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Your Guide to a Healthier Financial Future

Rising costs for food, gasoline, health care and other everyday necessities mean it's more important than ever to take charge of your money by budgeting, managing your credit cards and debt, and having a savings plan in place for longer-term goals like college or retirement.

Basics of Budgeting

Without a plan for financial success, it is difficult to know which decisions are the right ones to make. Creating and sticking to a budget will provide you with a clearer financial picture and give you a better sense of control over your money.

The Value of Budgeting

Creating and living within a budget is not as complicated as one might think. In fact, it will simplify your life. Instead of worrying about living beyond your means, you will be in control of your spending and saving decisions.

To create a budget that will work, you must follow a simple rule: you cannot spend more than you earn over an extended period of time. Some kinds of debt are unavoidable, such as owing $100,000 for a home mortgage loan. These debts are managed through monthly payments over a known period of time. Creating a budget will help you avoid the kinds of debt that keep you from realizing your long-term financial dreams.

The goals of creating a budget are to:

- Make your debts and expenses manageable
- Reduce debt as quickly as possible
- Have income which exceeds expenditures, thus allowing for savings
- Help you change negative spending habits

To achieve these goals, it may be necessary to increase your earnings by working overtime or taking a second job. However, most people find it easier to control their spending. Abiding by a budget plan is a useful technique for doing this.

Getting Started

To get started on your budget, you will need your paycheck stubs, bank and investment statements, bills and credit card statements, receipts, paper and a pen (you can also use the budget worksheet below). Ultimately, you can follow your preference of an annual, biannual, quarterly, monthly or per-paycheck budget. However, it's easier to begin by estimating monthly income and expenses to get an accurate sense of how much you are earning and how much you are spending over a reasonable period of time. Here are the steps involved:

1. Estimate your take-home pay by looking at the net (after tax) amount on your paycheck stubs. It is easy to be fooled into thinking you have more money than you do by looking at your gross income. Take-home pay is the only pay that counts. Bank statements may also be useful to measure such non-wage income as interest, dividends, etc. Be sure to include alimony and child-support monies.
2. Calculate your expenditures. Identify all of your typical expenses, and list categories for each, such as mortgage payments, car loans, transportation costs, utilities, child and elder care costs, food and clothing bills, education expenses, medical bills, car repairs, retirement savings, religious contributions, entertainment purchases, miscellaneous expenses, etc. It is easy to track certain categories, such as utility bills and loans, but it may be more difficult to determine exactly what is spent on entertainment, gifts and other out-of-pocket purchases, especially if you lack receipts.

3. Subtract all expenditures from revenues. If you have a surplus, aim to save as much of it as possible. If you have a deficit, you need to cut certain expenditures. In the end, your budget must be in balance. Experts recommend setting a goal of saving at least 10 percent of your earnings and having at least three months' income set aside for emergencies.

Tips for Living Within Your Budget

Focus on savings versus spending. Rethink your priorities. Put off buying unnecessary items today, and dedicate that money toward a future dream purchase. See if you can top how much you have saved each month. Also:

- Make wise cuts. Evaluate your expenditures by listing them in order of priority, and determine which purchases can be eliminated or reduced. Rethink big-ticket items like home remodeling to make sure they are really necessary and that you get the best return on your investment.
- Document every transaction. Create a system to file and organize your revenues and expenditures. Consider buying a ledger sheet to record these transactions. Set up a filing system using plastic trays, a hanging-file cabinet or paper envelopes. File all receipts and bill stubs in different categories as you process them. Also, keep your checkbook register up to date.
- Computerize your efforts. Consider buying a financial-management program such as Quicken or Microsoft Money, which can help you log every transaction, track savings and expenditures easily and balance your accounts electronically through your bank.
- Monitor your budget on a monthly or weekly basis. Check the budget regularly to see if you are on track and to keep you motivated. Compare the amounts spent to the amounts budgeted, and adjust your spending habits accordingly. Pay special attention to the entertainment category.
- Predetermine your withdrawals. Before going to the bank or cash machine, know exactly how much money you are going to withdraw. Make this money last a designated period of time. Write checks to yourself for different expenditures, and try to stay within those amounts.
- Pay off your credit card balance each month. When using credit cards, make an entry in your financial or checkbook register for each individual charge the day the charge is made. This will prevent charge card bills from catching you by surprise without adequate cash in your bank account to cover them.
- Be a team player. Confide in your partner, and have your partner follow these procedures as well. Once you have created a budget worksheet to properly deal with your financial situation, you will enjoy greater peace of mind knowing exactly how you have spent your money. Staying within your budget may not be easy at times, but with the right discipline and commitment, you should be able to stay on course and achieve your future financial dreams.

