you may borrow against its value by opening up a home equity line of credit or loan that uses your home as collateral for a low interest rate. You may wonder why you might want to borrow against your home, and the reasons for doing so are many. Perhaps you want to consolidate your credit card debt and start paying off the balance. It's often easier to keep track of just one credit card payment than many, and a *line of credit* allows you to borrow what you need and write checks from this fund to improve your financial outlook. With a line of credit, you have the flexibility to pay the minimum or the whole balance as your financial situation changes or improves. In addition to reducing your payments or debt, the interest portion of your line of credit can be tax deductible.

The other option is a *home equity loan* where you borrow a specific amount then pay a set amount each month for the term of the debt. If your children are going off to college, you may need to borrow against your home to pay for tuition, so a loan may be a smart option. Another very popular reason for a home equity loan is to invest in the home itself, via home improvements and upgrades. No matter what the reason, interest rates are competitive, interest can be tax-deductible, and the process is often as easy as filling out an application. Make sure you understand the terms of the agreement, and like all lines of credit and loans, take care to make your monthly payments on time and at the correct or minimum level to ensure a good credit rating.

A *second mortgage* is a fixed-rate, simple interest loan that is placed in second position on the property title, and does not change the terms of your existing first mortgage. The first mortgage is always the priority lien on your property. (In other words, it must be paid before the second mortgage, but ideally, you are paying off both to ensure good credit standing.) The reasons for a second mortgage are the same as for home equity lines of credit and loans—to provide a tax-deductible source of funds to consolidate debts and reduce monthly payments.

● **GOOF-PROOF RULE OF THUMB** ●

If you are thinking of buying a home, and maybe your dream home is not financially possible, chose a smaller home or a fixer-up-er in a better area, rather than a bigger, nicer home in a lesser area—your property is more likely to appreciate, giving you the option of trading up.

For information on mortgages, see Rule #17.

### **RULE #44: Some Pros and Cons of Investing in Real Estate**

*There's another way to make your money grow—investing in real property.*

#### ● **GOOF-PROOF IT!** ●

As mentioned before, the stock market isn't for everyone. Some people find the idea of a hands-on, tangible investment in income property to be the ideal investment. Essentially, you are purchasing real property that you do not intend to live in for the purpose of making money. There are two main categories of investment property: residential and commercial.

Although real estate investing can really pay off in the long run, it's important to understand how it works. Unlike investing in the stock market via a broker, investing in real estate usually involves a major time commitment. It can be a full-time job, which is great if it is your full-time job, but as a part-time pursuit it can be unwieldy if you don't have the right information, reliable partners, or if you have high-maintenance tenants.

As with all investments, start slowly by conducting independent research, seek the advice of experts, and proceed with caution.

#### ● **GOOF-PROOF CHECKLIST** ● **RESIDENTIAL AND COMMERCIAL PROPERTY OWNERSHIP PROS AND CONS**

##### ● **Pros**

- ✓ In many parts of the country, you can make a decent amount of money from rental property in good working condition that is also in a good location.
- ✓ There are tax advantages to owning real property.

- ✓ You have the immediate advantage of collecting money off of your investment (in the form of rent) while the worth of the initial investment grows.

- **Cons**

- ✓ You must deal with the needs of tenants on a consistent basis, which means that you probably have to hire a superintendent or independent contractors for maintenance unless you are very handy.
- ✓ What if a tenant doesn't come up with the rent money? You still have to pay your mortgage or financing charges.
- ✓ If a tenant breaks his or her lease, you may have to dip into the security deposit, then what? You have to come up with the money without tenants until a new one can be found.

- **GOOF-PROOF RULE OF THUMB** •

A whole book could be written about investing in real estate, so this rule is just focusing on the basics. For more information on real estate investments, go online or visit the bookstore. Here are four good books to get you started:

*Millionaire Real Estate Mentor: The Secrets of Financial Freedom through Real Estate Investing.* (Chicago: Dearborn, 2003)

*Real Estate Loopholes: Secrets of Successful Real Estate Investing.* (New York: Warner Books, 2001).

*Real Estate Riches: How to Become Rich Using Your Banker's Money.* (New York: Warner Books, 2001).

*The Unofficial Guide to Investing in Real Estate.* (Hoboken: Wiley, 1999).

## ● PUTTING IT ALL TOGETHER ●

The best investors are the most informed investors. Naturally, the more you educate yourself about all the available investment options and opportunities, the better chance you have for achieving your financial goals. Only when you truly understand your financial situation and options can you achieve the wisdom to find the right investments to suit you.

- Your first step toward financial success is learning all about your investment options and making careful and informed decisions.
- If you know that you are going to invest some of your money for the long term, you should look into setting up a brokerage account at a reputable financial institution. The right stocks, bonds, and mutual funds can be solid investments for your future.
- Enlist the help of a trustworthy broker or financial planner. Sign on with a person you can trust and with whom you can speak openly and honestly about your financial status and financial goals.
- Pay attention to your assets. Always be open to new opportunities.
- Know the amount of investment risk you can handle. Diversifying your portfolio is a smart strategy to balance risk. Don't be afraid to invest in an array of options.
- Many people, especially those with a lower tolerance for risk, are drawn to the cash equivalent sector for the bulk of their portfolio. Find out about cash equivalents, and make your money work for you.
- Don't be afraid to invest in the stock market. Smart investment decisions can yield big dividends.
- Know the difference between stocks and bonds. Don't make the mistake of thinking that they are interchangeable terms or that they offer the same type of investment. Know the positives and drawbacks of both.

