Mind Your Finances

A 4-Part Workbook Designed to Help Improve Your Financial Literacy and Money Management Skills

I'm in charge.

INCHARGE
DEBT SOLUTIONS

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By starting and sticking to your DMP (Debt Management Program), you're demonstrating a commitment to becoming and staying debt free. InCharge Debt Solutions is also committed to helping you achieve this goal. That's why we're offering you this personal finance education program, Mind Your Finances, in addition to our supportive counseling services. This 4-part series is designed to help improve your financial literacy by teaching you important and fundamental financial concepts you can use for the rest of your life. You'll learn about the following topics:

- **Part 1: Know Where Your Money Goes**—includes goal setting, record keeping, and budgeting
- **Part 2: Your Credit Past, Present & Future**—includes understanding your credit report, what affects credit, and how to address credit problems
- **Part 3: Staying Out Of Debt & Managing Your Money**—includes understanding the difference between "good" and "bad" debt, debt traps to avoid, tips for successful money management, and identity theft
- **Part 4: Your Financial Future**—includes savings advice and investing plans & products

Part 1—Know Where Your Money Goes

Section 1.1: Goal Setting
Why is goal setting important?

Getting what you want doesn't always come easy. More often than not, you've got to work hard to achieve the results you desire. Getting out of debt and securing your financial future is no exception. This requires dedication, perseverance, and the know-how to manage your money to the best of your ability.

Still, there's another very helpful but often overlooked way to reach your aspirations. It's a process called goal setting, and for people who achieve what they set out for, it's the one thing most of them have in common. They most likely charted out a long-term plan; mapped out the times, tasks and deadlines along the way; and stuck firmly to their plan in order to achieve their goals. "People never plan to fail; they just fail to plan" (or set goals).

What are goals, and how are they different from pipe dreams?

Consider the scenarios between these two families: the Johnsons and the Smiths.

The Johnsons	The Smiths
hope to get out of debt	will be out of debt by January 2010 based on monthly payments of $600
want to purchase a house	will buy a house by March 2012 with the $10,000 saved as a down payment
wish to eventually send their child to college	will have $14,000 in savings, bonds, and stocks to be applied to tuition by the time their child is 18 years old

So, which family has a stronger foothold on achieving their desired goals? Clearly, the Smiths have a strong game plan with specifically defined tasks and actual timelines and deadlines to obtain their goals. If they work hard and follow their plan, there's a good chance they'll get what they're after.

The Johnsons, on the other hand, have merely pointed out the things they wish for without targeting an action plan to achieve them. Without a plan to stick by, they might find their wishes are little more than pipe dreams or wishful thinking. Sometimes when people write down their goals, they discover that some of the goals are broad and far-reaching, while others may seem smaller in scope. Dare to dream, but be realistic about what you can attain. And because goals can vary so differently, a good idea is to break them down into three separate categories of time. One more thing to remember: Placing a timeframe on your goals really depends on a lot of different factors, so that timeframe can change anytime.

> **The more specific you are about your goals, the better you'll be able to plan to reach them!**

Long-term goals (over 5 years)

Long-term goals are those that won't happen overnight, no matter how hard you work to achieve them. They make take a long time to accomplish, so give yourself a reasonable amount of time, based on your best estimates of what it will take to achieve them. Examples of long-term goals might include college education for a child or purchasing a home. Whatever the case, these goals generally require longer commitments and often more money.

Intermediate-term goals (1-5 years)

Intermediate-term goals are those that can't be executed overnight but might not take many years to accomplish. Examples may include purchasing/replacing a car, getting an education or certification, or paying off your debt (depending on the amount).

Short-term goals (within one year)

Short-term goals generally take under one year to achieve, based on the date the task is needed, the total estimated cost, and required savings.

So, what are your goals? Make up a list, decide which timeline your goal(s) fit into, detail the steps necessary to achieve your goals, then take action toward reaching those goals.

Developing a financial goals chart

Developing a goal chart is your first step in attaining your goals.

1. First, think of and write down on a piece of paper one specific financial goal you have for yourself. Remember, goals should be specific and within your means of achieving them. Goals should also answer who, what, when, where, and why.

2. Then, write down as many ways you can think of to reach that goal. This could include cutting expenses, earning extra money, or finding resources that can help you achieve your goal.

3. Review your methods of reaching your goal and consider their advantages and disadvantages. Decide which ways are best for you and write them down.

4. Decide if your goal is short-term, intermediate-term, or long-term, and give a timeline for that goal. Remember, this can change anytime based on your situation.

5. Determine how much money you need to save to reach your goal and break down that amount by the month and/or year.

Now you know how to get started and what you'll need to do achieve that goal you've set. Here's a sample goal chart you can use as a model:

Goal	Ways to reach	Term	Total Cost	Required Monthly Savings
Get out of debt	Cut expenses Increase income	2 yrs	$7000	$291

Section 1.2: Record keeping

Why is record keeping important?

Good record keeping is a must for achieving your financial goals. Organizing your financial records allows you to easily find and understand them, which in turn lets you maintain control of your money and gives you the best view of your progress on the road to a debt free future.

Use the budget worksheet included in this book to figure out how much money you can put towards your goals each month!

Your first step toward getting your finances on track is to create and use a system for organizing your records. There is no single best way to organize your records, but it is important to develop a system that is comfortable for you. Successful record keeping systems have two features in common: They are logical and thorough.

Logical—Anyone should be able to open the file or drawer where you keep your records and documents and be able to easily find what is needed.

Thorough—Everyone should maintain the same basic financial records:

Important documents: your signed Client Agreement, creditor statements, loan agreements, tax records, birth and marriage certificates, custody agreements, divorce decrees, mortgage or lease contracts, insurance policies, retirement plan documents, life and health insurance policies, and photocopies of everything in your wallet

Bill and installment payments (including your creditor statements and InCharge statements): Check your creditor statements and your InCharge statements to make sure your payments and benefits are being applied. For other bills, keep them together, pay them, and file them away.