Creating a Budget Worksheet

It is important to monitor your budget on an annual, monthly or per-paycheck basis. Here is a sample of a monthly budget worksheet:

A. Revenues:

Take-home pay $________

Spouse take-home pay $________

Interest $________

Alimony/child support $________

Other $________

Total revenues: A = $________

B. Expenditures:

Rent or mortgage (including property taxes) $________

Automobile loan payment $________

Other loans $________

Home & auto insurance $________

Home & auto maintenance $________

Transportation costs $________

Health care $________

Education $________

Utilities (natural gas,electric, water,
waste management, phone, cable, Internet) $________

Food $________

Clothing $________

Child care $________

Elder care $________

Gifts $________

Retirement savings $________

Other savings $________

Religious payments $________

Charitable contributions $________

Subscriptions $________

Memberships/clubs $________

Entertainment $________

Vacations $________

Pocket money $________

Other $________

Total expenditures: B = $________

C. Net surplus or deficit (A minus B) $________

Tips for Saving and Spending

Are you a saver or a spender? How you handle money now can have dramatic results later on in life. Use this information to guide you through making changes to your spending and saving habits.

Steps You Can Take

1. If you have a retirement plan through your employer, fund it to the maximum amount. The saying "There is no such thing as a free lunch" is not true when it comes to most retirement plans. By contributing as much as you can, you are collecting "free money" in several ways. Because your contributions are deducted from your gross income, you are saving a significant amount by contributing to your plan before taxes are taken out of your check. Your money grows tax-deferred, meaning that you pay no taxes on any interest or appreciation while your money grows until you actually withdraw the funds many years from now. If your employer matches your contributions, as many do, you are missing a golden opportunity if you do not contribute the maximum your employer will match. With the employer match and compounding interest (earning interest on your interest), over a lifetime your fund can grow to several times what you contributed.
2. When you receive your annual pay raise, divert at least one-third of it to an increase in your retirement fund or savings plan. An increase of a few percent can disappear easily into your monthly budget after taxes are taken out. If you earmark part of your raise each year toward your savings plan, it can make a significant difference over your working lifetime.
3. When you select your retirement or investment options, make sure you factor in the risks of being too cautious as well as too aggressive. By leaving money in a safe but low-interest account, you run the risk that your investment will barely beat inflation over time. On the other hand, you do not want to be overly aggressive if you may need those funds in the next few years. Normal market fluctuations can mean that if you need your money during a downturn, you might be forced to take a loss on your investment because you cannot wait for the market to rebound.
4. Remember that even if you are reaching retirement age, you most likely are still investing for the long term. A healthy person in his or her sixties today has a reasonably good chance of living for another 15 to 20 years. Plan your spending and investing accordingly.
5. Consider long-term care insurance carefully. Medicare does not pay for long-term care. While it is true that Medicaid pays for the majority of long-term care for the elderly in nursing homes, in order to become eligible you first need to spend all of your assets until you are impoverished. When considering long-term care insurance, remember the Rule of Thirds. This divides potential candidates into three groups. The top group includes those who have such significant assets they can likely pay for their own care for several years and have a good deal left over. The bottom group includes those with so few assets that the cost of insurance to protect them outweighs the benefits of what they are trying to protect (remember that the majority of long-term care policies are cancelled because of an inability to keep up with the premiums). The middle group includes those who have assets significant enough to warrant the cost of the insurance, but not so large that they can comfortably self-insure. If you are in this group, consider

purchasing long-term care insurance while you are healthy and in your middle years when the premiums are more reasonable. Read the fine print, and avoid policies that exclude illnesses like dementia, the primary reason long-term care is needed.

