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Financial Strategies: Preparing for Your Future

Developing a financial plan is similar to planning a vacation. First, you need to tend to the mundane details. Whether you're visiting a tropical island or a country bed and breakfast, imagining the experiences you'll enjoy can be exciting. However, along with such pleasantries comes the added work of shopping for hotel accommodations and plane fares, as well as preparing your itinerary. While these tasks may be tedious, the time spent planning is well worth the effort once you're enjoying your vacation.

Developing a financial strategy is a similar process. First, you must determine where you're going and how you can get there. Otherwise, you may encounter problems or even get financially "lost" along the way. However, with a financial compass in hand, you may feel more confident that you are headed in the right direction. You may also be better able to adjust to changing circumstances and to implement a contingency plan, should the need arise.

Taking a Closer Look

While there are many facets to financial planning, each is equally important to the overall success of your strategy. Depending on your age, goals, and financial resources, your approach will vary over time. Let's take a closer look at some main areas of focus:

Personal Finances. Planning your day-to-day finances is an important first step in money management. Without a handle on your daily spending, you may not have the resources to meet your long-term financial goals. Develop a budget and stick to it to make sure you are not spending more than you are earning. Once you feel confident about your short-term finances, you can begin to consider your long-term goals.

Personal Savings. Another building block of your financial strategy is your ability to save. Undoubtedly, if you are able to save diligently, you may increase your chances for meeting realistic personal goals. Whether you are saving to buy a home, start a business, fund a child's education, or enjoy your own retirement, putting money aside on a regular basis is an important step toward preparing for your future.

Insurance Protection. Without adequate life and disability income insurance coverage, how would your family maintain their standard of

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Checking Your Credit Reports for Identity Theft

Identity theft is a serious crime against the American consumer, with as many as 9 million individuals affected annually, according to the Federal Trade Commission (FTC, 2010). As part of a protection strategy, the FTC and other consumer credit organizations suggest a proactive approach to safeguarding your identity: monitoring your **credit reports**.

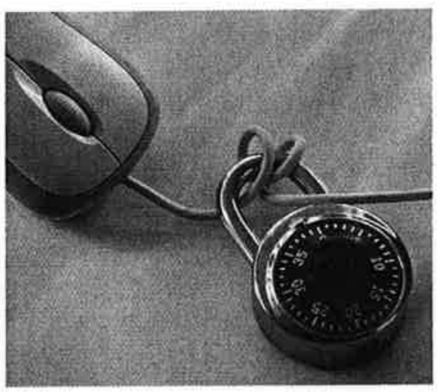
A credit report is an accumulation of information about your bills and loans, your repayment history, your available credit, and your outstanding debts. These reports are typically used by lenders when deciding whether or not to accept a loan or credit application. In terms of identity theft, your credit reports can alert you to accounts that have been fraudulently opened in your name, unauthorized charges made to your existing accounts, and other crimes committed by someone using your personal information.

According to the **Fair Credit Reporting Act (FCRA)**, you can request a free copy of your credit reports from each of the three major credit bureaus (Equifax, Experian, and TransUnion) once a year. For your convenience, you can access all three agencies through the website www.annualcreditreport.com. The FTC suggests that you order all three reports, even if you choose to stagger your report requests throughout the calendar year, as the information may differ from each bureau. This is because credit reporting is done on a voluntary basis. Consequently, creditors may subscribe and report information to just one agency, or all three.

Reviewing Your Reports

Once you have a copy of your credit report, it is important to understand its layout and the information in each section. Typically, a credit report is divided into four major sections: identifying information, credit history, public records, and inquiries.

The **identifying information** on your report will include your name, current (and previous) address, Social Security number, driver's license number, telephone number, birth date, current and previous employers, and your spouse's name, if applicable.



The **credit history** section details your payment history with banks, retail stores, finance companies, mortgage companies, and others who have given you credit. Each account, sometimes called a trade line, will appear with the following information: name of creditor, account number, type of credit (i.e., installment loan or revolving credit), account participation (e.g., joint owner, individual account, or authorized user), date opened, last activity (date of last payment or charge), high credit (the credit limit or original loan amount), terms (number of installments or amount of monthly payments), balance at the time of reporting, past due balance at the time of reporting, status of the account (open, closed, inactive, etc.), and date of last report. It is in this section that accounts opened or affected by identity thieves may become apparent.

The **public records** section includes documents that reflect your history of meeting financial obligations, such as bankruptcies, collection accounts, judgments, and tax liens. Since public records can have a serious, negative effect on your credit, ensure that the information belongs to you, not someone who falsely used your personal information.

Finally, the **inquiry** section lists all the businesses that have received your credit report during the last 24 months. Inquiries are categorized as hard or soft. Hard inquires are those you initiate by filing a credit or loan application. Soft inquiries often come from marketers who want to sell you something. If you don't recognize a listed business, be sure to find out the nature of the business and why they are looking at your credit report.

Mistake or Identity Theft?

If you find a mistake on your credit report, it is important to contact the credit bureau that issued the report using the form provided or by following the instructions given by that particular agency. If the error is serious, and you suspect that your identity has been stolen, contact the FTC's Identity Theft Hotline at 1-877-IDTHEFT (877-438-4338). Be sure to keep detailed documentation of all communications with creditors, agencies, and the FTC.