Receipts: ATM receipts, gift receipts, medical bills, appliance and equipment receipts and warranties, donations, and paid off debts

Statements: bank statements and cancelled checks

> **If you won't be paying a bill immediately, highlight the due date and amount, and place the bill where you will be certain to see it regularly so you won't forget to pay it!**

Other important items to have on file

Everyone should have these there four essential legal documents with their records:

- Will
- Durable Power of Attorney
- Healthcare Power of Attorney
- Living Will

Proper storage of your important files

A fire-resistant file cabinet is sufficient for most of your records. However, some legal documents should be kept in a safe deposit box at your bank, such as originals of birth certificates, marriage licenses, Social Security cards, divorce decrees, property settlements and custody agreements. If you have a passport, consider keeping it in your safe deposit box if you rarely travel out of the country.

Section 1.3: Budgeting

What is a budget and why do you need one?

A budget is a monthly list of all the money you take in and all the money you pay out, and where it goes. The money you take in is your income, which includes all wages, pensions, benefits and investment income. The money you pay out is your fixed and variable expenses.

Preparing a budget shows you how to gain better control of your money and manage it successfully, allowing you to move closer to your goal of becoming debt free. Once you become aware of how much you take in and pay out each month, you're more likely to see where you can reduce the amount you pay out.

How to create your own personal budget

Step 1: Get organized

Organize your bills, receipts and statements to create a monthly cash flow worksheet. Complete the worksheet for three consecutive months, figure the average per month for each of the categories, and you'll paint a reasonably accurate picture of what you do with your money.

Create your cash flow worksheet by filling in the following:

Income

Total Income	**$**

Expenses

Fixed Expenses (same each month):	$
Federal, state, Social Security tax	$
Mortgage payment or rent	$
Homeowner's or rental insurance	$
Vehicle payment	$
Vehicle insurance	$
Medical insurance	$
Life insurance	$
Debt Management Program payment	$
Education	$
Local telephone	$
Cable TV	$
Internet	$
Public transportation	$
Pet food, accessories	$
Total Fixed Expenses	**$**

Variable Expenses (varies each month):

Child care (nursery, babysitting)	$
Groceries	$
Eating out	$
Entertainment, hobbies, recreation	$
Utilities (electricity or natural gas, water)	$
Home, yard maintenance	$
Long-distance, cell phone	$
Clothing, accessories	$
Gifts, holidays	$
Gasoline, parking fees	$
Vehicle maintenance	$
Vacations	$
Retirement savings	$
Fees (bank, credit card)	$
Personal care (haircuts, cosmetics, dry cleaning)	$
Charities	$
Savings (retirement, emergency)	$
Other (alcohol, tobacco, magazines)	$
Total Variable Expenses	**$**
Total Expenses (Fixed + Variable)	**$**
Net Gain or Loss (Income - Expenses)	**$**

Step 2: Monitor your expenses

Whether you end each month with a gain or a loss, you can always find ways to cut some expenses. To accomplish this, use at least one month to monitor and record what you spend.

Carry a small notebook and write down all your spending- every cup of coffee, tank of gas, ATM fee, haircut and candy bar- every day. You will begin to understand your spending habits and answer the question, "Where does all my money go?"

Step 3: Reduce your expenses

Once you've looked at the past, it's time to learn your lessons and move into the future. Examine your cash flow worksheet and determine which items must remain, which items you can reduce, and which items you can eliminate. An important question to ask yourself as you go through your list is: "Do I need this item, or do I merely want it?"

Of the items you need, which ones can you reduce? For example, if you spend $130 per week on groceries, can you reduce that number to $110 without unreasonable sacrifices?

Speed your financial recovery by putting the money you trim from your expenses into your Debt Management Program payments!

The most important thing to remember about your budget is that it's about more than just listing your income and expenses. It's about finding ways to save money and then doing something about it.

Mind Your Finances: Part 2

Your Credit Past, Present & Future

This second part in the Mind Your Finances series, **Your Credit Past, Present and Future**, deals with credit reports. You'll learn what credit reports are, how to understand them, and how to obtain them. You'll also learn about credit scores and how they are determined. Additionally, this section will help you understand the actions that have the potential to affect your credit, both negatively and positively. It will also show you how to look for potential problems in your credit report, and the steps you can take to fix them.

Section 2.1: Credit reports

Understanding your credit report

Every time you take out a loan, open a credit card account, or buy something on an installment plan, you create a transaction that ends up in your credit report. Banks, mortgage companies, or any businesses offering credit use these reports to see how well you've managed your credit in the past.

So what else is in your credit report? Think of it as a record of your personal credit history. It includes:

- Personal data: Your name, past and present addresses, previous employers, current employers and your Social Security Number (SSN).
- Credit accounts: Information on current and past loans and credit accounts, credit limits, current balances and payment histories. Payment history includes late payments, repossessions, charge-offs and collection activity.
- Public record information: Information on any tax liens, bankruptcies, or legal judgments against you.
- Inquiries: Information about businesses that have requested your credit report within the last 12 months.
- Negative information: To assist you in reading the report, some credit reports may add a section that summarizes all negative information.
- Personal entries: Includes any 100-word statements you have added to your credit report.

Getting your credit reports

You are ultimately responsible for the accuracy of your credit, so it is important that you check yours at least once a year.

All consumers have the governmental right to receive one free copy of their credit report from each of the three main credit reporting agencies—Equifax, TransUnion, and Experian—every year. Get them online at annualcreditreport.com, or by calling toll-free 1-877-322-8228. You are also legally entitled to a free copy of your credit report from any of the three major agencies should you be denied credit by them—but you must make your request within three months. You can also pay to obtain your credit reports from the three agencies on demand. Visit their websites for more information on fees—you'll find links to them at the URL listed above, as well as toll-free access numbers.

What should you be checking on your credit reports?