6. Carry the right amount and types of insurance. Make sure you have adequate health, disability and life insurance to maintain your family's standard of living should you die or become disabled.
7. Only insure against those catastrophes you cannot afford to endure financially. Go for the higher deductibles on your auto-collision insurance, for example, but carry adequate liability insurance on your car and home. Avoid insuring against a particular disease or catastrophe, like cancer or a commercial-airline crash. Life insurance is basically a bet between you and the company about whether you will die sooner rather than later. One of you will end up being right, but no one can predict exactly how or when you will die.

Understanding Investments

The world of stocks, bonds, mutual funds and other investments often can seem complicated to the amateur investor. However, if you take the time to read up on the subject, ask questions and observe how markets and investment vehicles perform, you can become a quick learner.

Get educated on the terminology, and learn about different strategies and options before investing money. The more you know, the more in control and confident you will feel.

The Basic Laws of Investing

The reason people invest money is to make it grow. However, investing almost always carries risk: the risk that you could lose principal (the initial amount of money you have invested) or the risk that your investment will not keep pace with the rate of inflation. This can erode your future purchasing power.

Keep in mind that, generally, the more risk you take, the greater your potential for reward. Investing is usually most rewarding when done over a longer period of time. While many people invest for the short term to capitalize on a hot performing security (a stock, bond or other investment vehicle) and earn quick money, many others invest for the long term, for goals such as funding a child's tuition or saving for retirement.

Over the years, they build investment portfolios (a group of various investment vehicles) that helps lessen their risk of losing money through diversification, by spreading out their investments across a broad range of securities.

Investment Strategies

Investing for the long term means riding out the waves in the market.

There may be times when the value of one or more of your investments drops. Hopefully, the value will rise again and your money will continue to grow.

If your investment continues to perform poorly over an extended period of time, you may want to sell it and invest your money in a different vehicle. Your investment strategy, goals and tolerance for risk may change as the years pass. Therefore, it is important to know how your investments are performing.

Contributing regularly and patiently to your investments over the years can make your money grow substantially, due to compounded returns over time. For this reason, it is important to start investing early for retirement and long-term goals.

Because of the uncertainties involved, it is important to determine the level of risk you are willing to take before investing your money. Therefore, you should determine what type of investor you are:

1. **Conservative.** You do not want to risk any of your principal. Safer, fixed-rate investments such as certificates of deposit and savings accounts may be more appropriate for you.
2. **Moderate.** You do not mind taking on some risk, but you would like to balance it with conservative investment choices. A mix of aggressive, moderate and conservative stocks and securities may be more appropriate for you.

3. **Aggressive.** You can tolerate a high degree of risk and volatility in the stock markets. This approach is best suited for those who are ready to invest for the long haul. Higher-risk vehicles such as technology stocks, futures and junk bonds may be more appropriate for you.

If you are investing for the long term, experts recommend creating an investment portfolio that features a diversity of investment vehicles: a combination of different high-, moderate- and low-risk investments.

You thus can offset significant losses by an aggressive-risk vehicle with gains earned through other investments in your portfolio. You also should consider your age when choosing among investment risk types: many financial planners encourage investors in their 20s and early 30s to invest more in higher risk vehicles, which can reap a relatively high rate of return (typically 10 to 15 percent) over the long span of years until their goals are met.

People in their 50s, however, may wish to buy into more low- to moderate-risk investment vehicles; they have less time until retirement and thus less time to recoup any losses sometimes incurred by more aggressive investments.

Types of Investments

You either can invest in a more conservative vehicle with a fixed rate of return (that has a set rate of interest or earnings) or a more aggressive vehicle that fluctuates with the stock market and offers a variable rate of return.

