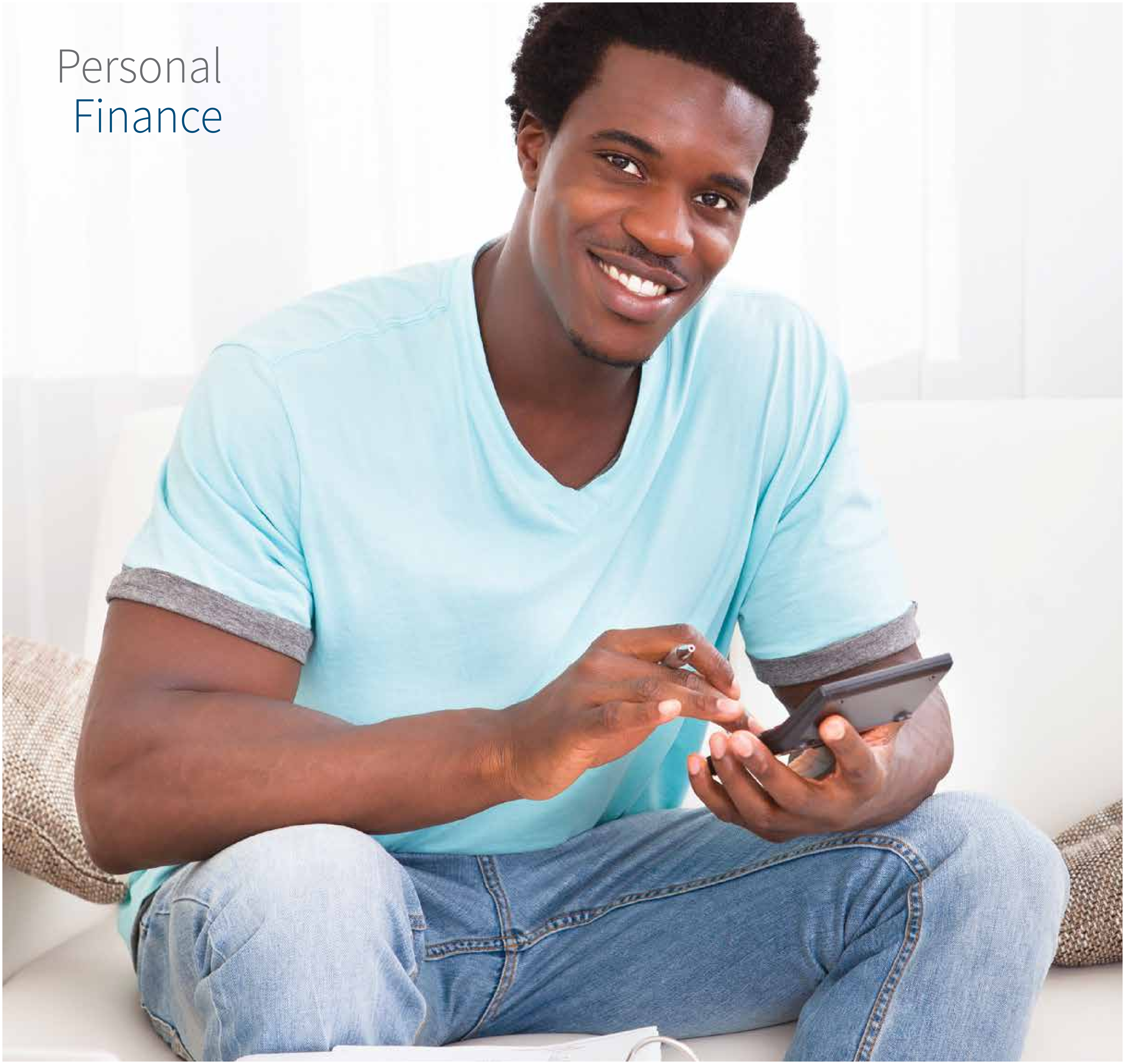
Personal Finance



Determining Your Net Worth

You might base financial security on your income, but there's more to the story.