Here's a list of the main points to review:

- Check the spelling on all names and places—and make sure all the names listed on the report are yours.
- Check all numbers—birth dates, accounts, Social Security—everything. Again, look for numbers that do not belong to you.
- Review and verify all balances, payment histories, and account statuses—and note any seemingly incorrect or suspicious transactions.
- Make sure there is no activity that is the responsibility of a divorced spouse.
- Look for any positive information that is missing that could help improve your credit score, like notations explaining past situations involving debts.
- Look for any negative items that have been on your report longer than the law allows (such as lawsuits, liens, etc.)

What affects credit and credit scores?

The short answer is—more than you think! Read on to find out the many factors that can have a positive or negative effect on your credit.

FACT: Your payment record accounts for 35% of your credit score—that's more than one-third!

FACT: Most credit card issuers raise interest rates when a consumer pays late

> **Make your InCharge payments on time every month so you'll know your creditors are being paid on time. A convenient way to do this is to have them automatically deducted with E-Pay.**

FACT: Late payment fees and over-limit are constantly rising—some are now nearing the $50 range

The most important thing you can do to improve your credit score is to pay all of your bills on time. This is the factor that bears the most weight on your credit rating. If your credit has been negatively affected by late payments, you need to reverse the situation by making every payment on time going forward. Got a bad memory? If you've been late with payments in the past, know this: almost every creditor—including utility companies, phone companies, and insurance companies—has a Web site where you can view your account, sign up for free e-mail reminders that your payment due date is approaching, and pay your bill—even on the day it's due (generally for a fee, which is better than being late).

Why good credit is so crucial to financial fitness

Your credit is connected to so many parts of your life. For example, when you lease an apartment, apply for a job, are considered for a promotion, deal with utility companies, shop for insurance rates, or apply for new credit, your credit is often evaluated as part of these processes. The better your credit, the better off you'll be when potential employers, companies and financial institutions are making their decisions.

The four C's of credit: creditworthiness, collateral, capacity and capital
Lenders focus on four general areas when evaluating credit application. We call them "The four C's of credit."

Creditworthiness: Creditors and other lenders use a combination of qualities to determine your degree of creditworthiness. These include owning your own home, living in your home for several years (even if you are renting), having only a few credit card that are always paid on time, having a low debt-to-income ratio, not having recently applied for other credit, not being at the limit on other credit cards, and having no liens on your home or bankruptcy filings.

Collateral: this is the property you own and pledge to secure the repayment of a loan. It doesn't affect your credit score, but it is important for that particular loan. If you don't repay the loan as agreed, the creditor can seize your property. Loans secured with collateral are known as secured loans. Loans and other credit that do not require the pledge of collateral are called unsecured credit.

Capacity: Capacity refers to the income that you have available to make repayment. Indications of strong financial capacity include holding the same job for several years, having a steady income, and having few other debt payments.

Capital: Capital is a measure of your financial net worth. Questions about assets (like home ownership, savings accounts) and liabilities (like credit limits and balances due on present credit accounts) reveal whether your net worth is sufficient to warrant the granting of credit.

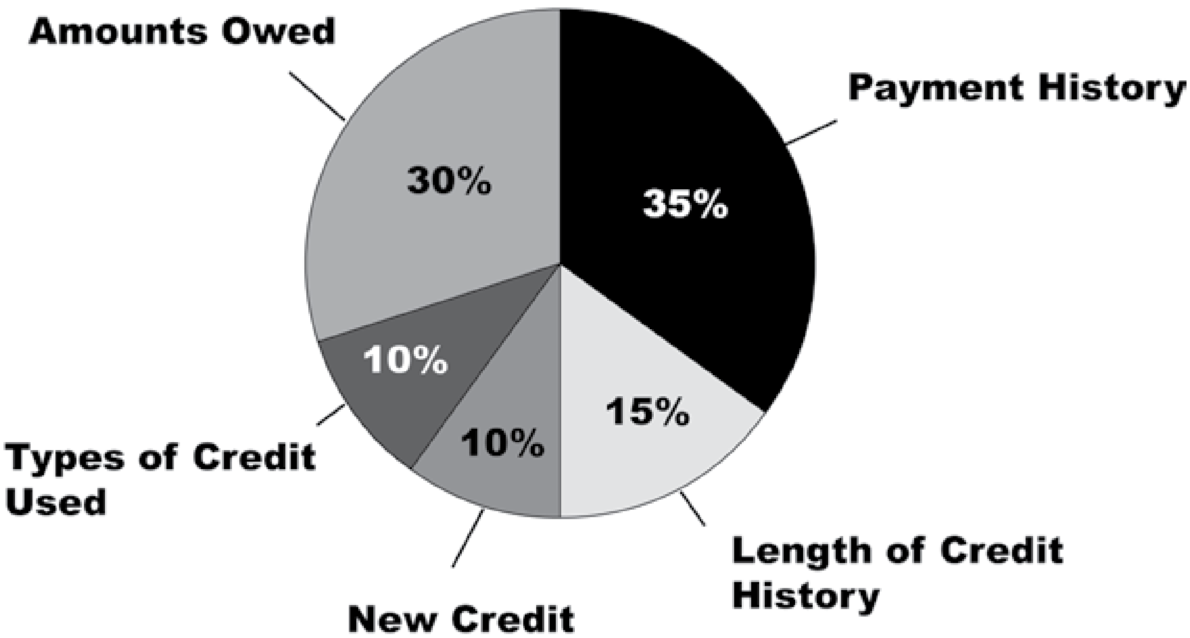
Section 2.2: Credit scores

What is a credit score? Is it the same as a FICO® score?

Your credit score is a number from 300 to 800 that lenders use to help them decide just how "credit worthy" you are. Credit bureau scores are often called "FICO scores" because most credit bureau scores used in the U.S. are produced from software developed by Fair Isaac and Company. FICO scores are provided to lenders by the three major credit reporting agencies: Equifax, Experian and TransUnion.

So what's in your FICO score? FICO Scores are calculated from a lot of different credit data in your credit report. This data can be grouped into five categories as outlined below. The percentages in the chart reflect how important each of the categories is in determining your score.

These percentages are based on the importance of the five categories for the general population. For particular groups—for example, people who have not been using credit long—the importance of these categories may be somewhat different.



