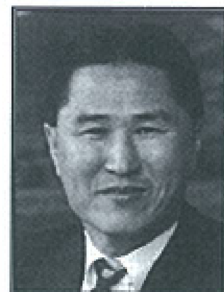
JOE LEE'S
FINANCIAL NEWS DIGEST
A COMPILATION OF INFORMATION AND IDEAS FOR EFFECTIVE MONEY MANAGEMENT



Moneyline

New Credit Card Legislation Good And Bad

By Joe Lee

New legislation, which takes effect next February, prohibits credit card companies from raising interest rates on your balance unless you are more than 60 days late on your payments to them. It bans charging interest on a portion of a balance that is paid by the due date and requires payments to be applied first to that part of the balance with the highest interest rate.

While these are all welcome changes, they won't affect people who pay their balances on time and in full, which I hope is the practice of readers of my newsletter.

Those who handle credit most responsibly may actually suffer as more credit card companies impose annual fees and scale back rewards programs to make up for lost revenue.

Face it—credit card companies are out to make a profit. One in five charge annual fees now, and more may soon follow suit. And rewards programs already have begun cutting back.

Take a fresh look at rewards terms; issuers can make subtle changes that are hard to spot. While there will likely still be good credit cards available, we will need to be diligent in searching them out.

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Financial Front

NEWS BRIEFS AND HIGHLIGHTS FROM THE FINANCIAL WORLD

A better investment strategy during a bear market might be to continue to buy into the market rather than suspend purchases. According to a study by Fidelity Investments, during the 1990-1991 and 2000-2002 bear markets, investors who continued to invest on a monthly basis as stock prices continued to fall ended up with more money several years later compared with investors who made new contributions to their accounts in the form of cash rather than stocks at any of several points in the bear market cycles. Past performance is no indication of future performance.

Authorities are noticing small charges showing up on a large number of credit card statements in the U.S. and believe them to be part of a scam. *Defense:* check your monthly statement to look for unexpected charges in the range of 25 cents to a few dollars. Report and contest them immediately with the credit card issuer so that the thieves will not succeed in their scheme and to prevent the possibility of even larger future fraudulent charges.

Use this year's tax filing experience to improve next year's tax preparation. Some ideas: keep all your credit card statements together in one place. Designate a file folder for documents needed for next year's taxes and add to it throughout the year. Whenever you make a deductible tax donation, highlight it in your checkbook or on your credit card statement. Scan tax receipts into tax-preparation software with a scanner that allows you to export data to the tax software.

Mortgage fees are rising as Fannie Mae and Freddie Mac—now controlled by the federal government—take steps to strengthen themselves against default risks. There are new fees for anyone buying a house with a down payment of less than 15%, no matter what his/her credit score…anyone buying or refinancing a condo with less than 25% down…and anyone trying to refinance with less than 30% equity and a credit score below 700. *What to do:* Put down the minimum needed to avoid these fees, and take steps to raise your credit score before refinancing a home.

If you owe more on your mortgage than your house is worth, and are trying to sell your home for less than the value of its mortgage—a "short sale"—you will have to convince the bank to forgive the mortgage balance after the sale. In order to do this, you will need to prove hardship. The bank will require proof through recent W-2's and tax returns. *Downside:* If the bank approves the short sale, your credit will suffer, albeit less than with a foreclosure; you may not be able to get another mortgage anytime soon after; and you may owe taxes on the forgiven debt if you sold an investment property or vacation home—but probably not if you sold your primary residence.

Wit & Wisdom

"We make a living by what we get, we make a life by what we give."

— Sir Winston Churchill

Student Loans: Stafford Is A Good Bet

By Kathy Kristof, Tribune Media Services

What do you do if the 2008 stock market plunge ravaged your child's college account and you don't have time to build it back up? It may be time to figure out a borrowing plan.

Parents of many college-bound seniors are in the throes of contingency planning because the market's swoon left them with far less than they expected.

Those who have enough for this year but not subsequent years might be tempted to cash out what's left of the college money and worry about the rest later.

But that could be a costly mistake, said Lynn O'Shaughnessy, author of a book and a blog called "The College Solution."

That's because it's cheap to borrow a portion of tuition using government programs, but if the amounts get too high, you might have to turn to private lenders, whose interest payments can get really expensive.

If you need to borrow, it might be smarter to borrow a little every year, conserving enough savings and cash flow to ensure that you are never forced to borrow at high rates.

To understand how to set up a borrowing plan, you need to know that there are four different types of student loans that are readily available to almost everyone.

