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financial monitor

The Financial Compass
Providing Financial Direction

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# Take Time for a Credit Checkup

The Fair Credit Reporting Act of 1970 has stood the test of time, and the Consumer Credit Reporting Reform Act has provided additional protection to the American consumer. Take time to understand the credit reporting system and monitor the "health" of your own credit profile. It will be time well spent.

Credit bureaus collect objective financial data for use by bankers, retailers, credit card issuers, and landlords. In a typical file, data is provided by creditors and gleaned from public records. It includes tax liens, bankruptcy information, outstanding loans, and details of credit card history, including the credit limit on each card, purchases, balances, and payment record.

Most individuals never give a thought to the financial paperwork and personal history that are accumulating in the files of consumer reporting agencies. The Fair Credit Reporting Act of 1970 provides some control over the harm third-party reports can do. Specifically, consumers have the right to request and to be told what is in their files, and inaccurate information must be corrected or deleted.

Many consumers strive to live within their means and take great pride in paying their bills on time. When they apply for credit, such as a mortgage, however, they may discover some shocking news: Their credit report contains errors that prohibit them from obtaining the credit they need. Typical errors that appear in a credit report include the following:

- Mistakes involving your name and a similar name
- Inclusion of someone else's credit problems in your file
- Incorrect balances on current credit accounts

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# Control Your Runaway Expenses and Still Have Fun

In the ever-changing game of life, expenses are a constant. For most of us, the prices of everyday goods and services seem to have risen more than our income. In some cases, it may be more than costs that have risen; it may be that our consumption has grown, as well. If you are looking for ways to manage both rising expenses and increasing consumption, while maintaining a tighter budget, consider the following suggestions:

## The Roof Above and the Utilities Within

- If you are in the market for a new home, shop around for the best rates available for your mortgage and any equity loans. Also, make sure you are deducting every allowable penny under current Internal Revenue Service (IRS) rules.
- Review your home heating fuel consumption for the last 12–24 months (or as long as you have owned/rented the property) and plan a budget that reflects current prices. Check to see if your utility companies offer a program that spreads out your annual energy costs into equal payments to help keep your bills steady year round. Lower fuel prices should not lead to slacking on insulation and conservation. Check your home's insulation, and trim another degree off the thermostat to help save on your next bill.
- Check your local electric and water departments for free conservation programs and tips. Expect their rates to continue rising, and adjust your lifestyle accordingly. When using air conditioning, remember to adjust the thermostat.
- Telephone service has added multiple enhancements over the past few years. Are you really using all the services you're paying for? Additionally, cell phone bills can become exorbitantly high if overages or roaming rates apply. Review your phone use periodically to be sure you're using your services effectively.

## Shopping Sprees

- Going to the grocery store? Make a shopping list, get a store card for specials, clip coupons, and grab a supermarket circular for weekly deals. This can reduce your weekly food bill by up to 20%. Also, consider joining a warehouse club and buying in bulk.
- Clothing prices may seem sky high, but you have the power to bring them down to earth by remembering one fact: The "name" on the garment does not mean that the clothing will wear any better or last any longer than the "no-name" variety.

## Health and Fiscal Fitness

- A regular fitness program can lead to better health and fewer visits to the doctor or chiropractor. In many cases, the sidewalk outside your home will work just as well as the fitness club down the street. Also, talk to your doctor about ways to incorporate more activity into your daily routine.
- If your doctor agrees, choose "generic" medications and look for pharmacies that offer reduced rates. The same store may even offer reduced prices on prescription eyewear.

## Pizzas and DVDs

- The "necessity" of cable television is a wonder of the modern age, and the cost seems to be ever rising. Assess your cable usage to see if all those "must-have" channels are really necessary. It may be time to return to fewer channels and more trips to the library.
- The cost of an afternoon or evening at the movies is another increasing expense. Enjoy Friday nights at home with the family making pizzas and watching DVDs. Family game nights are another economical option!
- A meal out at a restaurant is not always a luxury. There are times when busy schedules make eating out a necessity. But restaurant dining does not need to have a luxury price tag. "Two-for-one" specials and "kids eat free" offers are more common than ever before.
- All the "little" expenses—banking fees, subscriptions, personal care, lottery tickets, and such—can creep up gradually to create a new "Godzilla" ready to devour the best-laid spending plans. Analyze all of them and see which are truly necessities.
- The final budget-busting monster of the modern age is the credit card, with its associated annual fees and finance charges. High interest, long-term credit card debt is expensive, so develop a "pay-off" plan to strategically lower this costly burden until you're debt free.

We may not be able to control rising prices, but we are not powerless either. If you have fallen prey to runaway spending and increased consumption, you are not alone. Develop a budget today to help rein in those runaway expenses for a more comfortable and secure future.