1. Payment History

- Account payment information on specific types of accounts (credit cards, retail accounts, installment loans, finance company accounts, mortgage, etc.)
- Presence of adverse public records (bankruptcy, judgments, suits, liens, wage attachments, etc.), collection items, and/or delinquency (past due items)
- Severity of delinquency (how long past due)
- Amount past due on delinquent accounts or collection items
- Time since (recency of) past due items (delinquency), adverse public records (if any), or collection items (if any)
- Number of past due items on file
- Number of accounts paid as agreed

2. Amounts Owed

- Amount owing on accounts
- Amount owing on specific types of accounts
- Lack of a specific type of balance, in some cases
- Number of accounts with balances
- Proportion of credit lines used (proportion of balances to total credit limits on certain types of revolving accounts)
- Proportion of installment loan amounts still owing (proportion of balance to original loan amount on certain types of installment loans)

3. Length of Credit History

- Time since accounts opened
- Time since accounts opened, by specific type of account
- Time since account activity

4. New Credit

- Number of recently opened accounts, and proportion of accounts that are recently opened, by type of account
- Number of recent credit inquiries
- Time since recent account opening(s), by type of account
- Time since credit inquiry(s)
- Re-establishment of positive credit history following past payment problems

5. Types of Credit Used

- Number of (presence, prevalence, and recent information on) various types of accounts (credit cards, retail accounts, installment loans, mortgage, consumer finance accounts, etc.)

Source: myfico.com

Section 2.3: Credit problems & credit repair scams

What should you do if you see an error or anything you don't understand in your credit report?

Credit bureaus keep your credit report on file for prospective lenders to view when making credit decisions about you. But since they don't check for accuracy, mistakes are common. Even a simple mistake can cause you to be denied credit, so it is important to make sure your credit report says the right things about you.

The Fair Credit Reporting Act gives you the right to dispute information on your credit report that is inaccurate or outdated. You may do this by filing a dispute with the credit bureau reporting the information.

The credit bureau must contact the original creditor within five days of receiving your dispute and has 30 days to verify the disputed item. After completing its investigation, the credit bureau must notify you of the results and include an updated copy of your credit report.

If the credit bureau cannot verify the information, within 30 days or if the disputed item is found to be inaccurate, it must be deleted from your credit report.

How to file a credit report dispute

1. Send a letter to the credit bureau. Be very specific about your dispute. Send the letter "certified mail, return receipt requested."

2. Mark your calendar for 30 days. When you get the return receipt, mark your calendar 30 days from the date the credit bureau signed for your letter.

3. Send a demand letter. If the credit bureau does not verify the disputed item within 30 days, ask the bureau to remove the item from your credit report. Include a copy of your original dispute letter and a copy of the return receipt.

4. Mark your calendar for 15 days. Give the credit bureau time to respond to your demand letter.

5. Send a second demand letter. If the credit bureau fails to respond, send another demand letter. Tell the credit bureau that 45 days have passed since you filed your original dispute, and demand that the disputed item be removed from your credit report. Include copies of the original demand letter, return receipt and first demand letter.

6. File your dispute directly with the original creditor. The Fair Credit Reporting Act requires the creditor to verify disputed information within 30 days. Ask for written proof, including account statements, of the negative information. Ask the creditor to remove the item from your credit report if it cannot verify the information.

7. Mark your calendar for 30 days. (See step 2.)

8. Send a demand letter to the original creditor. (See step 3.)

9. Add a 100-word statement to your credit file. If a disputed item is verified and the negative information remains on your credit report, you can add a 100-word statement explaining the item.

10. Seek legal advice. You have the right to sue a credit bureau or creditor that violates the Fair Credit Reporting Act. Filing a lawsuit is time consuming and expensive, so it should be a last resort.

> **Remember to put everything in writing; dispute each item in a separate letter; always include your name, address and Social Security number; and make copies for your files. And be persistent, since several demand letters may be necessary.**

Don't ignore mistakes, thinking that they will be automatically removed. It is up to you to dispute incorrect or outdated information.

Credit repair: Don't get ripped off!

If anyone says they can "fix" or "repair" your credit, watch your wallet!

So-called "credit repair" services sometimes claim they are able to "clean up" a consumer's credit report, erase bad marks from a credit history or create a new credit identity. But there's one problem – it's illegal to make such claims. No one can legally remove negative information from a credit report if it's accurate.

Any company that says it can repair your credit probably is trying to take advantage of you. Credit repair companies can't do anything for you that you can't do yourself.

How to recognize a credit repair scam

Fortunately, there are several ways you can spot credit repair rip-offs:

- They often charge high fees, between $250 and $5,000 up front.
- They typically say that they can offer you a quick fix for your credit problems.
- They use high-pressure sales tactics.
- They claim to be affiliated in some way with the federal government or some government agency.
- They promise to remove evidence of a previous bankruptcy and records of late payments from your credit report.
- They make sensational claims that sound too good to be true.
- They claim that they know loopholes in the law to fix your credit. For example, they claim that if you dispute an item on your report in writing and the creditor does not respond within 30 days, the item must be removed. However, even after the item is removed, the credit bureau can continue to investigate the item and it will go right back onto your credit report if proven valid. Meanwhile, you paid a scam artist to have it "removed."

Credit repair scams were so prevalent that federal legislation called the Credit Repair Organizations Act of 1996 was passed, which states that:

- A credit repair company must give you a written statement detailing the services it will provide and total cost of those services.
- You can cancel a credit repair contract for any reason within three business days of signing.
- A credit repair company is not allowed to take money from you until all of the services in the contract have been provided.

- A credit repair company must not encourage you to alter your identity for credit purposes.
- A credit repair company must not make any misleading statements or engage in deceptive practices.

In spite of the Credit Repair Organizations Act, some shady companies remain in business. One technique they use is known as “file segregation.” Here, the company suggests you get an Employee Identification Number (EIN), also known as a federal tax identification number. These numbers are commonly used to identify business entities. The credit repair company then suggests you use the EIN to apply for credit, so your personal credit report will not be accessed in the application review process. While any person who starts a business may apply for an EIN, it is illegal to do so with the intent to defraud. Don’t put yourself at risk.