Subsidized Stafford loans are low-cost, government-guaranteed loans available to students with need.

Unsubsidized Stafford loans are government-guaranteed loans available to all students.

PLUS loans are government-guaranteed loans made to parents.

Private or signature loans are not guaranteed by the government and can be issued at rates as high as 20 percent.

There are additional loans—some provided by schools to students with need—but if you qualify for these, the school will have included them in your financial aid award letter.

The two best options are the federally-guaranteed student loans named after the late Sen. Robert Stafford.

There are four different types of student loans that are readily available to almost everyone.

However, there are annual caps on how much a person can borrow from the Stafford program.

Subsidized Stafford loans are given to students who demonstrate some "need" according to financial aid formulas. The interest rate on this loan varies, but for the 2009-10 school year, subsidized Staffords are issued at a 5.6 percent fixed rate. Next year the rate will be even lower—4.5 percent—thanks to financial aid legislation passed last year. In 2011, it will drop to 3.4 percent.

What makes subsidized Stafford loans even more attractive is that the government pays the interest while the student is in school. So if your freshman takes out a $3,500 subsidized Stafford loan, she will owe $3,500 in 2013 when she graduates.

With other types of student loans, the student doesn't need to pay interest while in school, but the interest accrues. At the same interest rate, $3,500 borrowed for freshman year would grow to more than $4,300 by graduation.

The amount a student can get in subsidized Stafford loans varies based on how close she is to graduation. The maximum is $3,500 for freshmen, $4,500 for sophomores, and $5,500 a year for juniors and seniors.

Apply at the Free Application for Federal Student Aid Web site, at www.fafsa.ed.gov. (Don't be confused by the similarly named fafsa.com, which charges for the application. The Free Application for Federal Student Aid is free.)

Don't qualify for subsidized loans? Need more money? The next-best bet is the unsubsidized Stafford loan, which is issued at a 6.8 percent fixed rate.

Freshmen can borrow up to $5,500, sophomores are capped at $6,500, and juniors and seniors at $7,500. Those maximum amounts include any loans that the student has taken from the subsidized version of the program.

The downside of unsubsidized Stafford loans: Interest accrues while the student is in school, so a student who borrows $5,000 to pay freshman tuition would owe $5,340 at the start of sophomore year, $5,703 at the start of junior year, $6,091 at the start of senior year and roughly $6,500 soon after graduation. That's simply the effect of the accrued interest.

If Stafford loans are not sufficient to handle the college funding shortfall, parents might want to consider PLUS loans, which are issued at an 8.25 percent fixed rate.

Parents can borrow up to the entire cost of college with PLUS and private loans, but it's expensive debt and the interest accrues while your children are in school.

O'Shaughnessy says she'd consider a home equity line of credit before a PLUS loan because it's currently far cheaper. The downside: Home equity lines are typically variable-rate loans. If interest rates rise, the cost of your loan will too—and your house is on the line if you have trouble paying back the debt.

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Women Face High Risk Of Outliving Their Money

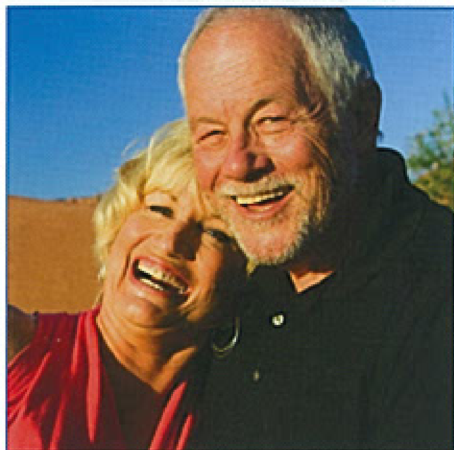
By Mark Miller, Tribune Media Services

Here's some bad news for men: We don't live as long as women. But there's bad news for women, too: you might live too long–financially speaking.

Women face a greater longevity risk—the danger of outliving their assets and experiencing poverty in old age. The average life expectancy for a 65-year-old American woman is 20 years, or 85 years of age—three years more than a man. And those figures are just averages, which means many women will live well beyond 85.

But longevity isn't the only factor at work here. Our retirement benefits system is tied closely to the amounts we earn during our working lives—and here, men continue to be far ahead. The non-profit Women's Institute for a Secure Retirement (WISER) offers the following statistics:

- Women work at paid jobs an average of 12 years less than men do over their lifetimes due to family care giving responsibilities. Fewer work years translates to fewer years saving or participating in an employment-based retirement program. It also means lower Social Security benefits.
- Women earn 78 cents for every dollar earned by men.
- Less than one-third of retired women today receive pension income. And less than half of today's working women have access to a pension or retirement savings plan through their jobs.