- For a balanced and diverse investment, look into mutual funds. When considering which mutual fund to join, be sure to conduct research to find out which funds are performing well and how the goals of the fund intersect with your own investment strategy.
- Insurance can be a good investment, especially if you have dependents. Look into whether or not insurance can be a good choice for you.
- If you own a home or property, think of it as an investment—one that can appreciate, one that may be used as collateral for a loan, and one that has a built-in tax credit. In short, a tangible asset for now and the future.





section **SEVEN**

# RESOURCES







appendix **A**

## ONLINE RESOURCES AND CD-ROMS

### ● CREDIT REPORT COMPANIES ●

To obtain a copy of your credit report, contact one of the following companies. Be advised that depending on the company, and the type of report you choose, you may incur a fee.

- Consumer Info: [www.consumerinfo.com](http://www.consumerinfo.com)
- Equifax: [www.equifax.com](http://www.equifax.com)  
800-685-1111
- Experian: [www.experian.com](http://www.experian.com)  
800-682-7654
- Trans Union: [www.transunion.com](http://www.transunion.com)  
800-916-8800

## ● FINANCIAL AID RESOURCES ●

Here are resources that may be used to obtain more information about financial aid:

- The Student Guide: a free brochure about financial aid:  
[www.ed.gov/prog\\_info/SFAStudentGuide](http://www.ed.gov/prog_info/SFAStudentGuide)
- FAFSA information: [www.ed.gov/prog\\_info/SFA/FAFSA](http://www.ed.gov/prog_info/SFA/FAFSA)
- Title IV school codes: [www.ed.gov/offices/OPE/t4\\_codes.html](http://www.ed.gov/offices/OPE/t4_codes.html)
- FAFSA: fill out and submit online [www.ed.gov/offices/OPE/express.html](http://www.ed.gov/offices/OPE/express.html)
- Sallie Mae loan programs: [www.salliemae.com](http://www.salliemae.com)

## ● SOFTWARE PROGRAMS ● FOR FINANCIAL AID

- Cash for Class  
Tel: 800-205-9581  
Fax: 714-673-9039
- Redheads Software, Inc.  
3334 East Coast Highway #216  
Corona del Mar, CA 92625  
E-mail: [cashclass@aol.com](mailto:cashclass@aol.com)
- C-LECT Financial Aid Module  
Chronicle Guidance Publications  
PO Box 1190  
Moravia, NY 13118-1190  
Tel: 800-622-7284 or 315-497-0330  
Fax: 315-497-3359
- Peterson's Award Search  
Peterson's  
P.O. Box 2123  
Princeton, NJ 08543-2123  
Tel: 800-338-3282 or 609-243-9111  
E-mail: [custsvc@petersons.com](mailto:custsvc@petersons.com)

- Pinnacle Peak Solutions (Scholarships 101)  
Pinnacle Peak Solutions  
7735 East Windrose Drive  
Scottsdale, AZ 85260  
Tel: 800-762-7101 or 602-951-9377  
Fax: 602-948-7603
- TP Software—Student Financial Aid Search Software  
TP Software  
P.O. Box 532  
Bonita, CA 91908-0532  
Tel: 800-791-7791 or 619-496-8673  
E-mail: mail@tpssoftware.com

### ● INSURANCE WEBSITES ●

Go to these websites for free life insurance quotes:

- IntelliQuote: [www.intellicquote.com](http://www.intellicquote.com)
- Life Insurance Wiz: [www.lifeinsurancewiz.com](http://www.lifeinsurancewiz.com)
- LifeQuote: [www.lifequote.com](http://www.lifequote.com)
- QuotePath: [www.quotepath.com](http://www.quotepath.com)

### ● MORTGAGE INFORMATION ●

For mortgage quoted and other information, go to:

- HSH Associates: [www.hsh.com](http://www.hsh.com)
- Interest.com: [www.interest.com](http://www.interest.com)
- Mortgage 101: [www.mortgage101.com](http://www.mortgage101.com)
- Fannie Mae: [www.fanniemae.com](http://www.fanniemae.com)
- MonsterMoving.com: [www.monstermoving.com](http://www.monstermoving.com)

## ● PERSONAL FINANCE WEBSITES ●

For basic and detailed information on various aspects of personal finance, check out these websites:

- Bloomberg: [www.bloomberg.com](http://www.bloomberg.com)
- Business Week: [www.businessweek.com/investor](http://www.businessweek.com/investor)
- Equifax: [www.equifax.com](http://www.equifax.com)
- FinanCenter Consumer Tools: [www.financenter.com/consumer](http://www.financenter.com/consumer)
- Forbes: [www.forbes.com/finance](http://www.forbes.com/finance)
- GE Financial Network: [www.gefn.com](http://www.gefn.com)
- IRS Tax Information: [www.irs.gov](http://www.irs.gov)
- iVillage Personal Finance for Women: [www.ivillage.com/money](http://www.ivillage.com/money)
- Jump\$tart Coalition for Personal Finance Literacy: [www.jumpstart.org](http://www.jumpstart.org)
- Kiplinger: [www.kiplinger.com](http://www.kiplinger.com)
- Lower My Bills Comparison Site: [www.lowermybills.com](http://www.lowermybills.com)
- Money Answers by Jordan E. Goodman: [www.moneyanswers.com](http://www.moneyanswers.com)
- MoneyCentral: <http://moneycentral.msn.com/home.asp>
- Motley Fool: [www.fool.com](http://www.fool.com)
- MsMoney: [www.msmoney.com/index.asp](http://www.msmoney.com/index.asp)
- MyPrimeTime Personal Trainer for Life: [www.myprimetime.com/money](http://www.myprimetime.com/money)
- National Foundation for Credit Counseling: [www.nfcc.org](http://www.nfcc.org)
- Netscape Money & Business: <http://money.netscape.cnn.com/money>
- Personal Budgeting and Money Saving Tips: [www.personal-budget-planning-saving-money.com](http://www.personal-budget-planning-saving-money.com)
- Quicken: [www.quicken.com](http://www.quicken.com)
- Smart Money Magazine: [www.smartmoney.com/pf](http://www.smartmoney.com/pf)
- The Street: [www.thestreet.com/funds](http://www.thestreet.com/funds)
- US News: [www.usnews.com/usnews/biztech/bthome.htm](http://www.usnews.com/usnews/biztech/bthome.htm)
- Washington Post: [www.washingtonpost.com/wp-dyn/business/personalfinance](http://www.washingtonpost.com/wp-dyn/business/personalfinance)

- Wells Fargo: [www.wellsfargo.com/per/personal\\_finance.jhtml](http://www.wellsfargo.com/per/personal_finance.jhtml)
- Yahoo Finance: [finance.yahoo.com](http://finance.yahoo.com)
- Your Money Page: [www.yourmoneypage.com](http://www.yourmoneypage.com)

### ● **QUALIFIED TUITION PROGRAM INFORMATION** ● **(529 PLAN)**

- College Savings Plans Network: [www.collegesavings.org](http://www.collegesavings.org)
- MsMoney: [www.msmoney.com/mm/investing/specific\\_goals/state\\_svg\\_plan.htm](http://www.msmoney.com/mm/investing/specific_goals/state_svg_plan.htm)

### ● **RETIREMENT SAVINGS INFORMATION** ● **(401(K), 403(B), IRAS)**

Get important information on your retirement:

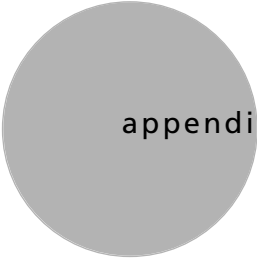
- The-Advisor.com: [www.the-adviser.com](http://www.the-adviser.com)
- Department of Labor: [www.dol.gov/dol/topic/retirement/](http://www.dol.gov/dol/topic/retirement/)
- Internal Revenue Service: [IRS.gov](http://IRS.gov)
- Motley Fool: [www.fool.com/retirement.htm](http://www.fool.com/retirement.htm)
- Savings Coalition of America: [www.savingscoalition.org/information.html](http://www.savingscoalition.org/information.html)

### ● **WEDDING** ●

Get the financial facts about weddings:

- About.com: [weddings.about.com](http://weddings.about.com)
- IVillage: [www.ivillage.com/relationships/brides](http://www.ivillage.com/relationships/brides)
- MoneyCops Wedding Calculator: [www.moneycops.com/wedding-catering-party-calculator.htm](http://www.moneycops.com/wedding-catering-party-calculator.htm)
- Wedding Channel: [www.weddingchannel.com](http://www.weddingchannel.com)





appendix **B**

## PRINT RESOURCES

### • PERSONAL FINANCE (GENERAL) •

- Glink, Ilyce. *50 Simple Things You Can Do to Improve Your Personal Finances*. (New York: Crown, 2001).
- Goodman, Jordan Elliot and Downes, John. *Dictionary of Finance and Investment Terms*. (New York: Barrons, 2002).
- Hagstrom, Robert G. *Warren Buffett Way: Investment Strategies of the World's Greatest Investor*. (Hoboken: Wiley, 1997).
- Kiyosaki, Robert T. and Lechter, Sharon L. *Rich Dad's Cashflow Quadrant*. (New York: Warner, 2000).
- Kobliner, Beth. *Get a Financial Life*. (New York: Simon & Schuster, 2000).
- Orman, Suze. *The 9 Steps to Financial Freedom*. (New York: Crown, 2000).
- Orman, Suze. *The Laws of Money, the Lessons of Life*. (New York: Simon & Schuster, 2003).
- Orman, Suze. *The Road to Wealth*. (New York: Putnam, 2001).
- Siegel, Alan. *The Wall Street Journal Guide To Understanding Personal Finance*. (New York: Simon & Schuster, 2000).



## ● DEBT MANAGEMENT ●

Anthony, Jason and Cluck, Karl. *Debt Free by 30: Practical Advice for Young, Broke, & Upwardly Mobile*. (New York: Plume, 2001).

Daskaloff, Alexander. *Credit Card Debt: Reduce Your Financial Burden in Three Easy Steps*. (New York: Harper Collins, 1999).

Hunt, Mary. *Mary Hunt's Debt-Proof Living*. (Nashville: Broadman & Holman, 1999).

Robinson, Mark and McKinley, Robert L. *Essential Finance: Managing Credit*. (New York: DK, 2000).

## ● FINANCIAL AID ●

### ● Books

Cassidy, Daniel J. *The Scholarship Book 2003: The Complete Guide to Private-Sector Scholarships, Fellowships, Grants, and Loans for the Undergraduate*. (Englewood Cliffs: Prentice Hall, 2002).

*The College Board College Cost & Financial Aid 2003, 23rd edition*. (New York: The College Entrance Examination Board, 2002).