So stay away from anyone who says they can “repair” your credit. The real way to clean up your credit is to create a new and improved history through your timely DMP payments and your payments on all utility bills and installment loans. And the best way to stay clean is to pay all your bills on time and avoid excessive debt.

Mind Your Finances: Part 3

Staying Out Of Debt & Managing Your Money

This third part of the Mind Your Finances series, **Staying Out Of Debt & Managing Your Money**, addresses important basics that are vital to achieving financial fitness. You'll learn the difference between "good" and "bad" debt, how to break the debt cycle and avoid debt traps, plus you'll find tips on money management and avoiding identity theft.

Section 3.1: Staying out of debt

"Good" Debt vs. "Bad" Debt: Do You Know The Difference?

You may have heard of this concept already—the idea not all debt is bad. But what exactly does this mean? When is debt good? And what makes other debt bad? Let's examine these two types of debt and examples of each.

Good debt

Good debt helps you gain assets that produce income. For example, if a loan will eventually put you in a better financial position, more than likely it's good debt. Some people believe that never having any debt at all is the best answer, however, this makes it extremely difficult to accumulate wealth and profit.

Some examples of good debt are:

Mortgages—Not only does owning your own home give you a roof over your head, it also gives you the opportunity to build equity. Most mortgage lenders will allow you to put 29 to 41% of your income towards housing. But many consumers, including those with poor credit, have trouble finding a lender willing to give them a loan.

Student loans—Because college graduates earn 73% more than high school graduates over the course of their careers, a higher education basically pays for itself. In fact, advanced degree holders often earn two to three times as much as those who only finished high school. No, college isn't cheap—the average cost for a four-year degree, including tuition, room, and board at a public university, is more than $11,000 a year. But because those with college degree eventually have higher earning potential, any loans needed to pay for education can usually be paid off.

Plus, student loan interest rates are some of the lowest found in all types of loans, and are usually much lower than credit cards.

Bad debt

Bad debt is easy to identify—bad debt monopolizes your cash flow, but doesn't pay you back, because the money has gone to things that lose value. It's also easy to spot because it's everywhere—in fact, many consumers have so much bad debt that it keeps them from being able to get good debt. The Federal Reserve reported that non-mortgage consumer debt reached $2.1 trillion in 2004, which averages about $17,530 per household. Some examples of bad debt include:

Credit cards—For those that carry a balance every month, buying with credit cards means you are paying a higher amount than those items are worth, thanks to the interest, and the items you've bought are almost always things that have no potential to increase in value. Plus, many that carry a balance from month to month only make the minimum payments. Say you had an $8,000 balance on a credit card at 13% interest, and you only made the minimum payment of 2% of your balance each month. Even if you charged nothing else on that card, it would take you more than 30 years to pay it off—and you would have paid more than $9,000 in interest!

Car loans—When consumers buy more car than their budget can afford, the loan becomes bad debt. Most cars depreciate 20% in the first year, then in smaller increments each year after that. Because of this, many car buyers find themselves making loan payments that are actually higher that their cars' are worth—which is know as being "upside-down" on a car loan. This is why is often a better choice to buy a used car instead of a new one.

Battling Bad Debt

So how can you improve your ratio of good to bad debt? Make a plan to pay off your bad debt first—start with credit cards and other high interest loans. By sticking with your plan and making consistent, on-time monthly payments, you'll be paying off your bad debt while showing your creditors how serious you are about improving your credit situation, which in turn can help you qualify for better interest rates on mortgage, auto and credit loans in the future. You'll be setting the stage for financial success—just keep up the good work!

Breaking The Debt Cycle: How to Overcome Bad Spending Habits and Practices

It's a different world than the one our parents grew up in. Chances are, you opened your first credit card account when you were about 18 or 20 years old, while your dad didn't have one until he was closer to age 30. Buying on credit is much more common now than it was a generation ago—and so is being in debt. More and more young people are graduating from college with significant student loans—almost $19,000 on average, according to a 2002 study by student-loan provider Nellie Mae. The average student is also graduating with $3,300 in credit-card debt. Ouch!

But just because you're caught in the debt cycle now doesn't mean you have to stay stuck in it forever. Your spending habits have a huge impact on your amount of debt. And a few positive changes can make all the difference. Here's how to turn bad habits into good ones:

Pay with cash, not credit.

With so many persuasive "zero down!" and "no payments for 18 months!" offers out there, it's tempting to buy now and pay later. The problem is, you really do pay later—usually much more than you planned. Hidden interest rates and fees can add up fast. And paying for things months or even years after you've bought them is a sure way to keep you in debt longer than necessary.

Stop buying on impulse or emotion.

Let's face it, buying stuff is fun. And it can make us feel better, temporarily at least. But purchasing items you don't really need or haven't budgeted for can keep you in the debt trap forever. Treat yourself to the things you want, but do it the smart way: Identify what you want in advance and save up for it, week by week, until you can really afford it.

Avoid cash advances.

Whether it's from a paycheck advance or your credit card company, this "easy money" comes at a huge cost—extremely high interest and fees. Stick to your budget and skip them altogether.

Set a budget to know what you can spend.

It's not rocket science. Just make a list of all the expenses you have each month, total it, and subtract the total from your monthly income (check out www.incharge.org for more budgeting advice and handy calculators). The amount you have left is your "disposable income," meaning the amount you can play with. This should be your source for spending, not credit cards.

Comparison shop.

Shop around before you buy. Use the Internet, the newspaper, the telephone, or even your Aunt Edna. Try Web sites like www.mysimon.com or www.epinions.com to check prices at different retailers. You could save big!

Quit wasting money unnecessarily.

We all have expenses we really don't need. They can be anything: subscriptions to magazines we don't read, late fees on videos or DVDs, unwatched cable channels—anything that we could avoid paying for if we just did something about it. Like the ad says: Just do it. Take the videos back on time. Cancel the unread paper. And save some cash.