Net worth will actually give you a better idea of your overall situation, acting like a report card for your finances. Determining this number helps us identify opportunities to save money, and to develop achievable goals for our future. Here's how.

WHAT IT IS

Net worth is the value of everything you own — referred to as your assets — minus all of your liabilities. Calculating this total helps us understand the areas of our financial life that require pressing attention, making sure that we remain on the right financial track. Lenders may ask about net worth, for instance, because it more accurately portrays your finances, but also because it reveals how much they could recoup if you defaulted on a loan. You'll need organized records in order to speed up any calculation of net worth. If your paperwork is in a disorganized state, address that before beginning this process.

HOW IT'S DONE

Work with a professional financial advisor to achieve the best results. They'll give you the fullest picture of what you have versus what you owe, beginning with a thorough analysis of your asset value. In general, they will begin by asking you to list your assets. That will include personal property, investment and banking accounts, any vehicles and the market value of your home, among other things. Sometimes, financial advisors are able to alert clients to commonly misunderstood assets, like the cash value of an insurance policy. Then you'll outline your liabilities, which will include bills, loan payments, credit-card balances, and other debts. The difference between those two columns represents your total net worth.

WHY IT'S IMPORTANT

These numbers put your bank-account balance in perspective. You'll have a clear understanding of your complete financial situation, which is critically important if you are making life-changing decisions relating to business or retirement. These reports also underscore critical weaknesses that you can begin addressing before they become huge issues. Request and analyze this financial report card every year to track your progress. You may be surprised at how much waste is tucked away in the average household budget. Make a few targeted tweaks, and you could go a long way toward improving your financial security.

Saving, by the Numbers

Saving isn't as common as it used to be. In fact, it's becoming harder and harder for Americans to create a nest egg, or the savings needed for longer-term goals like retirement.

In many cases, they don't even have a rainy-day fund meant for shorter-term emergencies.

FINANCIAL CAPABILITY

"Financial capability" refers to our ability to easily purchase needed items, and it's directly related to savings and debt. So, if you're among the 46% of Americans who don't have a rainy-day fund, that impacts your financial capability if something goes wrong with your car or a household appliance. The FINRA Investor Education Foundation issues a nationwide financial capability report every three years, surveying more than 27,000 respondents concerning things like overspending and credit-card usage. They found that 35%of U.S. citizens only paid the minimum on their credit cards, and that 19% spent more than their income.

MONTHLY PRESSURES

Americans have, in general, improved in the ability to cover their monthly expenses since 2009, but there is a growing disparity among smaller subsets of people. Younger, lower-income and Black Americans have seen less improvement than older, higher-income Americans of other ethnicities. Just three in 10 who make less than $25,000 annually have any savings, numbers that have actually fallen since 2009.

GROWING ANXIETY

More than half of Americans say their personal finances are a consistent source of stress. Those aged 18 to 34 reported the highest levels of stress, at 63%. Single women were more likely to feel anxiety than male counterparts. Many younger people are experiencing college-debt remorse, with nearly half admitting that they wished they attended less-expensive universities. More than 40% had made a late payment over the last year, and nearly half worried they might not be able to pay off their debt.

HEALTH AND RETIREMENT

The vast majority of U.S. citizens (87%) now have health care, but three in 10 still skipped a medical service due to cost in the previous year. About 1 in 4 are dealing with over-due medical bills. Just 58% of Americans have a retirement account, a figure that's basically been holding steady, according to the FINRA Investor Education Foundation.

Fully half of us worry we'll run out of money during retirement. The number of those taking hardship withdrawals or loans from their retirement funds has continued to grow.

What Is an Index Fund?

Investing in the stock market sounds risky, but that risk can be limited.

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Most people think of individual stocks when talking about Wall Street, but there are actually a number of choices when it comes to investments. Of them, individual stocks pose some of the most financial danger.

STRENGTH IN NUMBERS

Individual stock traders have to become instant experts in order to regularly beat expectations or predict the timing of a bear or bull market. An index fund buys and holds stocks from a pre-selected group of companies, linking its performance to the overall market. The fund may temporarily go down, but will typically earn money over the long haul as the market continues ever upward. This isn't necessarily as exciting as plugging into the latest trendy stock buy, but it's a smart, stable way to invest over the course of your life.