Davis, Kristen. *Financing College: How to Use Savings, Financial Aid, Scholarships, and Loans to Afford the School of Your Choice*. (Washington, DC: Random House, 1996).

Hern, Davis and Kennedy, Joyce Lain. *College Financial Aid for Dummies*. (Hoboken: Wiley, 1999).

*Peterson's Scholarships, Grants and Prizes 2002*. (Princeton: Peterson's, 2001).

*Scholarships 2003*. (New York: Kaplan, 2002).

*Scholarships, Grants & Prizes: Guide to College Financial Aid from Private Sources, 2003*. (Princeton: Peterson's, 2002).

## • Pamphlets

### *How Can I Receive Financial Aid for College?*

Published from the Parent Brochures ACCESS ERIC Website.  
Order a printed copy by calling 800-LET-ERIC or write to  
ACCESS ERIC, Research Blvd-MS 5F, Rockville, MD 20850-  
3172.

### *Looking for Student Aid*

Published by the U.S. Department of Education, this is an  
overview of sources of information about financial aid. To  
get a printed copy, call 1-800-4-FED-AID.

### *The Student Guide*

Published by the U.S. Department of Education, this is the  
handbook about federal aid programs. To get a printed copy,  
call 1-800-4-FED-AID.

## • OTHER RELATED FINANCIAL AID BOOKS •

*Annual Register of Grant Support.* Chicago: Marquis, Annual.

*A's and B's of Academic Scholarships.* Alexandria, VA:  
Octameron, Annual.

*Chronicle Student Aid Annual.* Moravia, NY: Chronicle  
Guidance, Annual.

*College Blue Book. Scholarships, Fellowships, Grants and Loans.*  
New York: Macmillan, Annual.

*College Financial Aid Annual.* New York: Prentice-Hall, Annual.

*Directory of Financial Aids for Minorities.* San Carlos, CA:  
Reference Service Press, Biennial.

*Directory of Financial Aids for Women.* San Carlos, CA:  
Reference Service Press, Biennial.

*Don't Miss Out: the Ambitious Student's Guide to Financial Aid.*  
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*Financial Aids for Higher Education.* Dubuque: Wm. C. Brown,  
Biennial.

*Financial Aid for the Disabled and their Families.* San Carlos,  
CA: Reference Service Press, Biennial.

*Paying Less for College.* Princeton: Peterson's Guides, Annual.

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- Bernstein, William J. *The Four Pillars of Investing*. (New York: McGraw-Hill, 2002).
- Graham, Benjamin. *The Intelligent Investor*. (New York: HarperCollins, 1985).
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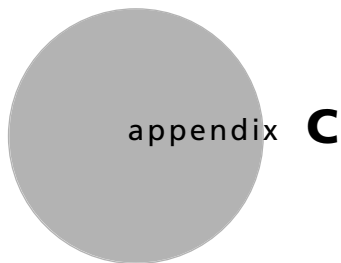
**● MORTGAGE ●**

- Brown, Ray and Tyson, Eric. *Mortgages For Dummies*. (Hoboken: Wiley, 1999).
- Eldred, Gary W. *The 106 Mortgage Secrets All Homebuyers Must Learn—But Lenders Don't Tell*. (Hoboken: Wiley, 2003).

**● SAVINGS AND RETIREMENT ●**

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- Stav, Julie. *Fund Your Future: Winning Strategies for Managing Your Mutual Funds and 401(K)*. (New York: Berkley, 2001).





## GLOSSARY

- **A**

**accrued interest** interest that accumulates on the unpaid principal balance of a loan; in terms of bonds, the amount of interest due since the last interest payment was made.

**adjustable-rate mortgage (ARM)** a mortgage in which the interest changes periodically, according to corresponding fluctuations in an index. All ARMs are tied to indexes.

**aggressive growth funds** in terms of mutual funds, this refers to a higher risk, aggressive investment strategy where investments are made in companies that are poised for rapid growth.

**amortization** the method of repaying a loan or debt by making periodic installment payments composed of both principal and interest. When all principal has been repaid, the loan is considered fully amortized.

**amortization schedule** a table that shows how much of each loan payment will be applied toward principal and how much toward interest over the lifespan of the loan. It also

shows the gradual decrease of the outstanding loan balance until it reaches zero.

**amortize** to repay a loan through regular payments that are comprised of principal and interest.

**annual dividend yield** annual rate of return (ROI) on a dividend-paying investment that is calculated by dividing the stock price by the annual dividend amount per share.

**annual percentage rate (APR)** the total or effective amount of interest charged on a loan, expressed as a percentage, on a yearly basis. This value is created according to a government formula intended to reflect the true annual cost of borrowing.

**appreciation** an increase in the market value of a property or a stock.

**assessed value** the value of a property used to calculate real estate taxes.

**assessment** the process of assigning value on property for taxation purposes.

**assets** any property or financial instrument that can be converted to cash, including stocks, bonds, and real estate, as well as cash.

**asset allocation** different categories of asset contained in one's portfolio, such as stocks, bonds, real estate, and cash equivalents. A balanced asset allocation reduces financial risk.

**asset allocation funds** mutual funds containing a mixture of stocks, bonds and cash equivalents designed to offset risk.

**assumption of mortgage** the act of acquiring the title to a property that has an existing mortgage and agreeing to be liable for the payment of any debt still existing on that mortgage.

**automatic reinvestment** practice in which dividends and/or capital gains are used to purchase additional investment shares for a shareholder rather than being distributed to the shareholder.