**Don't spend more.
Spend smarter.**

Debt Traps—And How To Avoid Them

You know how easily debt can add up—fast.
It is so tempting to buy all of the things we see and want that we find ourselves spending more than we expected. There are also so many types of loans and options that seem like solutions to our debt, but can actually end up making debt worse. Here's a list of five "debt traps," and how to avoid them.

Credit cards—They can be a double-edged sword. While they can be helpful when you're short on cash, they can become a burden if you don't manage your accounts wisely. The fees can be exorbitant: $39 or more if you pay late, $35 or more if you go over your limit. And if you use them for cash advances, the interest can be much higher than your purchase rate—plus, most creditors also charge from two percent to four percent of the amount advanced, with no maximum amount. What to do: Read all credit card agreements closely, and make all payments on time, every time. Better yet, don't use them at all!

Overdraft protection/Bounce protection—This provides for the payment of your checks, up to a specific amount, if you don't have enough funds in the bank at the time. But it's not free. The overdraft fee for a bounced check or over-limit withdrawal can be $35 per incident, regardless of the amount, and some banks also charge a "daily fee" of $10 or more until you repay the overdraft amount. What to do: Make sure you're aware of all the terms and fees before accepting overdraft protection.

Mortgage refinancing—When rates are low, it's tempting to refinance your home. After all, your monthly payments will go down, and you'll get some extra cash, right? Not necessarily. Only people with very high credit qualify for the lowest rates. And even if you qualify for a low rate, there are still costs and other considerations, such as: Do you really want to sign up for another 30 years of mortgage payments? What to do: Before you jump on the re-fi bandwagon, find out what kind of rate you might qualify for, and what costs are involved. It could be a costly mistake.

Payday loans—These loans are basically very expensive credit. You write a personal check to a lender, which includes a fee. The lender holds the check until your next payday, at which point they deposit your check or you chose to pay another fee to extend the loan another two weeks. Let's say you borrow $100, which initially costs you $120. Say you roll the loan over three times (3 x $120). You have now paid $60 to borrow $100—that's an annual percentage rate of 521 percent! What to do: Don't use them, unless absolutely necessary, and never roll them over.

Car title loans—These loans are secured by the title of your car, and the lender decides how much it will loan you for the car, as well as the time period of the loan. Not only can the annual interest on these loans be as much as 264 percent, but you may also lose your car if you're even one day late on a payment! What to do: Again, don't use them unless you are desperate, and always make your payments on time. Pay it off early to avoid the high interest rates.

Section 3.2: Money Management

Ten Tips for Managing Your Money

Let's explore the ten best ways to manage and improve your credit standing. Use this advice both during your DMP and afterwards to maintain your financial fitness and to stay in control of your financial destiny!

Tip #1: Live within your means.
This may sound obvious, but it's extremely important, because living within your means will keep you from having to resort to credit.

Tip # 2: Pay your bills on time.
Every time you pay a bill on time, you build your credit history and put yourself in a better position to obtain credit at lower rates in the future. Pay late and not only will you be faced with fees, but you'll also be hurting your credit standing.

Tip #3: Pay more than the minimum.
Say you have a $2,000 balance, and your minimum monthly payment is about $40. At an 18% interest rate, you'll end up paying nearly $5,000—and it will take more than 30 years! The minimum payment covers mainly just the interest, so the outstanding balance still remains, against which you will be charged interest in the next payment.

Tip #4: Avoid credit card add-on programs.
Many credit card companies offer various services and products to their card holders, like card registration services, insurance, and card loss/theft protection. Most cost money and are unnecessary for the typical consumer.

Tip #5: Don't chase lower rates by transferring balances.
This is a tricky process that involves fees, penalties, and other "catches," and usually ends up costing more than it saves. Balance transfer offers almost always have a low teaser rate that isn't fixed, which usually jumps much higher when the introductory period expires. Plus, there are often fees from both banks involved, meaning you pay twice.

Tip #6: Know the terms of your credit agreement.
If you don't, you'll pay more than you should in penalties. For example, some cards

charge a penalty of 32% for making three late payments within six months, and will increase your interest rate for making two late payments in a year. Some charge an inactivity fee of $15 or more for not using an account within a six-month period. Read the fine print!

Tip #7: Pay off accounts with the highest interest rates first.
When you pay your credit card balance, it's like getting an instant return on your money. So if you have two cards, one with an interest rate of 18% and one with a rate of 24%, and you pay the 24% balance first, you're instantly making an extra 6% on your money!

Tip #8: Don't open new credit too soon.
Don't be surprised if you get multiple offers for new credit. Banks know you may be more likely to "bite," and they want to "hook" you. Shred and throw them away!

Tip #9: Monitor your statements.
InCharge does not receive copies of your creditor statements, so it is up to you to monitor them and report any problems or discrepancies to us immediately.

Tip #10: Monitor your credit reports.
At least once a year, you should get copies of your credit reports and review them for errors. It's your responsibility and you can get them free at www.annualcreditreport.com.

> **Don't let the hard work you've done to get your financial life back on track go to waste. Protect yourself from identity theft —your good name is at stake!**

Identity Theft: Don't Be A Victim

An important part of money management is keeping track of where your money goes—and that includes making sure it doesn't go to the wrong hands. In 2002, the Federal Trade Commission received more than 160,000 identity theft complaints, which accounted for a whopping 43 percent of all consumer complaints that year. Chances are, you've heard of identity theft already. It's when someone assumes your identity and opens bank, credit card or other accounts to commit fraud or theft. But do you know just how widespread the problem is—and what to do if you think you've been a victim? Here are some eye-opening facts about identity theft, and where to turn should it happen to you.

Credit cards are the number one target.

