



Work-Life Services Newsletter

Financial Planning

April 2011



Financial Planning: Why You Need It

Would you get in the car and drive for hundreds or even thousands of miles without knowing where you were going? With no destination in mind, how will you ever know if you've arrived?

Many of us deal with our finances in the same unplanned way. We think, wrongly, that financial planning is only for people who have lots of money to put away. But financial planning is a map of your spending and saving, regardless of your income. It's an overview of where you are now, what your destination is and what you'll have to do in order to reach it. By understanding the benefits of planning and establishing financial priorities, you can gain control of the money trip.

Benefits of Planning

By knowing exactly what your current financial picture is, you are more in control and better able to plan for immediate expenditures, as well as those long-term. Your "wish list" will become reachable goals and your future will be more secure. By taking control of your finances, you'll know what you need, how much you need and when you will need it.

Try not to assume that you'll be able to retire comfortably, or that others will take care of you financially. Layoff, illness or other catastrophes can leave you with nothing to fall back on. With planning, you'll be less susceptible to financial ruin.

Establish Priorities

Financial planning helps you establish priorities. When you determine your financial priorities, you'll find it easier to say "no" to your own spending. You'll be more likely to know where your money is going and less likely to spend it without thinking. More importantly, you'll know that you're building a brighter and more secure future by beginning your financial plan today.



Avoiding Financial Trouble: Ten Tips

These simple suggestions will help you stay out of financial hot water.

1. Create a realistic budget and stick to it.

This means periodically checking it and readjusting your figures and spending habits.

2. Don't impulse buy.

When you see something you hadn't planned to buy, don't purchase it on the spot. Go home and think it over. It's less likely you'll return to the store and buy it.

3. Avoid sales.

Buying a \$500 item on sale for \$400 isn't a \$100 savings if you didn't need the item to begin with. It's spending \$400 unnecessarily.

4. Get medical insurance if at all possible.

Even a stopgap policy with a large deductible can help if a medical crisis comes up. You can't avoid medical emergencies, but living without medical insurance is an invitation to financial ruin.

5. Charge items only if you can afford to pay for them now.

If you don't currently have the cash, don't charge based on future income -- sometimes future income doesn't materialize. An alternative is to toss all of your credit cards in a drawer (or in the garbage) and to commit to living without credit for a while.

6. Avoid large rent or house payments.

Obligate yourself only for what you can now afford and increase your mortgage payments only as your income increases. Consider refinancing your house if your payments are unwieldy.

7. Avoid cosigning or guaranteeing a loan for someone.

Your signature obligates you as if you were the primary borrower. You can't be sure that the other person will pay.

8. Avoid joint obligations with people who have questionable spending habits -- even a spouse or significant other.

If you incur a joint debt, you're probably liable for it all if the other person defaults.

9. Don't make high-risk investments, such as investments in speculative real estate, penny stocks and junk bonds.

Invest conservatively, opting for certificates of deposit, money market funds and government bonds.

10. Find alternatives to spending money.

For a friend's birthday, take her on a picnic rather than to an expensive restaurant. When someone suggests that you meet for lunch, propose meeting at the museum on its free day or going for a walk in the park. Instead of buying books and CDs and renting videos, borrow them for free at a library.

Dealing with Debt by the Federal Trade Commission

Are you having trouble paying your bills? Are you getting dunning notices from creditors? Are your accounts being turned over to debt collectors? Are you worried about losing your home or your car?

You're not alone. Many people face financial crises at some time in their lives. Whether the crisis is caused by personal or family illness, the loss of a job, or simple overspending, it can seem overwhelming. But your financial situation doesn't have to go from bad to worse.

Consider these options:

- Realistic budgeting
- Credit counseling from a reputable organization
- Debt consolidation
- Bankruptcy



How do you know which will work best for you? It depends on your level of debt, your level of discipline and your prospects for the future.

Developing a Budget

The first step toward taking control of your financial situation is to do a realistic assessment of how much money comes in and how much money you spend. Start by listing your income from all sources. Then, list your "fixed" expenses – those that are the same each month – such as your mortgage payments or rent, car payments and insurance premiums. Next, list the expenses that vary, such as entertainment, recreation or clothing.

Writing down all your expenses – even those that seem insignificant – is a helpful way to track your spending patterns, identify the expenses that are necessary, and prioritize the rest. The goal is to make sure you can make ends meet on the basics: housing, food, health care, insurance and education.

Your public library has information about budgeting and money management. Low-cost budgeting counseling services that can help you analyze your income and expenses and develop a budget and spending plan also are available in most communities. Check your Yellow Pages or contact your local bank or consumer protection office for information about them. In addition, many universities, military bases, credit unions, and housing authorities operate nonprofit financial counseling programs.