CHEAPER OPTION

Index funds tend to have much lower expenses than managed mutual funds. Index funds mimic an underlying market benchmark, so there's no need for a team of analysts to help select a hot stock for fund managers. In keeping, a large-index mutual fund might have an expense ratio of less than 0.2% while some managed funds will charge between 1-2%. That adds up over time, since the index-fund investor would be paying far less over the life of the investment.

LOWERED EXPOSURE

Index funds proportionally invest your money, so your portfolio is diversified with several stocks and sectors. The Nifty index fund, as an example, includes 50 stocks ranging from financial services to pharmaceuticals. That lowers your investment exposure if there is a sudden market dip on one sector or another. Index funds are tax efficient, as well. There aren't many trades on any given year, since these funds are passively managed. Fewer trades means fewer taxable capital-gains distributions.

IDEAL FOR BEGINNERS

It's a good idea to talk to a licensed investment advisor about whether you should blend passively managed index funds with more actively managed elements in your portfolio. Index funds generate great returns amid a growing or rallying market but can quickly lose their value if there is a larger market-wide slump. In the near term, it might be smart to ask your advisor about more focused investments.

Choose the Best Loans

Making a bad decision when seeking a loan can cause headaches later. Research the lender, and carefully evaluate the terms, before signing for any loan.

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Borrowing money without reading the fine print often leads to much bigger problems.

WHAT TO WATCH FOR

Beware of any lender who guarantees a loan without regard for your credit rating or history.

Remember that the interest rate isn't the only important thing to ask about: Fees and points can have a huge impact on what you owe. In fact, low-interest-rate loans that also have sky-high points and fees may cost you more. Be on the look out for hidden contract terms, including pre-payment penalties and balloon payments.

Avoid variable interest rates, but if you do choose one of these risky loans, make sure you completely understand the conditions that will impact your rate — and how they will change what you owe. Carefully review the entire application; never sign a form that has any blank spaces. Make sure the terms haven't changed at closing.

RISKY FEATURES

Stay away from anyone who offers loans via telemarketing calls or door-to-door sales. If you're having trouble making ends meet but feel the situation is temporary, it might be tempting to take out a car-title loan for some quick cash. This is just what it sounds like: a loan underwritten with the consumer's vehicle as collateral. As with other short-term loans, however, the interest can be high. You may be able to extend these loans, thus avoiding a repossession of your vehicle, but it's often with the cost of still more interest.

Offers made by construction businesses in conjunction with their services, as well as private student loans can also be risky. The latter don't include the federal government's flexible repayment plans.

HELP IS AVAILABLE

A number of federal laws have been passed to protect consumers, including the Equal Credit Opportunity Act and the Home Ownership and Equity Protection Act. Struggling members of our armed forces were having so much trouble with risky loans that the federal government passed the Military Lending Act of 2006 to protect them.

Reputable local credit counseling is available by contacting the National Foundation for Credit Counseling at 800-388-2227.

You can also search for nonprofit counseling agencies in your area.

Teaching Kids about Money

Navigating one of life's trickier responsibilities begins with discussions in childhood.

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More than 75% of college students said they wished they'd been more financially prepared, according to one KeyBank report. Unfortunately, teaching kids about money isn't something that happens in school.

PARENTS' RESPONSIBILITY

A cursory glance around will yield a host of classes, books, seminars and workshops on personal finance. But none of them are connected with primary or secondary education, where the building blocks for so many of our life pursuits are taught. That leaves this important function to parents, or other important adults in a child's life. Take the time to discuss the value of money, living within your means, and the importance of savings. Here's how to instill these important values:

START EARLY

Lessons about money should start as children enter the first or second grade, when research shows that habits are beginning to form. Begin by explaining what money is, and how we trade it for goods and services. In a society that uses less and less cash, it will also be important to discuss the differences between a debit and a credit card. Show them receipts for everything you buy, and they'll begin to connect the dots.