Credit cards are the easiest and most popular ways for identity thieves to get to you. An FTC breakdown of the calls shows that approximately:

- 42% reported credit card fraud, i.e. a credit card account opened in their names or a "takeover" of their existing credit card accounts.
- 22% complained that the identity thief opened up telephone, cellular or other utility services in their name.
- 17% reported that fraudulent checks had been written on their accounts, a checking or savings account had been opened in their names, and/or unauthorized electronic fund transfers occurred.
- 9% reported employment-related fraud.
- 8% reported forged government documents and/or benefits paid out.
- 6% claimed that the identity thief obtained a loan, such as a car loan, in their names.

The thief may be someone you know.

The FTC's 2001 data also shows some telling information about the perpetrators. Although 87 percent of the caller-complainants did not personally know the identity thief, 68 percent provided some identifying information about the thief, such as a name, address or phone number. The remaining 13 percent of the victims reported that they personally knew the suspect. They were either family members, friends, neighbors, roommates or co-workers.

You can fight back.

In addition to its toll-free consumer hotline (1-877-ID-THEFT), the FTC also provides an ID Theft Web site (www.consumer.gov/idtheft) that includes tips on how to guard against identity theft and warns about some of the latest ID theft scams. It's a great resource for those who think they've been victimized. Callers who reach the hotline are advised to file a police report with their local law enforcement agency.

Mind Your Finances: Part 4
Your Financial Future

This fourth and final part of the Mind Your Finances series, **Your Financial Future**, addresses the importance of establishing a savings and investing plan, and explains why the sooner you start, the better off you'll be. You'll learn how interest is calculated, the types of financial institutions and the differences between each, the difference between short- and long-term saving, plus you'll find important advice on how to save for your retirement.

Section 4.1: Saving and Investing: Why, How and Where?
The Key To Meeting Your Goals: Saving And Investing
Saving and investing are the best ways to achieve your financial goals because of the concept known as the "time value of money."

When you save money in an interest-bearing account at the bank, your money grows. You are keeping those dollars for future use and earning additional income through interest on the dollars you are saving.

There are two types of interest:
Simple interest is calculated on the beginning principal. For example, if you receive 2% on $1,000, in one year you will earn $20, for a total of $1,020. The following year, you will earn another $20, for a total of $1,040, and so on.

$1,000 INVESTMENT	2% Simple Interest	2% Compound Interest
After year 1	$1,020.00	$1,020.00
After year 2	$1,040.00	$1,040.40
After year 3	$1,060.00	$1,061.21
After year 4	$1,080.00	$1,082.43
After year 5	$1,100.00	$1,104.08

Compound interest is earned on both the beginning principal and the interest you have already earned in your account. In other words, you earn interest on your interest, "compounding" what you have in your bank account.

Take a look at the difference between simple interest and compound interest. Here's a hypothetical example of a $1,000 Investment:

It makes sense, then, that the sooner you start saving, the more money you will have for your long-term goals, such as retirement or paying for your child's college expenses.

The Four Types of Financial Institutions

1. Banks
2. Credit Unions
3. Savings and Loans
4. Investment Companies and Brokerage Firms

Though there may be a bank on the corner of your street, it's not necessarily the best place to put your money. Educate yourself on your options before you make a decision.

How are they similar?

They all have some sort of saving account or plan, and they also have a variety of investment products

How are they different?

They differ in:

- Their services
- Fees and penalties
- Ease with which you can access your money
- Online access availability
- Hours of operation
- Free checking (or any checking for that matter)

Exploring the differences between financial institutions

Banks:

For—profit companies whose objective is to make money for their shareholders.

Upside: $100,000 of your savings in any bank is insured by the Federal Deposit Insurance Corporation (FDIC), so you are guaranteed this amount no matter what else may happen.

Downside: Lots of fees, and very low interest on savings and checking accounts. Service is often impersonal.

> **Smaller, community banks tend to be similar to credit unions and can be a good alternative if you're not eligible to join a credit union.**

Credit Unions

Non-profit associations of individuals and their families who share a common bond. The credit union pools the deposits of member-owners and invests them and also lends them to member-owners.

Upside: Low fees and loan costs, and high interest rates. Deposits are insured by the National Credit Union Share Insurance Fund up to $100,000.

Downside: Not everyone is eligible, although in recent years, as more and more credit unions have been established, it has become easier for many consumers to find a credit union with which they meet membership criteria. The Internet is a great tool in helping find a credit union you are eligible to join.

Savings and Loans (S&Ls)

For-profit institutions that have many of the savings products your local bank has, and many of the services as well.

Upside: The FDIC will insure your deposit account up to $100,000.

Downside: Your area or neighborhood may not have many S&L branches unless you live in a larger city. Service may be impersonal.

Investment companies

For-profit companies that offer some banking services.

Upside: The interest is higher than you would get from a bank. The Securities

Investors Protection Corporation (SIPC) insures up to $100,000 in cash.

Downside: Their services are usually only available in conjunction with investment products such as stocks, bonds, and mutual funds.

Which financial institution is best for you?

Which institution you choose to do business with depends on what you want from that institution. What are your priorities? Some common desired options include:

- Few and low fees
- A good amount of ATMs in your work, school and home areas
- Free checking
- Free online banking
- Friendly staff who take time to get to know their customers personally

If high interest is your priority, go to www.bankrate.com (a free and helpful consumer website) for a free list of banks currently paying the highest rates.

Once you decide your priorities, visit different financial opportunities in your area and talk to their representatives about your needs.

Short-Term vs. Long-Term Saving

When your financial goals are short-term (within one year) or mid-term (one to five years), your priority should be to (1) trim your expenses as much as you can, and (2) deposit that extra money into some kind of savings account that is "safe," where you won't lose the amount you deposited. Examples of "safe" savings products:

- "NOW" (negotiable order of withdrawal) checking account. An interest-bearing checking account
- Savings account. Pays low interest, perhaps 1-2%
- Money market accounts. A hybrid checking and savings account. Pays low interest. Limited check-writing privileges.

- Certificate of deposit (CD). Purchased for a specific period of time at a specific interest rate. The longer the term, the higher the interest.
- U.S. Savings Bonds, Series EE. Bought for half its face value, so a $100 bond costs $50. Yields about 3%. Interest exempt from state and local taxes.
- Other bonds maturing within five years.