Contacting Your Creditors

Contact your creditors immediately if you're having trouble making ends meet. Tell them why it's difficult for you, and try to work out a modified payment plan that reduces your payments to a more manageable level. Don't wait until your accounts have been turned over to a debt collector. At that point, the creditors have given up on you.

Dealing with Debt Collectors

The Fair Debt Collection Practices Act is the federal law that dictates how and when a debt collector may contact you. A debt collector may not:

- Call you before 8 a.m. or after 9 p.m.
- Call you at work if the collector knows that your employer doesn't approve of the calls
- Harass you
- Make false statements
- Use unfair practices when they try to collect a debt

Debt collectors must honor a written request from you to stop further contact.

Credit Counseling

If you aren't disciplined enough to create a workable budget and stick to it, can't work out a repayment plan with your creditors, or can't keep track of mounting bills, consider contacting a credit counseling service.

Your creditors may be willing to accept reduced payments if you enter into a debt repayment plan with a reputable organization. In these plans, you deposit money each month with the credit counseling service, which in turn pays your creditors.

A successful repayment plan requires you to make regular, timely payments, and could take 48 months or longer to complete. Some credit counseling services charge little or nothing for managing the plan; others charge a monthly fee that could add up to a significant charge over time. Some credit counseling services are funded, in part, by contributions from creditors.

While a debt repayment plan can eliminate much of the stress that comes from dealing with creditors and overdue bills, it doesn't mean you can forget about your debts. You still are responsible for:

- Paying any creditors whose debts are not included in the plan
- Reviewing monthly statements from your creditors to make sure your payments have been received
- Making sure that your billing statements reflect any agreement your creditors made to lower or eliminate interest and finance charges, or waive late fees

A debt repayment plan doesn't erase your negative credit history. Accurate information about your accounts can stay on your credit report for up to seven years. A demonstrated pattern of timely payments, however, will help you get credit in the future.

Auto and Home Loans

Debt repayment plans usually cover unsecured debt. Your auto and home loan, which are considered secured debt, may not be included. You must continue to make payments to these creditors directly.

Most automobile financing agreements allow a creditor to repossess your car any time you're in default. No notice is required. If your car is repossessed, you may have to pay the full balance due on the loan, as well as towing and storage costs, to get it back. If you can't do this, the creditor may sell the car. If you see default approaching, you may be better off selling the car yourself and paying off the debt: you would avoid the added costs of repossession and a negative entry on your credit report.

If you fall behind on your mortgage, contact your lender immediately to avoid foreclosure. Most lenders are willing to work with you if they believe you're acting in good faith and the situation is temporary. Some lenders may reduce or suspend your payments for a short time. When you resume regular payments, though, you may have to pay an additional amount toward the past due total. Other lenders may agree to change the terms of the mortgage by extending the repayment period to reduce the monthly debt.

If you and your lender cannot work out a plan, contact a housing counseling agency.

Debt Consolidation

You may be able to lower your cost of credit by consolidating your debts through a second mortgage or a home equity line of credit. But think carefully before taking this on. These loans require your home as collateral. If you can't make the payments – or if the payments are late – you could lose your home.

The costs of these consolidation loans can add up. In addition to interest on the loan, you pay "points." Typically, one point is equal to one percent of the amount you borrow. Still, these loans may provide certain tax advantages that are not available with other kinds of credit.



Bankruptcy

Personal bankruptcy is generally considered the debt management tool of last resort because the results are long-lasting and far-reaching. A bankruptcy stays on your credit report for 10 years, making it difficult to acquire credit, buy a home, get life insurance, or sometimes land a job. However, it's a legal procedure that offers a fresh start for people who can't satisfy their debts. Individuals who follow the bankruptcy rules receive a discharge – a court order that says they do not have to repay certain debts.

There are two primary types of personal bankruptcy: Chapter 13 and Chapter 7. Each must be filed in federal bankruptcy court.

Both types of bankruptcy may get rid of unsecured debts and stop:

- Foreclosures
- Repossessions
- Garnishments
- Utility shut-offs
- Debt collection activities

Both also provide exemptions that allow you to keep certain assets, although exemption amounts vary.

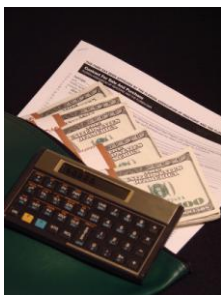
Personal bankruptcy usually does not erase:

- Child support
- Alimony
- Fines
- Taxes
- Most student loan obligations.



Also, unless you have an acceptable plan to catch up on your debt under Chapter 13, bankruptcy usually does not allow you to keep property when your creditor has an unpaid mortgage or lien on it.

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Building Businesses with Balanced Lives