Help safeguard your identity by continually monitoring your credit reports. For more information about identity theft, visit the FTC's website at www.ftc.gov. ■

To Rent or Buy: Evaluating the Costs of Home Ownership

The decision to buy or rent a home is generally based on three factors: cost, investment, and personal preference. Initially, home ownership may be more expensive than renting, due to the upfront costs associated with buying a home, such as closing costs and a down payment. But in the long run, homeowners may build equity and save on taxes.

Homeowners may qualify for tax savings by deducting mortgage interest and property taxes, which may represent considerable savings in regions where property taxes are high. While renters miss out on these tax savings, they generally need less cash on hand for emergency repairs or general maintenance, which can be expensive for today's homeowner. Renting also offers more flexibility for those who anticipate relocating for work or other reasons.

The following calculations may help you decide whether to buy or rent:

1. Investigate the purchase price and financing terms for the type of house or condominium you wish to purchase in your target location. Be sure to include the down payment, closing costs, and any points.

2. Estimate your gross monthly costs as a homeowner, including utilities, maintenance, and repairs.

3. Calculate your net monthly outlay. This is computed by taking into consideration any tax savings you may receive by deducting mortgage interest and property taxes.

4. Project what the proceeds would be after selling the property in five, ten, or twenty years.

5. Calculate your total rent for the same period.

6. And last, compare the two sets of figures. What would your financial results be if you saved the money you would spend on a down payment, closing costs, and points (assuming a reasonable growth rate)? What is the difference between your rent and the "net outlay" as a homeowner?

While the above method offers a rough comparison, you also need to determine all of the other nonfinancial advantages that home or condominium ownership provides. Analyzing your short- and long-term goals can help you determine whether renting or owning best suits your lifestyle and your financial situation. ■

Is Your Student Budget-Wise?

We all know that "time flies." You may now find your child has taken his or her first step on the journey toward independence: college. The checklists were checked, boxes and bags were filled to the brim, and cautionary words about life away from home have all been spoken. However, one area that many overlook—but that every student should master—is personal money management.

Typically, students do most of their day-to-day spending on a spontaneous basis; this means that overspending is the norm, rather than the exception. During a school year, the average college or university student will spend nearly $4,000 for books, supplies, transportation, and personal expenses while at school (*Trends in College Pricing 2010*, The College Board). However, there is often room for economizing, and the first place to look is food and entertainment, especially if pizza is ordered regularly at 1AM, and the latest tech devices are just a mouse click away.

Sooner or later, a discussion about living arrangements may arise. While many students think that it costs less to live off campus than in a dorm, they may be wrong. In college towns with high demand for off-campus housing, accommodations within walking distance of the campus can be expensive. Some landlords may require a one-year lease—a period longer than the school year—so subleasing privileges need to be part of an "economical" lease. If a student does choose to live off-campus, he or she can save money by sharing housing and doing his or her own cooking.

There are steps you can take to help your student understand the financial picture. Consider the following:

- Before your child leaves for college, sit down and discuss expectations, both your child's and yours.
- Explain when checks or money transfers can be expected, the amount that will be received, and any rules concerning use of the funds.
- Consider providing a lump sum each semester, with guidelines on *how long* the money must last,

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and allow your child the freedom to make day-to-day financial decisions.

Whether students rely on parental subsidy, use their own money, or combine funds, most have savings and checking accounts. Therefore, it is important for them to know how these accounts work. Their ability to balance an account and spot any errors is of utmost importance.

Many undergraduates keep their checking accounts in hometown financial institutions. However, managing financial affairs long-distance can create challenges. Verifying a balance quickly with an out-of-state bank can be difficult and time-consuming. In addition, trying to get money to college students in different locations can be frustrating. Even with the convenience of online banking, it may be a good idea to open a smaller account on campus.

While some parents may hesitate to promote the use of credit cards, especially for a student who has difficulty managing money, others may believe a credit card can help provide a useful backup, especially in an emergency. A credit card can be helpful for car rentals, plane fares, and train tickets.

Ideally, college students should take full responsibility for each semester's spending. Life can become easier for parents whose college-age children can manage their own finances, and students can learn valuable life skills in the process. ■

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living should you die unexpectedly or sustain a disability? To protect your family's future, address insurance considerations with your professional advisors.

College Funding. Education is often the key to future success. However, the average price tag for one year at a private college or university continues to climb. Therefore, it has become more challenging to save for a child's education or to fund your own continuing education. The sooner you start, the longer your savings have to work for you.

Retirement Income. The retirement landscape has dramatically changed over the years. Today, individuals have a longer life expectancy; the future of government programs, such as Social Security, is uncertain; and retirement plan funding responsibilities have generally shifted from employ*ers* to employ*ees*. In addition, taxes and inflation can gradually erode savings. Therefore, retirement assets need to work harder to meet retirement funding objectives.

The many retirement savings vehicles, such as employer-sponsored plans and Individual Retirement Accounts (IRAs), have created an unprecedented variety of savings options. Along with this variety comes a vast amount of financial information that requires careful consideration when establishing your long-term financial goals.

Estate Preservation. Transferring assets to future generations with minimal tax liability is an important goal for many individuals. There are tools that may help you achieve your desired results, such as trusts and wills. However, the complex nature of such estate conservation strategies often requires a team of trusted advisors, including an attorney and tax professional, to help ensure that your plans are consistent with your goals.

Preparing for the future is a complex process that involves research and careful consideration of both your short- and long-term goals. By identifying your goals and assessing your situation *now*, you may be one step closer to implementing a financial strategy that best suits your situation. ■