• **B**

**balloon mortgage** a loan in which the periodic payments do not fully amortize the loan, so that a final payment (a balloon payment) substantially larger than the amount of the periodic payments must be made to satisfy the debt.

**balloon payment** the final, lump-sum payment that is due at the termination of a balloon mortgage.

**bankruptcy** means by which an individual can restructure or relieve themselves of debts and liabilities by filing in federal bankruptcy court.

**bear market** in terms of the stock market, a period of time during which security prices are generally falling (the opposite of bull market).

**beneficiary** a person designated to receive income from a trust or a recipient of an inheritance or life insurance income.

**bequest** personal property given by provision of a will.

**biweekly mortgage** a mortgage in which payments are made every two weeks instead of once a month. Therefore, instead of making twelve monthly payments during the year, the borrower makes the equivalent of thirteen monthly (26 biweekly) payments. The extra payment reduces the principal, thereby reducing the time it takes to pay off a thirty-year mortgage.

**blanket mortgage** a mortgage in which more than one parcel of real estate is pledged to cover a single debt.

**blue chip stock** the common stock of a company nationally known for the quality of its brand and for having a history of positive earnings and dividend payments.

**bond** a certificate of debt or debt instrument issued by a government or corporation that guarantees payment of the original investment plus interest by a specified future date, known as the maturity date.

**buydown mortgage** a fixed-rate mortgage where the interest rate is bought down for a temporary period, usually one to three years. After that time and for the remainder of the term, the borrower's payment is calculated at the note



rate. In order to buy down the initial rate for the temporary payment, a lump sum is paid and held in an account used to supplement the borrower's monthly payment. These funds usually come from the seller as a financial incentive to induce someone to buy their property.

**bull market** in terms of the stock market, a time period during which security prices are rising, (the opposite of bear market).

**buy order** indication that an investor wants to obtain ownership of a security.

## • C

**capital** money used to create income, or the net worth of a business as represented by the amount by which its assets exceed its liabilities.

**capital appreciation** the increase in value of an asset or investment.

**capital expenditure** the cost of a betterment to a property.

**capital gain or loss** profit or loss from the sale of an investment.

**capital gains tax** a tax charged on the profit gained from the sale of a capital asset.

**capitalization** the process of estimating the present value of an income-producing piece of property by dividing anticipated future income by a capitalization rate.

**capitalization of interest** addition of accrued interest to the principal balance of your loan that increases both your total debt and monthly payments.

**capitalization rate** the rate of return a property will generate on an owner's investment.

**cash equivalents** liquid investments, such as U.S Treasury bills (T-bills), money market funds, and certificates of deposits (CDs).

**certificate of deposit (CD)** timed investments usually issued by a bank with a specific date of maturity and set interest rate.

- closing** the point in a real estate transaction when the purchase price is paid to the seller and the deed to the property is transferred from the seller to the buyer.
- closing costs** there are two kinds: non-recurring closing costs and pre-paid items. Non-recurring closing costs are any items paid once as a result of buying the property or obtaining a loan. Pre-paid items are items that recur over time, such as property taxes and homeowners insurance.
- closing date** the date on which the buyer takes over the property.
- closing statement** written accounting of funds received and disbursed during a real estate transaction.
- collateral** something of value pledged by a borrower as security for a debt or loan.
- commercial property** property used to produce income, such as an office building or a restaurant.
- competitive market analysis (CMA)** an analysis intended to assist a seller or buyer in determining a property's range of value.
- compounding** increase in value of an investment due to the combination of principal interest and that principal interest earning more interest on top of the investment construction mortgage a short-term loan used to finance the building of improvements to real estate.
- contract** an agreement between two or more legally competent parties to do or to refrain from doing some legal act in exchange for a consideration.
- conventional loan** a loan that is neither insured nor guaranteed by an agency of government.
- convertible ARM** an adjustable-rate mortgage that allows the borrower to change the ARM to a fixed-rate mortgage at a specific time.
- corporate bond** type of bond issued by a corporation with a stated interest rate and maturity.
- corporate bond funds** mutual funds that invest in long-term corporate bonds, passing the income from these securities to stockholders.

**current yield** annual rate of return on an investment that is based on the income received during a year compared with the investment's current price.

**custodial account** an account created for a minor with an adult as the custodian, or caretaker.

• **D**

**debt** an amount owed to another.

**deed** a written document that, when properly signed and delivered, conveys title to real property from the grantor to the grantee.

**default** failure to repay your education loan.

**deferral** a period when a borrower, who meets certain criteria, may suspend loan payments.

**defined benefit plan** a company retirement plan whereby a retired employee receives a fixed amount on a regular basis from the employer, based on salary history and years of service.

**defined contribution plan** a company retirement plan, such as a 401(k), whereby an employee elects to defer a portion of his or her salary into an investment plan.

**delinquency** failure to make payments when due.

**disbursement** loan funds issued by the lender.

**discount** the amount a bond is priced below its face value.

**distribution** payment of a dividend or capital gain.

**diversification** strategy for allocation of assets among various types of investments, such as stocks, bonds, real estate, and cash used to help offset risk.

**dividend** distribution of corporate profits in cash or stock to shareholders.

**Dow Jones Industrial Average (DJIA)** renowned market indicator, comprised of 30 large and actively traded industrial stocks.

- **E**

**earnings per share (EPS)** amount of reported income that is calculated by dividing the total earnings by the number of shares.