The types of fixed-return investment vehicles include:

- **Savings accounts.** Offered by banks, these safe investments have relatively low rates of return.
- **Certificates of deposit (CDs).** You agree to keep your money in a CD account offered by a bank for a fixed period of time in exchange for a slightly higher rate of return than a savings account.
- **Money-market accounts.** These are offered through banks like savings accounts, but have slightly higher rates of return; These may require a high initial deposit and a limited number of withdrawals.
- **Fixed annuities.** These accounts are offered by insurance companies and earn a set rate of interest over a fixed rate of time. This provides a greater security of principal and less risk, but also less potential for high returns on your money.

The types of variable-return investment vehicles include:

- **Stocks.** A stock is a share, or part ownership, in a company. Common stock allows you to attend company meetings and vote. Preferred stock typically allows you to receive guaranteed fixed dividends (cash returns paid on the stock based on its performance), but not additional benefits if the company experiences growth. You can buy stocks through brokerage firms or through companies themselves.
- **Bonds.** These allow you to “loan” your money to an issuer (either the government or a company) in exchange for paid interest. Though bond issuers possibly can default, experts often deem bonds safer than stocks because bondholders are paid before stockholders in the event a company becomes insolvent. If you hold the bond until maturity, you are guaranteed to receive the full principal plus a fixed rate of interest.

In general, as interest and inflation rates go up, the value of bonds go down. Bond terms vary from a few months up to 30 years. Most bonds can be purchased at banks or brokerage firms.

- **Mutual funds.** This is a type of investment, managed by a corporation, that puts the monies of shareholders into a diversified variety of stocks, bonds and other securities. The funds invested by each shareholder are pooled together to create a greater potential for a larger return. Mutual funds provide a simple, cost-effective way to create your own portfolio of diversified investments that match your individual financial goals. You can purchase mutual funds directly through the fund company or via a bank, brokerage firm or other financial institution.
- **Variable annuities.** These vehicles, sold through insurance companies, allow your investment money to grow at a variable rate of interest by putting your funds into a range of investment vehicles, including stocks, bonds and money-market funds.
- **Real estate.** Buying a family home can be the largest investment you ever make. Some investors put their money into other kinds of property, including land developments, apartments, commercial construction ventures and more.
- **Retirement vehicles.** You may be able to invest money for your retirement in a 401(k) or IRA plan. Eligible investment choices for either plan usually include mutual funds, stocks, bonds, annuities or CDs.
- **401(k) plans.** These allow your contributions to be tax deductible and your earnings to accumulate tax-free. Your employer also may contribute matching funds as a percentage of your salary (e.g., your employer matches 50 percent of your contributions up to three percent of your salary).
- **Individual Retirement Accounts (IRAs).** Contributions are tax deductible and earnings accumulate tax-free. Withdrawals are taxed at ordinary income rates in the year of withdrawal.

Consider talking to a financial expert before making a major financial decision that involves risk.

Saving for Retirement

The thought of not having to work and living the relaxed life of a retiree is a pleasant one. However, planning for your retirement requires setting effective strategies early, especially when it comes to saving money. You can help ensure future comfort and peace of mind by exploring all of your investment options and disciplining yourself to save now.

The Importance of Starting Early

It is difficult to determine exactly how much money you will need at retirement. Some experts recommend saving 80 percent of your current annual income for every year you plan to spend in retirement. Other financial planners recommend investing at least five percent to 10 percent of your annual earnings toward retirement.

However, one thing is certain: the earlier you begin to invest, the better chance you have of accumulating enough money to live the way you want when it is time to retire. Thanks to compounded earnings that grow over the years, your invested money can work hard for you, provided that you put your dollars into the right kinds of investment vehicles long before retirement.

To demonstrate how important it is to start saving early, consider that investing only $100 a month at an eight percent rate of return starting at age 35 can net you more than $149,000 if you retire at age 65.

However, if you wait until age 55, $100 a month at eight percent would earn you only around $18,295 by retirement age.

How to Invest

The way you invest your money for retirement is a very personal decision.

It is important to realize that any type of investment carries risk, either the risk that you could lose money or the risk that your money will not grow at a rate great enough to keep pace with the rate of inflation.