# Building Your Child's Financial Foundation

It is important to begin as early as possible to help your child understand the power of money and the responsibilities that accompany it. By gradually introducing your child to money matters, you provide the opportunity to deal with money directly. Here are some things you can do to help build your child's financial foundation:

- Have your child go with you when you cash your paycheck, make regular deposits to your savings account, or go grocery shopping. Also, teach your child how to prioritize purchase decisions and put money away for a future goal.
- Allow your child to handle his or her allowance in his or her own way. However, in order to teach fiscal discipline, it is important that you keep the allowance on a set schedule.
- Provide opportunities for your child to earn extra cash for special events or personal wishes, and provide regular opportunities to save.

By giving your child the tools to manage money *now*, you are building financial skills for the *future*.

## take time for a credit checkup

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- Closed accounts listed as current
- Accounts of ex-spouses still listed with yours
- An inaccurate Social Security number

Those who question the reliability of such evidence are allowed by Federal law to obtain one free credit report per year from each of the three major credit reporting companies: TransUnion, Equifax, and Experian. For the vigilant consumer, the major credit reporting bureaus offer programs that provide individuals with ongoing access to their files for a small fee, although this is probably only necessary for the most active credit seekers. For more information on the credit services offered by these companies, you may contact them directly:

Equifax, Inc.
800-685-1111
www.equifax.com

Experian
888-EXPERIAN
www.experian.com

TransUnion
877-322-8228
www.transunion.com

If you discover that your credit report jeopardized credit or loan approval, you have the right to know the "nature and substance" of the information at no cost. The denying creditor must disclose which company prepared the report, including its address. Should there be incorrect information, the agency must reinvestigate and then confirm, correct, or delete the information accordingly. Even if the reinvestigation proves the information to be accurate, brief explanations of extenuating circumstances can be added. Lists of those who have received files within the past six months, or within the past two years if for employment purposes, are also available to the consumer.

Should corrections be necessary, all of the requesting parties can be sent an updated version by the reporting agency. It is important to note that if you find a discrepancy in your report with one bureau, making the correction with that *one* doesn't correct them *all*, since each agency has its own independent database.

Protecting your credit history is a necessity since a good record can help you secure the money you need to meet your financial goals. With identity theft on the rise, it is more important than ever to remain vigilant about your personal credit report. Taking the time for periodic checkups can go a long way toward helping to protect your good name.

# Strengthen Your Ability against Disability

Of course, you value your assets. But how much do you spend to protect them? Most of us have automobile insurance, homeowners insurance, and possibly, additional coverage for particularly valuable items or collections. While your assets may be worth a great deal, their liquidity and *income-producing* value may be negligible.

Your true wealth, and perhaps your greatest asset, is your *ability to earn an income*. Your income pays for all of your living expenses including housing, transportation, food, clothing, and recreation. Your income also pays for property insurance and premiums on **liability** and **life insurance** policies. A closer look at your monthly expenditures will likely reveal other expenses.

## What If…?

What if your income suddenly ceased? How would you pay your expenses? While no one likes to consider the possibility of becoming disabled through an illness or accident, the risk of disability *does* exist and should be given full consideration as you plan for your financial security.

Should you suffer a disability, you need to know how you will continue to meet your financial needs and obligations. Would you have sufficient funds to support yourself and your loved ones during a six-month period of disability? How might such a situation affect your ability to borrow money? How quickly could you liquidate a portion of your assets to provide needed cash? Perhaps your spouse could provide the necessary income to support your family, but the combined responsibilities of spouse, parent, caregiver, and breadwinner can be overwhelming.

**Social Security** will most likely not replace all of your lost wages should you suffer a serious illness or accident. In addition, you must

meet very specific criteria to qualify for Social Security disability benefits, and it may be months before payments begin.

Alternative sources of income may, at best, be limited. Therefore, you need a dependable source of income. That's the bottom line. If you lose your ability to earn an income, you jeopardize your future financial security.

## Know Your Options

Some employers offer **group disability income insurance coverage**. However, most group plans have an upper limit or "cap" on the benefit amount. Consequently, the percentage of pre-disability income covered under a group plan may be insufficient to help meet your needs. Moreover, since only base salary is covered in many plans, income in the form of pension and profit-sharing contributions may be left unprotected in the event of disability. Also, with a group plan, you are not the owner of the policy, which leaves your coverage vulnerable to termination should you change employers. Finally, if the benefits are provided under an employer-paid group plan, they are taxed as ordinary income, which further reduces the actual amount available to cover your living expenses.

One solution to these limitations may be to *supplement* your group disability income insurance plan with a disability policy that *you* own and is tailored to meet *your* needs. An ***individual* disability income insurance policy** can help close the gap between your pre-disability level of income and the benefits provided under your group plan. In some cases, pension contributions may be included as insurable income. If premium payments are made with after-tax dollars, which is usually the case, the disability benefits would be free of income taxes, further enhancing the value of the received benefits.

While no one likes to ponder the what-ifs in life, you should consider how to protect your greatest asset: your ability to earn an income. An individual disability income insurance policy can help provide the financial security you need should you be faced with a major accident or long-term illness.

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