**emerging-markets funds** type of mutual fund that invest in securities from developing countries.

**equity income funds** type of mutual funds that invest in stocks by seeking a high level of income while attempting to minimize risk.

**escrow** the deposit of funds and/or documents with a disinterested third party for safekeeping until the terms of the escrow agreement have been met.

**escrow account** a trust account established to hold escrow funds for safekeeping until disbursement.

**escrow disbursements** money paid from an escrow account.

**estate** the sum total of all the real property and personal property owned by an individual at the time of death, including cash, securities, real estate, interests in business, insurance, etc.

**estate tax** federal tax owed on property transferred to heirs upon death.

**estoppel certificate** a document that certifies the outstanding amount owed on a mortgage loan, as well as the rate of interest.

**exchange** systems for the organized trading of securities, such as the New York Stock Exchange and the American Stock Exchange.

- **F**

**face value** the stated value of a security as displayed on the certificate.

**fair housing law** a term used to refer to federal and state laws prohibiting discrimination in the sale or rental of residential property.

**fair market value** the highest price that a buyer, willing but not compelled to buy, would pay, and the lowest a seller, willing but not compelled to sell, would accept.

**Federal Housing Administration (FHA)** an agency within the U.S. Department of Housing and Urban Development (HUD) that insures mortgage loans by FHA-approved lenders to make loans available to buyers with limited cash.

**Federal National Mortgage Association** also known as “Fannie Mae,” a privately owned corporation that buys existing government-backed and conventional mortgages.

**Federal Reserve System** central banking system of the United States, which controls the monetary policy and, therefore, the money supply, interest rates, and availability of credit.

**FHA-insured loan** a loan insured by the Federal Housing Administration.

**fiduciary relationship** a legal relationship with an obligation of trust, as that of agent and principal.

**first mortgage** a mortgage that has priority to be satisfied over all other mortgages or liens.

**fixed-rate loan** a loan with an interest rate that does not change during the entire term of the loan.

**fixed annuity** insurance policy with a guaranteed fixed interest rate for a specified amount of time.

**fixed income securities** debt securities (bonds, money market funds, preferred stock) that pay specific interest rates on borrowed money.

**forbearance** temporary adjustment to repayment schedule for cases of financial hardship.

**401(k) plan** type of retirement plan whereby employees make pretax contributions from earned income to a tax-deferred investment account that reduces taxable income.

**403(b) plan** type of retirement plan similar to a 401(k) plan that is for employees of nonprofit organizations.

- **G**

**global equity funds** type of mutual fund that invests in securities located worldwide, including the United States.

**government backed mortgage** a mortgage that is insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) or the Rural Housing Service (RHS). Mortgages that are not government loans are identified as conventional loans.

**government bonds** debt instruments issued by the U.S. government (Treasury bills, notes, savings bonds).

**government bond funds** type of mutual fund that invests in securities backed by the U.S. government.

**Government National Mortgage Association** also known as Ginnie Mae, a government-owned corporation within the U.S. Department of Housing and Urban Development (HUD). Ginnie Mae manages and liquidates government-backed loans and assists HUD in special lending projects.

**grant** the transfer of title to real property by deed; or a designated award of funds by an institution for an academic or artistic pursuit.

**grant deed** a deed that includes three warranties: (1) that the owner has the right to convey title to the property, (2) that there are no encumbrances other than those noted specifically in the deed, and (3) that the owner will convey any future interest that he or she may acquire in the property.

**grantee** one who receives title to real property, a person who establishes a trust; or the recipient of a grant of funds for an academic or artistic pursuit.

**grantor** one who conveys title to real property; or one who bestows a grant of funds for a student, scholar, or artist.

**grace period** specified period of time after you graduate or leave school during which you need not make payments on a loan.

**growth-and-income funds** type of mutual fund that aims to provide growth and income by investing in companies that have both potential earnings growth and dividends.

**growth funds** type of mutual fund that invests in companies that aim to have long-term growth potential.

## • H

**holder** the institution that currently owns your loan.

**home equity conversion mortgage (HECM)** often called a reverse-annuity mortgage; instead of making payments to a lender, the lender makes payments to you. It enables older homeowners to convert the equity they have in their homes into cash, usually in the form of monthly payments. Unlike traditional home equity loans, a borrower does not qualify on the basis of income but on the value of his or her home. In addition, the loan does not have to be repaid until the borrower no longer occupies the property.

**home equity line of credit** a mortgage loan that allows the borrower to obtain cash drawn against the equity of his or her home, up to a predetermined amount.

**homeowner's insurance** an insurance policy specifically designed to protect residential property owners against financial loss from common risks such as fire, theft, and liability.

**Hope credit** a tax credit designed to help reduce education costs for students in the first two years of college.

**HUD** Department of Housing and Urban Development, a federal agency that enforces federal fair housing laws and oversees agencies such as FHA and GNMA.

## • I

**in-school grace** deferment interest subsidy; interest the federal government pays for borrowers on some loans while

the borrower is in school, during authorized deferments, and during grace periods.

**income property** real estate developed or improved to produce income.

**index** benchmark used to measure financial or economic performance; a number used to compute the interest rate for an adjustable-rate mortgage (ARM). The index is a published number or percentage, such as the average yield on Treasury bills. A margin is added to the index to determine the interest rate to be charged on the ARM. This interest rate is subject to any caps that are associated with the mortgage.

**individual retirement account (IRA)** specialized account that allows individuals to set aside income in a tax-deferred retirement plan.