Some investment vehicles are riskier than others. You may not have the patience or the tolerance to put your money into higher risk investments, which can fluctuate widely in value.

Conversely, conservative, low-risk investments like certificates of deposit may frustrate you with their lower rates of return.

Experts recommend creating an investment portfolio that features a diversity of investment vehicles: a combination of different high-risk, moderate-risk and low-risk investments.

Significant losses by an aggressive-risk vehicle can thus be offset by gains earned by other investments in your portfolio. Age also should be considered when choosing among investment-risk types.

Many financial planners encourage younger retirement investors (e.g., ages 20 to 35) to invest more in higher-risk vehicles, which can reap a relatively high rate of return (e.g., 10 to 15 percent) over the long span of years until they retire.

People in their 50s, however, may wish to buy into more low- to moderate-risk investment vehicles, being that they have fewer years until they retire and thus less time to recoup any losses incurred by more aggressive investments.

There are many types of investment vehicles to choose from, including:

- **Savings accounts.** A safe investment protected up to $250,000 by the FDIC, but with a relatively low rate of return (often less than one percent)
- **Certificates of deposit.** Protected like savings accounts, but at only a slightly higher fixed rate (e.g., two percent over three years).
- **Money-market accounts.** Same benefits as above and a slightly higher return rate, but usually with more restrictions.
- **Bonds.** An investment that allows you to "loan" money to the government or a corporation for a set number of years in exchange for paid interest.
- **Stocks.** A riskier but potentially more rewarding investment that allows you to buy shares (partial ownership) in a company.
- **Mutual funds.** Each fund is a diversified pool of investments (e.g., stocks, bonds, cash, etc.) supervised by professional fund managers. Each fund varies in risk from low to high.

Investment Plans

- **Traditional IRAs.** Many people opt to invest their retirement savings in traditional Individual Retirement Accounts (IRAs). The maximum contribution is the lesser of $5,000 or the amount of earned income. You may make a tax deductible contribution to an IRA if you are not an active participant in an employer-sponsored plan. If you are in an employer-sponsored plan, you may still contribute to an IRA. However, if your income exceeds $58,000 ($92,000 for married couples filing jointly), phase-outs apply. Contributions are tax deductible and earnings accumulate tax-free. Withdrawals are taxed at ordinary income rates in the year of withdrawal.
- **SIMPLE IRAs.** A SIMPLE (Savings Incentive Match Plan for Employees) IRA is offered to workers of tax-exempt companies or governmental employers that have no more than 100 employees earning at least $5,000 a year. You may contribute up to $11,500 a year and your employer can match those contributions up to certain amounts.
- **Spousal IRAs.** If you are covered by a qualified retirement plan, you may be able to contribute to your spouse's IRA and deduct your contribution if your combined adjusted gross income does not exceed $173,000. Other restrictions apply.
- **Roth IRAs.** These vehicles are popular because they allow you to receive tax-free earnings if certain conditions are met. The maximum contribution is $5,000. Anyone with adjusted annual gross income of less than $120,000 ($173,000 for married couples filing jointly) may contribute. The initial contribution has no tax effect. Withdrawals made after reaching age 59½ are tax-free if the IRA has been in existence for over five years. A traditional IRA can be converted to a Roth IRA. The amounts converted are taxable at ordinary income rates, although no penalties apply.
- **Employer-sponsored 401(k) plans.** If your employer offers one, experts recommend joining a 401(k) plan, which allows your contributions to be tax deductible and your earnings to accumulate tax-free. Your employer may also contribute matching funds as a percentage of your salary (e.g., your employer matches 50 percent of your contributions up to three percent of your salary). The maximum contribution is the lesser of 15 percent of earned income, $17,000 per year or limits stated in the plan. The

employer's plan will state the eligibility requirements to join the plan. To participate, you usually must be over age 18, a full-time employee and have been employed a designated period of time not to exceed one year. Withdrawals after age 59½ are taxed at ordinary income rates in the year of withdrawal.