CREATING GOOD HABITS

After familiarizing children with spending, it's time to discuss saving. They'll be learning discipline, goal setting and planning skills along the way. Give them a savings jar, piggy bank or personal banking account where they can make deposits — no matter how small. The youngest children may need a specific goal, like a prized new toy, to focus on. But saving money is about more than having ready cash for a future purchase. It also teaches children about preparedness, independence and security — all of which becomes even more important once they've left home. Add another layer of encouragement by offering to match their savings dollar for dollar.

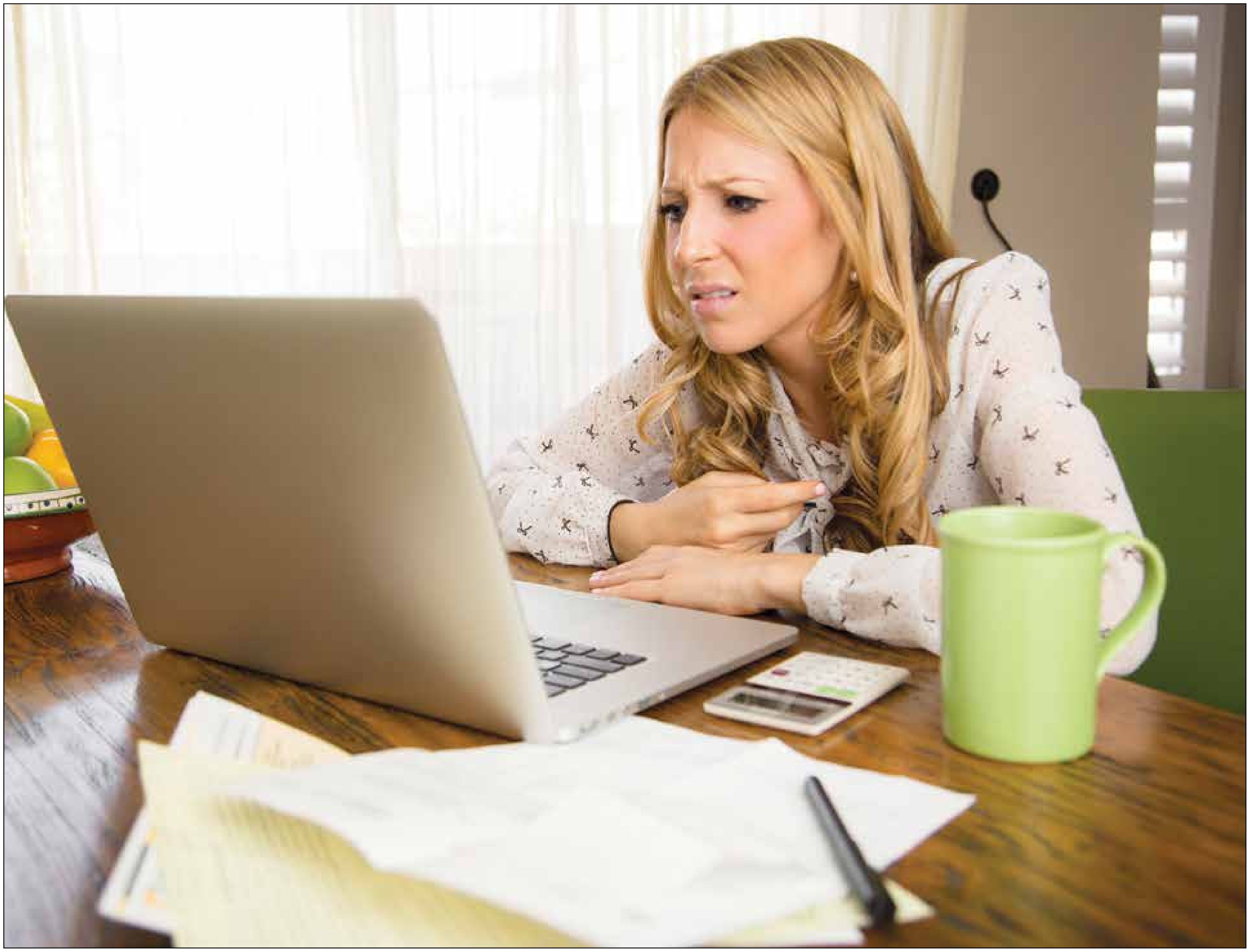
EARNING OPPORTUNITIES

Earning money through doing chores around the house or other small tasks is another way to teach kids the value of money. Allowances can begin with spare change before graduating to a salary that may be direct deposited into the bank.