As a result, nearly 40 percent of older women living alone depend on Social Security for almost all of their income and more than half would be living in poverty were it not for their Social Security benefits. Among single elderly women, the rate of poverty is 19 percent, according to U.S. Census Bureau data.

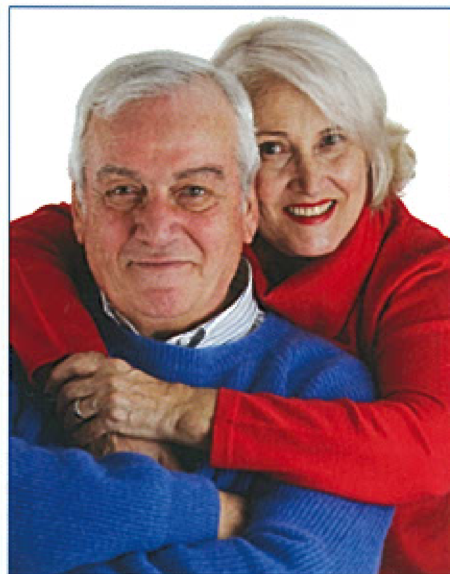
Among single elderly women, the rate of poverty is 19 percent, according to U.S. Census Bureau data.

WISER's director, Cindy Hounsell, has been working for more than 10 years to draw attention to the general problem of retirement security for women. Recently, she has been trying to turn up the volume on one particular question: how to get more guaranteed income for women in retirement.

"The discussion usually focuses on the accumulation of retirement assets," she says. "Retirement experts tell us to save enough to pay our costs over our life expectancy—but we don't need life expectancy income. We need lifetime income."

Translation: In the wake of the market crash, it's clear that voluntary investing in defined contribution vehicles such as 401(k)s and IRAs isn't going to cut it. Along with Social Security, we're going to need greater emphasis on products that generate predictable income in retirement.

WISER recently released a study–billed as a "blueprint for change"—that surveyed more than 30 experts from government, the financial services industry, and professional and academic organizations on ways to address the problem. It's a valuable effort to shift the focus away from defined contribution programs—such as 401(k)s and IRAs—and toward income generation.



The solutions pointed to by the study are useful–and not just for women.

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On The Money

"People with big heads need to invest in large cap stocks. People with small heads need to invest in small cap stocks. Investing is easy if you know what you're doing!"

JOE LEE'S
FINANCIAL NEWS DIGEST

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Retirement Income

Immediate Annuities Offer Security, But Be Aware Of Your Options

By Humberto Cruz, Tribune Media Services.

Q: I am 63 and retired. I'd been skeptical about income annuities because I thought they were too conservative. I receive a good pension and Social Security.

Last August, after a long talk with my financial adviser, I used $400,000, about half my portfolio, to buy an immediate annuity. It pays $2,568 a month as long as I live, with payments guaranteed for 15 years (even if I die before 15 years have passed).

In retrospect, following the stock market's steep decline, I think it was just about the smartest financial decision I ever made. Did I do the right thing?

A: I like immediate annuities (I own three) for the lifetime income and peace of mind. But [in your case] I would have done some things differently.

An immediate or income annuity is an insurance product that turns a lump sum premium into lifetime income. (They should not be confused with deferred variable annuities, which are investment-insurance products that can be quite complex.)

Many people hate "giving up" their principal to an insurance company, and immediate annuities had been slow to catch on. But amid the stock market meltdown, sales of these annuities rose 30 percent to an estimated $8.6 billion last year.

As to your question:

I would have opted for a "joint-and-survivor" payout option, with payments continuing until both you and your wife die, recognizing that payments would be lower.

By selecting the 15-year guaranteed period, you made sure your wife gets more than the $400,000 principal back if she lives that long and you don't. But the main purpose of immediate annuities is to protect against "longevity risk," or living so long that you run out of money. Women on average live longer than men, and your wife's payments would stop in the year 2023 if you die before her. If you two were fine with that decision, though, so am I.

Having both a pension and Social Security (both are lifetime annuities), I would not have committed half my portfolio to an income annuity at the relatively young age of 63 and during a period of low interest rates.

I would have considered an annuity "ladder," buying, for example, a $100,000 annuity every year for four years. That way, payouts for future annuities increase if interest rates rise. Even if interest rates stay the same, payouts are higher the older you are when you buy an income annuity.

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