- **SIMPLE 401(k) plans.** A SIMPLE (Savings Incentive Match Plan for Employees) 401(k) works like a SIMPLE IRA in that it allows employers with no more than 100 employees earning a minimum of $5,000 for the preceding year to offer tax-deferred retirement-savings vehicles to workers. You can contribute up to $11,500 a year, and your employer usually is required to match these monies up to certain levels.
- **403(b) plans.** These work like 401(k) plans, but are only offered to employees of public education systems, charitable organizations, not-for-profit hospitals and certain other institutions.
- **Annuities.** Money put into a deferred annuity is taxable, but the earnings are tax-deferred for individuals until payouts begin at retirement. Choose from either a fixed (set initial interest rate) or variable (fluctuating earnings) annuity vehicle. Banks and other financial institutions offer annuity options.

Whatever investment vehicles and plans you choose, be sure to research them well and compare return rates and benefits among other options.

Monitor the performances of investments closely, and do not be afraid to move your money into better performing vehicles. Also, avoid dipping into your retirement savings early, which will incur taxes and possible penalties.

Getting Out of Debt

It is difficult to enjoy life without building some kind of debt. For most people, it would be impossible to have a home, automobile and education without taking out loans. However, it is important to know how to use credit responsibly and to have a plan for eliminating your debts within a reasonable time period.

The average consumer has three or four credit cards and an average of over $15,000 in credit card debt, according to the Federal Reserve.

Lack of immediate disposable income requires many of us to charge purchases on credit cards. Experts recommend not owing more than 20 percent of your gross income on credit cards and not exceeding 50 percent of your gross income for your total card credit lines, yet many Americans exceed these recommended limits.

Today it has become too easy to pull out a plastic card or sign up for long-term financing and thus put off our worries until the bills arrive in the mail. With many credit card companies charging an annual percentage rate of 18 percent or higher, it would be nearly impossible to get out of debt if you only paid the minimum balance on your charge accounts.

Breaking the cycle of perpetual debt requires a change in habits and a disciplined, committed approach. Here are three proven ways you can eliminate your debt:

1. Focus on saving over spending. Saving involves not only belt-tightening measures like cutting back on expenses, but investing wisely in vehicles with dependable and high returns, such as mutual funds, stocks, money market accounts and bonds.
2. Work on increasing your income.
3. Eliminate your consumer debt as soon as possible. Don't cut into emergency funds or take out loans to pay off other loans, however. Experts recommend spending no more than 20 percent of your monthly take-home pay on consumer debt (i.e., installment loans such as credit card balances and car loans).

Tips for Reducing Debt

- Develop a budget savings plan.
- Keep track of all expenses. Monitor where your money goes to become a more disciplined saver.
- Make adjustments to your lifestyle. Bring lunches from home to work. Cut back on eating out. Work on quitting a smoking habit.
- Pay off the balance on the loan with the highest rate first. Do not make equal payments on all cards or try paying off the biggest balance first. Aim initially to pay the card with the highest rate in full while concurrently paying the minimum on all other cards. Then, tackle the balance on the card with the next highest rate, and so on.
- Stop using your charge cards. Until you have paid off your entire debt, use plastic only in an emergency. Never use a card that does not offer a grace period.
- Always pay something. Ignoring your monthly minimums can ruin your credit history and subject you to penalty fees, harassing phone calls from collection agencies and possible lawsuits. However, avoid paying only the minimum on charge-card balances.