For long-term goals (more than five years), saving is a bit more complex. Inflation is one reason. If inflation is at 3% and your savings account pays 1%, obviously you are not getting ahead.

That means you will need to make investments that tend to beat inflation over time, such as stocks, mutual funds, long-term bonds, real estate or precious metals.

But whenever you have an opportunity to earn much more than the typical savings rate, you also run the risk of losing your principal. In other words, the greater the potential reward, the greater the potential risk.

If you can't afford to lose any of the money you are saving – if you can't replace it tomorrow – you should put your money in safer investments.

Section 4.2: Three Reasons to Save: College, Emergencies and Retirement

Tips for creating a college savings fund

When saving for an important goal such as your child's college education, it's best to try and do two things: start as early as possible and take advantage of opportunities to save on taxes.
Let's explore the two main types of college savings plans available:

The Coverdell Education Savings Account (formerly called Education IRA). This is similar to a retirement IRA—you put money into an account and invest it so it grows. Later, the money is used to cover expenses for your child's education.

You can make a contribution of up to $2,000 per year. The money grows tax-free, and neither the contribution nor the interest is taxed when you make a withdrawal, as long as you use it for education purposes.

One big advantage of the Coverdell account is that it can be used for grades K-12, as well as college education and beyond (up until your child is 30 years old). The money can be used for tuition to any private elementary, middle or high school, including those with a religious affiliation.

> **To calculate how much your child's education is likely to cost, go to http://www.mindyourfinances.com/calculators/college-savings.**

However, any money you invest in a Coverdell account is considered an asset of your child's, which could hurt him or her when the time comes to apply for financial aid. According to financial aid formulas, which vary widely from school to school, assets of the student are counted against financial need at a much higher rate than parents' assets. As there are numerous rules, it would be wise to read the account requirements thoroughly.

College Savings Trust Funds/529 Saving Plans. These are state-sponsored investment programs offered in all 50 states, to be used solely for college expenses. Again, the idea is that you put money in an account and invest it so it grows enough to meet the cost of the future education.

> **To find out the details of your state's 529 Saving and Prepaid-Tuition Plans, visit www.savingforcollege.com.**

Advantages of a 529 Plan include:

- Anyone can contribute to the account
- The investment earnings grow tax-free
- Investments offered are age-based, which makes investment selection easier
- Distributions, which must be used for qualified college expenses, are also tax-free
- If the child decides not to attend college, the account can be rolled over to another family member
- Unused money can be withdrawn without triggering a penalty
- The Prepaid-Tuition 529 Plan, another type of 529 Plan, guarantees that the return on the money saved in the account will match the average increase in tuition at state-run colleges. You are basically locking in today's tuition rates with either a lump-sum purchase or monthly installments

Why and how to save for emergencies

It can be hard to convince people to save for emergencies. Unless you have experienced an emergency, such as a major health expense, the loss of a job, the death or divorce of a spouse, or a natural disaster, you may not realize just how imperative having emergency savings can be. Don't wait to learn the hard way—unless you've already done so, start your emergency savings account today with these tips:

Pay yourself first. If you allocate money to your emergency saving account as soon as you get paid—before you pay your bills or spend anything—you are more likely to achieve your goal. Consider creating an recurring withdrawal from every paycheck, facilitated automatically by your bank or credit union, so you don't have to remember to put the money into savings manually. You'll find that if you never "see" the money, you won't miss it.

Make sure your savings account is "liquid". "Liquidity" refers to how quickly an asset can be converted into cash. For example, your house is not considered a liquid asset, because it could take months to sell and many variables are involved. On the other hand, your checking account is liquid, as you can get out what you put in almost instantaneously.

Only use your emergency funds for true emergencies. If you find yourself using emergency funds for other reasons, move the emergency funds to separate account, perhaps even at a different bank or financial institution, and don't carry the ATM card or checkbook associated with the account. Make it harder to access these funds and you won't be as tempted to do so.

Places to build your emergency fund:

- Checking accounts
- Savings accounts
- Money market deposit accounts (MMDAs)
- Money market funds
- Certificates of deposits (CDs) with short-term maturities

The importance of saving and investing for your retirement

Saving and investing for retirement is a long-term goal of just about every working person in America. Unless you win the lottery, creating a comfortable retirement does not happen by accident or luck. It takes planning, discipline and time. Start right now. Check out these statistics:

$2,000 compounding at 7% for 20 years = $7,739
$2,000 compounding at 7% for 30 years = $15,224
$2,000 compounding at 7% for 40 years = $29,949

Notice that the longer you wait to start saving, the less time you will benefit from the effects of compound interest. If you are in your 20s, you should save 12-15% of your gross income per year to ensure a comfortable retirement. But if you have reached your 30s or 40s, you will need to save 20-25% per year to end up with the same amount of money. So, if you haven't started saving, begin with your next paycheck. You can't afford not to!

Contribute as much as you can to employer-sponsored plans. If the company you work for offers a 401(k) plan, a 403(b) plan, a pension plan or any other tax-sheltered plan (meaning you contribute to it with pre-tax dollars), you should fund it with the maximum amount allowable each year. This is especially important for plans where the employer matches the contributions of its employees – it's like free money! When investing in your company retirement plan, remember to diversify your holdings. Protect yourself by making sure not to put all your eggs in one basket.

Do not withdraw funds from a tax-sheltered plan except for emergencies. When you withdraw funds, you are taking a "distribution." And if you take a distribution before the plan allows (usually at age 59 1/2), you will have to pay a sizable tax penalty to the government.

If your employer does not offer a retirement plan, start one for yourself. IRAs (Individual Retirement Accounts) are traditional retirement savings accounts where your contributions are tax-deductible and you pay taxes at the time of distribution. In a Roth IRA, your contributions are taxable but your distributions are tax-free. With both types of IRAs, the maximum allowable contribution for 2006 is $4,000 unless you are older than 50; then it is $5,000.

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