**inflation** an increase in the amount of money or credit available in relation to the amount of goods or services available, which causes an increase in the general price level of goods and services.

**initial interest rate** the beginning interest rate of the mortgage at the time of closing.

**installment** the regular, periodic payment that a borrower agrees to make to a lender, usually related to a loan.

**insurance** a contract that provides indemnification from specific losses in exchange for a periodic payment. The individual contract is known as an **insurance policy**, and the periodic payment is known as an **insurance premium**.

**insured mortgage** a mortgage that is protected by the Federal Housing Administration (FHA) or by private mortgage insurance (PMI). If the borrower defaults on the loan, the insurer must pay the lender the insured amount.

**interest** a fee charged by a lender for the use of the money loaned or a share of ownership in real estate.

**interest-only payment** a payment that covers only interest owed on the loan and none of the principal balance.

**interest rate** the rent or rate charged to use funds belonging to another.



**interest rate ceiling** the maximum interest rate that may be charged for an adjustable-rate mortgage (ARM), as specified in the mortgage note.

**interest rate floor** the minimum interest rate for an adjustable-rate mortgage (ARM), as specified in the mortgage note.

**international equity funds** type of mutual fund that invests in securities of companies located outside the United States.

**international global bond funds** type of mutual fund that invests in securities of companies both inside and outside of the United States.

**investment objective** description of a mutual fund's desired investment result and typical securities in which the fund invests.

**investment property** a property not occupied by the owner.

## • J

**jumbo loan** also called a non-conforming loan, this loan exceeds Fannie Mae's mortgage amount limits.

**junior mortgage** also called a secondary mortgage, this is any mortgage that is inferior to a first lien and that will be satisfied only after the first mortgage.

**junk bond** a high-yield bond that pays investors a high interest rate to compensate for its high risk of default.

## • K

**Keogh account** tax-deferred, qualified retirement account for self-employed individuals and unincorporated businesses.

- **L**

**lender** or originator, the entity that puts up the money for a loan.

**life insurance** a policy that pays a beneficiary upon the death of the insured person, or policy holder.

**liquid** assets that can be easily converted to cash.

**liquidation** the conversion of assets into cash.

**liquid investment** investment that can be easily converted to cash.

**loan** a sum of borrowed money, or principal, that is generally repaid with interest.

**loan officer** or lender, serves several functions and has various responsibilities, such as soliciting loans; a loan officer both represents the lending institution and represents the borrower to the lending institution.

- **M**

**margin** practice of using your securities as collateral to purchase other securities on credit; also the difference between the interest rate and the index on an adjustable rate mortgage.

**margin account** brokerage account that allows you to borrow funds to purchase securities, using your securities as collateral.

**margin interest** interest charged daily on the balance of your margin loan.

**market indicators** indexes used to determine the direction and strength of financial markets.

**market value** the amount that a seller may expect to obtain for merchandise, services, or securities in the open market.

**maturity date** date on which the issuer of a bond or certificate of deposit is scheduled to repay the original investment to the bondholder or CD holder.

**money market account** type of savings account that invests in various short-term securities, attempting to maintain or increase a \$1 per share value over an open-ended period of time.

**money market fund** type of mutual fund that invests in short-term securities, attempting to maintain a \$1 per share value over an open-ended period of time.

**money market mutual fund** an open-end mutual fund that invests in short-term securities such as Treasury bills, certificates of deposit and commercial paper and seeks to maintain a \$1 per share value over an open-ended period of time.

**mortgage** a written instrument that pledges property to secure payment of a debt obligation as evidenced by a promissory note. When duly recorded in the public record, a mortgage creates a lien against the title to a property.

**mortgage banker** an entity that originates, funds, and services loans to be sold into the secondary money market.

**mortgage broker** an entity that, for a fee, brings borrowers together with lenders.

**mortgage lien** an encumbrance created by recording a mortgage.

**mortgagee** the lender who benefits from the mortgage.

**mortgagor** the borrower who pledges the property as collateral **municipal bond (muni)**, a type of bond issued by a state or political subdivision that pays interest, which is usually exempt from federal and, in some cases, state and local taxes.

**multidwelling units** properties that provide separate housing units for more than one family that secure only a single mortgage. Apartment buildings are also considered multidwelling units.

**municipal bond funds** type of mutual fund that invests in tax-exempt bonds issued by states and municipalities.

**mutual fund** a type of investment that works by allowing a group of investors to pool their assets in a mixed portfolio of securities managed by an investment company.

- **N**

**National Association of Securities Dealers**

**Automated Quotation System (NASDAQ)** trading whereby transactions take place over a network of computers and telephones that is used for over-the-counter stock trading.

**negative amortization** occurs when an adjustable rate mortgage is allowed to fluctuate independently of a required minimum payment.

**net asset value (NAV)** a mutual fund's per share value at the end of each day, figured by taking the total market value of a fund's assets and dividing the figure by the total number of shares outstanding.

**new issue** initial offering to the public of a stock, bond, or mutual fund.

**New York Stock Exchange (NYSE)** trading conducted by brokers acting on behalf of customers, rather than by dealers trading for their own account. For this reason, the NYSE is often described as an agency auction market. The interaction of natural buyers and sellers determines the price of a NYSE-listed stock.

**nominal rate** interest rate paid on an investment, which does not include compounding.

- **O**

**open-end fund** a type of mutual fund with no limit to the number of shares that can be issued.

**open-end mortgage** a loan containing a clause that allows the mortgagor to borrow additional funds from the lender, up to a specified amount, without rewriting the mortgage.