They also help teach children the value of budgeting. Learning to live within their means will be a key element when they enter the real world.

How to Get Back on Budget

It's increasingly easy to over borrow and overspend these days. Here's help.



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First things first: If you're in a financial hole, the most important thing to do is quit digging. Avoid the tendency to chase the newest, best and biggest retail trends. Stop charging now instead of saving for later. Soon, you'll get back on budget.

PAYING THE MINIMUM

Credit card companies allow you to pay a minimum balance in order to collect more interest money. If you're going to turn the corner on these debts, you'll have to go above and beyond that figure. Limit credit-card purchasing so you can pay these bills down faster.

CREDIT FOR EXPENSES

There are times when it may actually be smart to use a credit card, even if you have the cash. Store bonus points and airline-miles incentives are two good examples. Then there are times when you should never replace cash with credit, as with paying monthly bills. You may feel like you have more ready spending money, when huge balloon payments are actually building for the future.

NEEDLESS NEW CREDIT

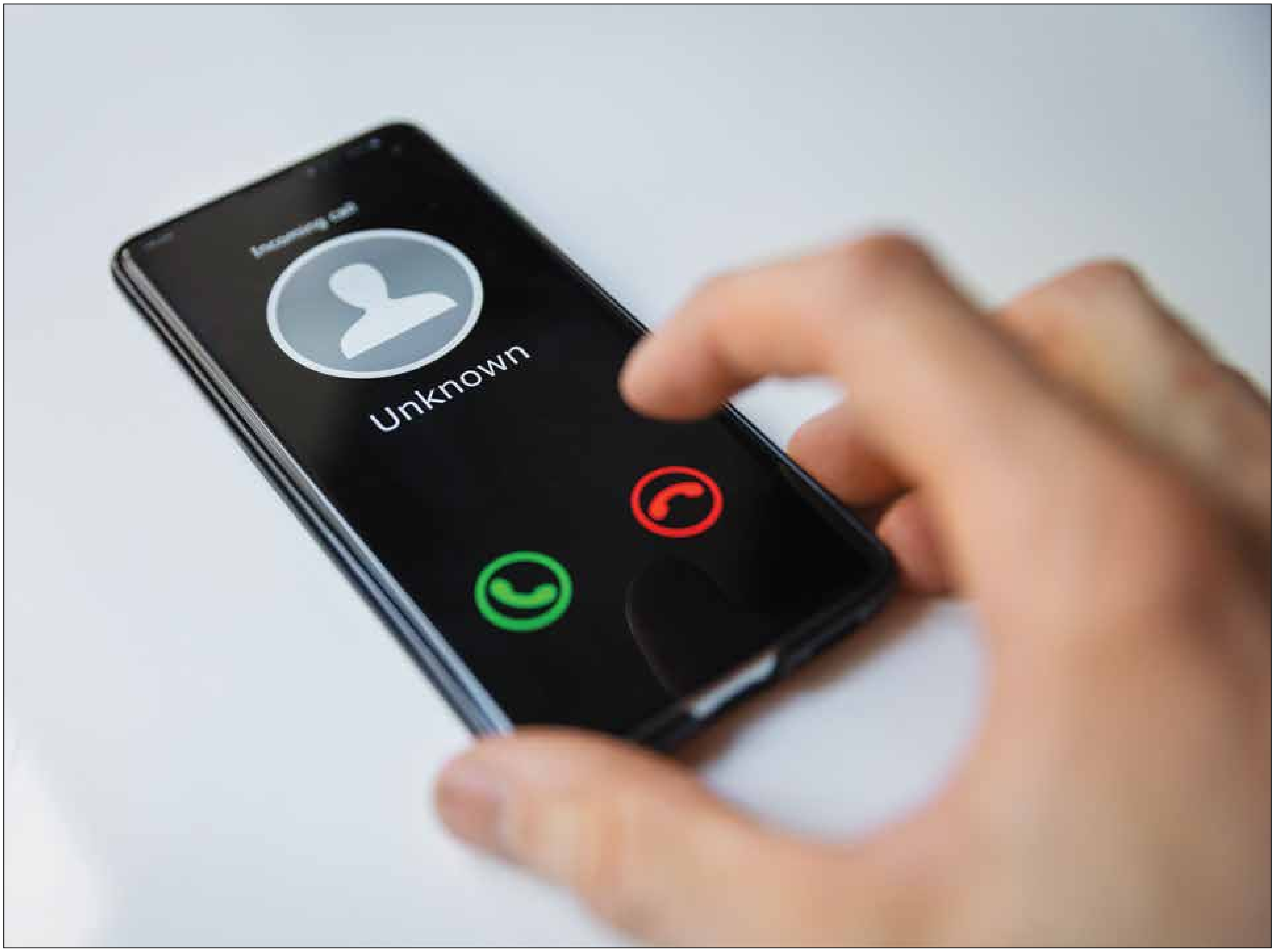
In an effort to keep up with the Joneses, some people will obtain new credit simply for the purpose of buying more things. This is a huge red flag, since adding needless pre-approved credit cards or taking out personal loans can lead to crushing debt. Interest will eventually add up to far more than you would have spent simply saving for those goods and services then paying cash. Regain your financial footing by paying down your cards, then you can spend more on actual things — rather than finance charges — down the road.