- Lower your credit card rates. Ask the card issuer to lower the fee. Tell them you are considering switching cards unless they give you a better rate. Otherwise, open a new lower-rate charge card that allows you to transfer your higher-interest card balances without incurring a fee. Also, consider opening up a card with a credit union, which typically offers the lowest rates.
- Eliminate all unnecessary credit cards. Do not just cut them up; be sure to call or write the creditors to cancel them properly. Frequently switching cards and having too many cards, open lines of credit and outstanding balances may negatively affect your credit report and limit your ability to qualify for better rates.
- Consider a secured or debit card. If your credit record is poor, apply for a secured card, which is linked to collateral money in your bank account that is used as a line of credit. Debit cards take money directly out of your checking account to make you a more responsible spender.
- Review your property-tax assessment. If you feel it is too high, you have the right to appeal the assessment.
- Consider refinancing your mortgage loan if rates drop and you know you will be in your dwelling for at least two years.
- Consider filing bankruptcy. If you are in dire financial straits, talk to a lawyer about filing for Chapter 7 or Chapter 13. Once you do so, an automatic stay legally prevents all creditors from bothering you with collections.
- Get help. Enlist the services of a lawyer or financial counselor. Try contacting the National Foundation for Credit Counseling (NFCC), a nonprofit group that can negotiate lower monthly payments with your creditors, at www.nfcc.org.

Erasing Bad Credit

Getting out of debt may be the biggest step you take toward financial freedom, but it is not always the last step. You may also need to improve your credit rating. Follow these steps:

1. Request a copy of your credit report from one of the big three American credit-reporting companies (Equifax, Experian and TransUnion). The Fair Credit Reporting Act requires that each of the three provide you with a free copy of your credit report, at your request, once every 12 months. Do not contact the three nationwide consumer reporting companies individually. They are providing free annual credit reports only through www.annualcreditreport.com, and Annual Credit Report Request Service, P.O. Box 105283, Atlanta, GA 30348-5283.
2. Review the reports carefully for errors. Be aware that items indicating poor credit and bankruptcy filings can legally remain on your report for seven and 10 years, respectively.
3. Dispute any inaccuracies. Send a short letter to the credit agency. The law allows you to attach a 100-word statement to your credit report explaining any special circumstances affecting a delinquent or unpaid account.
4. Establish a new, healthy credit history. Open up a savings account and a secured credit card. Make a few reasonable purchases, and pay off the entire balance immediately. A proven track record of consistent employment also can help repair your credit.

By eliminating your debt and repairing your credit history you will have the freedom to control your financial affairs. Make saving money a fun game, and try to avoid making impulse purchases and not keeping track of how you spend your money.

Consolidating Your Debt

It is often difficult to keep track of monthly payments owed to mortgage lenders, credit card firms and other creditors. Consolidating these debts into one monthly payment can make life a lot easier and less stressful and helps save money.

Though it is unlikely, you may be able to reduce the actual amount owed by calling the NFCC. They may be able to negotiate lower monthly payments with your creditors. However, it may be possible to originate one new loan and pay off all other existing debt. The best option is typically to refinance your home mortgage or take out a home-equity line of credit. The interest rate on this type of debt is generally a lot lower than that on credit cards or car loans. In addition, the interest paid is a tax-deductible expense. If your residence has appreciated in value, it may be possible to obtain a larger loan, thus allowing you to pay off other debts. You must exercise great care, however, to not undertake a mortgage loan that your income cannot support, as failure to repay it could result in foreclosure and loss of your home.

Other possible sources of funds to pay off a wide array of debts include 401(k) plan loans, life-insurance cash values, or loans from company credit unions or local banks.

Paying for College

With college tuition fees rising at about six percent annually, many people need help financing their children's higher education costs. Create a college savings strategy now and get educated on your funding options.

According to a study by Sallie Mae, America's largest source of higher education funds, parents of high school students applying for college had saved less than 50 percent of what they needed to cover expected expenses; one in five had not saved anything at all.

With tuition costs expected to continue rising faster than the rate of inflation, it is easy to become overwhelmed by the prospect of saving for college. This is why it is extremely important to begin saving as early as possible. By developing a savings plan, investing wisely and contributing regularly to this college fund, your money can grow over the years and hopefully outpace the rising rate of college tuition. Do not rely on your savings and investments to pay for all of your child's college costs, however; you will probably still need to apply for other sources of funding, too.

Knowing how much you will need to save is difficult to determine, and will depend on your income and assets. Ask yourself these questions:

- How many years do I have to save before college?
- How much can I afford to contribute regularly?
- How much risk am I willing to take with investments?