**option** special contract allowing an investor to sell or purchase an asset at a fixed price until a specific date.

**origination fee** fee, deducted from the principal, which is paid to offset its cost of the subsidy to borrowers under certain loan programs.

• **P**

**Pell grant** a federal grant for college students, awarded upon the basis of financial need.

**PITI** principal, interest, taxes, and insurance—components of a regular mortgage payment.

**PMI** private mortgage insurance.

**price-earnings ratio (P/E)** used to compare stocks selling at different price levels, the p/e ratio is the current price of a share of stock divided by the earnings per share of the issuing firm.

**principal** amount of invested dollars or amount you borrow, which may increase as a result of capitalization of interest, and the amount on which you pay interest.

**prime rate** the short-term interest rate that banks charge to their preferred customers. Changes in prime rate are used as the indexes in some adjustable rate mortgages, such as home equity lines of credit.

**promissory note** contract between borrower and lender that includes all the terms and conditions under which one promises to repay a loan.

**property management** the operating of an income property for another.

**property tax** a tax levied by the government on property, real or personal.

**prospectus** official document highlighting the key information about securities registered with the Securities and Exchange Commission.

- **Q**

**Qualified Tuition Program (QTP)** (also known as a **529 plan**) is a state-sponsored college savings plan set up to allow one to either prepay or contribute to an account on a tax-deferred basis until they are withdrawn for qualified tuition and/or educational purposes.

**quote** highest bid and lowest ask price for a security at any given time.

- **R**

**real estate investment trust (REIT)** company that owns and manages a portfolio of real estate properties.

**Real Estate Settlement Procedures Act (RESPA)**

a consumer protection law that requires lenders to give borrowers advance notice of closing costs and prohibits certain abusive practices against buyers using federally related loans to purchase their homes.

**real property** the rights of ownership to land and its improvements.

**retirement plan distribution** withdrawal of funds from a retirement plan.

**risk/return factor** relationship between an investment's growth potential and its exposure to loss.

**rollover IRA** an IRA to which you can transfer assets from other qualified retirement plans.

**Roth Individual Retirement Account (Roth IRA)**

investment vehicle designed for retirement savings that allows for achieving tax-free growth of investment earnings and making tax-free withdrawals of the assets at retirement or earlier for special purposes.

## • S

**scholarship** financial aid grant to a student for the purpose of attending college.

**secondary markets** institutions that buy loans from originating lenders, thus providing lenders with funds to make new loans.

**second mortgage** see junior mortgage or home-equity mortgage.

**securities** property which is pledged as collateral for a loan; or an investment instrument issued by an institution which offers evidence of debt or equity.

**self-administered living trust (SALT)** revocable living trust whereby the grantor is the trustee, making his or her own investment decisions.

**sell** an order to transfer ownership of an investment to someone else in exchange for money.

**sell price** the price at which a security may be sold.

**servicer** organization that administers and collects your loan; either the holder of your loan or an agent acting on behalf of the holder.

**share** a single unit of ownership in a company, mutual fund, or limited partnership.

**small-cap funds** a type of mutual fund that invests in stocks of small companies.

**Standard & Poor's 500 Stock Index (S&P 500)**

benchmark used to determine the performance or stock price movements of the overall U.S. stock market. The index is made up of 500 stocks, including 400 industrials, 40 utilities, 20 transportation, and 40 financial issues.

**stock** a share of ownership in a company.

**stock dividends** dividends paid in additional shares of stock instead of cash.

**stock symbol** unique identification symbol given to every corporation whose stock is traded on a stock exchange or the NASDAQ.

**subsidized Stafford loans** loans based on financial need. The government pays the interest on a subsidized Stafford loan for borrowers while they are in school and during specified deferment periods.

• **T**

**treasury bill (t-bill)** short-term debt security of the U.S. government sold at a discount and returns to its full face value at maturity (three months to one year).

**treasury bond** negotiable, coupon-bearing debt security with a maturity of more than seven years offered and backed by the U.S. Treasury, which pays a fixed rate of interest every six months.

**treasury note** intermediate-term debt security of the U.S. Treasury that pays a fixed rate of interest every six months and returns its face value at maturity (from two to ten years).

**trust** fiduciary relationship in which a trustee holds title to property for the benefit of another person, the beneficiary.

**2503c trust** an irrevocable trust, also known as a **minor's trust**, whereby a grantor is able to hold investment principal and income in a trust for the specific benefit of a child until the child is 21 years old.

• **U**

**unsubsidized Stafford loans** loans available to borrowers, regardless of family income. Unsubsidized Stafford loan borrowers are responsible for the interest during in-school, deferment periods, and repayment.

• **V**

**vested** the percentage of ownership in a retirement plan's assets.



**volatility** the extent and frequency of changes in an investment's value.

- **W**

**will** a legal document that distributes a person's assets at death under the supervision of a probate court.

**wraparound mortgage** mortgage that includes the remaining balance on an existing first mortgage plus an additional amount. Full payments on both mortgages are made to the wraparound mortgagee who then forwards the payments on the first mortgage to the first mortgagee.

- **Y**

**yield** also known as return; the dividends or interest paid on a security calculated as a percent of the price paid. In the case of a bond, this figure is known as current return.

- **Z**

**zero-coupon bond** type of bond that is issued at a discount rate and pays no interest to its owner, but the interest automatically compounds within the investment (matures in one to thirty years).