BORROWING FROM RETIREMENT

Credit card purchases are, in their essence, mortgaging the future for today. You already know you're going to have to pay more later. That's the very nature of the transaction. Borrowing from your retirement pushes this debt even further into the future — when it may be even more difficult to catch up. Cut variable costs in your every-day life, rather than dipping into your 401k or other retirement funds. Saving for tomorrow is just as important as managing your finances today. At some point, you're going to want to leave the hectic every-day work life, and you'll need something to live on besides the memory of past purchases made on credit.

Avoiding Phone Scams

Thousands of individuals fall prey to unsolicited phone scams every year.



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One of the most lucrative involves people claiming to be representatives from the IRS, demanding immediate payments for taxes due through either an immediate wire transfer or prepaid debit card. Millions have been stolen annually, and the Treasury Inspector General for Tax Administration handles some 90,000 complaints every year. Don't allow yourself to become one of their next victims. Here's how to avoid phone scams.

IDENTIFYING THEM

These scammers are typically described as pushy, even hostile. Look out for repeated calls, and phone calls from numbers you do not recognize. They'll insist that some kind of debt is owed, or that some other form of emergency payment must be paid. Victims may be threatened with fines, arrest, business-license suspensions or deportation. Others are immediately called back by some supposed enforcement department. Conversely, some have actually promised a tax refund. Others offer a similar incentive, like a lottery payout or inheritance, to trick victims out of their banking information.

KEY DETAILS

In order to gain trust, scammers will sometimes steal key details — or simply lie about them. They may use fake names or badge numbers, or even appear to be calling from official looking numbers. They might be able to repeat the last four digits of a Social Security number, but this is no different than someone swiping your PIN code for use at an automated teller in order to access your life's savings. Don't rely on ambient noises, either. Some even mimic the background sounds associated with call centers. Ask detailed questions that will reveal if the call is legitimate or not. Be aware that most important communication like this, including those from the IRS, are done by official mail correspondence.

WHAT YOU SHOULD DO

Creditors, bank and government officials don't ask for personal information over the phone. They don't ask for immediate payment, and don't take enforcement actions immediately after talking to you on the phone. Hang up if you become suspicious, and immediately contact the Federal Trade Commission, which is the primary agency handling scam complaints. You can call 877-382-4357, or access the their Complaint Assistant at FTC.gov.

You can also report unwanted calls to the Do Not Call Registry