You and your child will need to apply for financial aid by filing a FAFSA (Free Application for Federal Student Aid) form and PROFILE (required for many private colleges) form as early as possible during your child's senior year of high school. By the following spring, you should get a response indicating how much financial aid your child may receive and an estimate of your expected family contribution. It is not until this time that you will truly know exactly what you will be expected to pay, but you can still plan ahead. Continue to save as much as possible toward college and prepare for the possibility that your child will receive little to no financial aid.

Sources of Funding

Depending on eligibility, you should draw from a variety of sources to help finance college costs, including:

- **Investments.** While many students are able to receive grants, scholarships and other free monies, personal savings fund a great portion of college tuition costs. By putting your money into investment vehicles, from low-yield options such as certificates of deposit, money-market accounts and bonds to higher-yielding choices like mutual funds and stocks, you can earn interest that compounds over time, or higher yields on reinvested dividends. If you are eligible, you can even shield your investment savings from taxes in special education IRAs.
- **Prepaid tuition programs.** Many states offer tuition account plans in which families are allowed to prepay for future tuition costs, lock in the tuition at current rates and avoid state and local taxes. These plans work like any other investment vehicle, except that they do not carry as much risk and may not yield as high a return on your money as mutual funds or stocks might.

- **Scholarships.** Scholarships are usually awarded to deserving students based on academic or athletic achievement, ethnicity, special talents, religious affiliation or hobbies. Check with your child's high school guidance counselor, your employer, church and local community organizations for information on available scholarships. Apply for as many as possible.
- **Grants.** The majority of grants (that, like scholarships, do not have to be repaid) are given by the government, both on the federal and state levels. There are two common types: the Pell Grant ($5,550 maximum annual award) and the Federal Supplemental Educational Opportunity Grant ($4,000 maximum), both of which are awarded primarily based on financial need. Other grant sources are merit-based, such as the State Student Incentive Grant. As with scholarships, most grants are limited in their funds and are usually awarded on a first come, first served basis.
- **Work-study programs.** Usually sponsored by the college or the federal government, work-study jobs allow college students to earn money during the academic year by working in designated part-time positions on or around campus. Some of these jobs even allow your child to study and complete schoolwork while on the clock.
- **Loans.** Chances are that you or your child will need to take out loans to help pay for college. You can apply for loans through the federal government and/or a private lending institution. Most colleges participate in the Federal Family Education Loan Program (in which you choose a private lender) or the Federal Direct Student Loan Program (in which the federal government is your lender).
- **Military programs.** Branches of the military, including the Army, Air Force, Marines, Navy and Coast Guard, offer special programs that help pay for college if your child signs up for a set period of service. Other options include the Reserve Officers' Training Corps (ROTC) and special service academies, which award scholarships for service.

Savings Tips

There is a lot to think about when it comes to devising a savings plan for college. Consider these suggestions:

- Talk to a professional. An experienced financial planner can offer expert advice and help you create a savings strategy suitable for your needs.
- Start now and stay disciplined. Do not waste another day; begin saving as much money as you can now and contribute regular, set amounts to this college fund.
- Think carefully about who is named on the investments. What if your child decides to skip college or spend your hard-earned college savings irresponsibly? Just in case, you may want to have your name on the stocks, funds, bonds and other investment vehicles.
- Avoid using funds earmarked for your retirement as a way to pay for college. Remember that your child has many more years to pay back loans than you do.
- Be prepared for change. Tax laws and financial aid criteria will probably change. Your child may not even want to attend the college to which you have been prepaying tuition.
- Consider colleges carefully. A state school will probably be a lot cheaper (especially if it is closer to home), yet may offer an education equal in quality to many private colleges. Talk with your child about the possibility of attending community college for the first year or two and then transferring to a four-year school.

- Reduce profits, income and distributions in the year before applying for aid. Selling stocks and securities for a profit, increasing your take-home pay and taking lump-sum distributions during this period can put you in a less needy, higher-income bracket when you apply for financial aid.
- Have your child file taxes as "independent." Claiming himself or herself as independent on tax returns and financial aid application forms can boost his or her chances of receiving more aid.

Additional Information

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