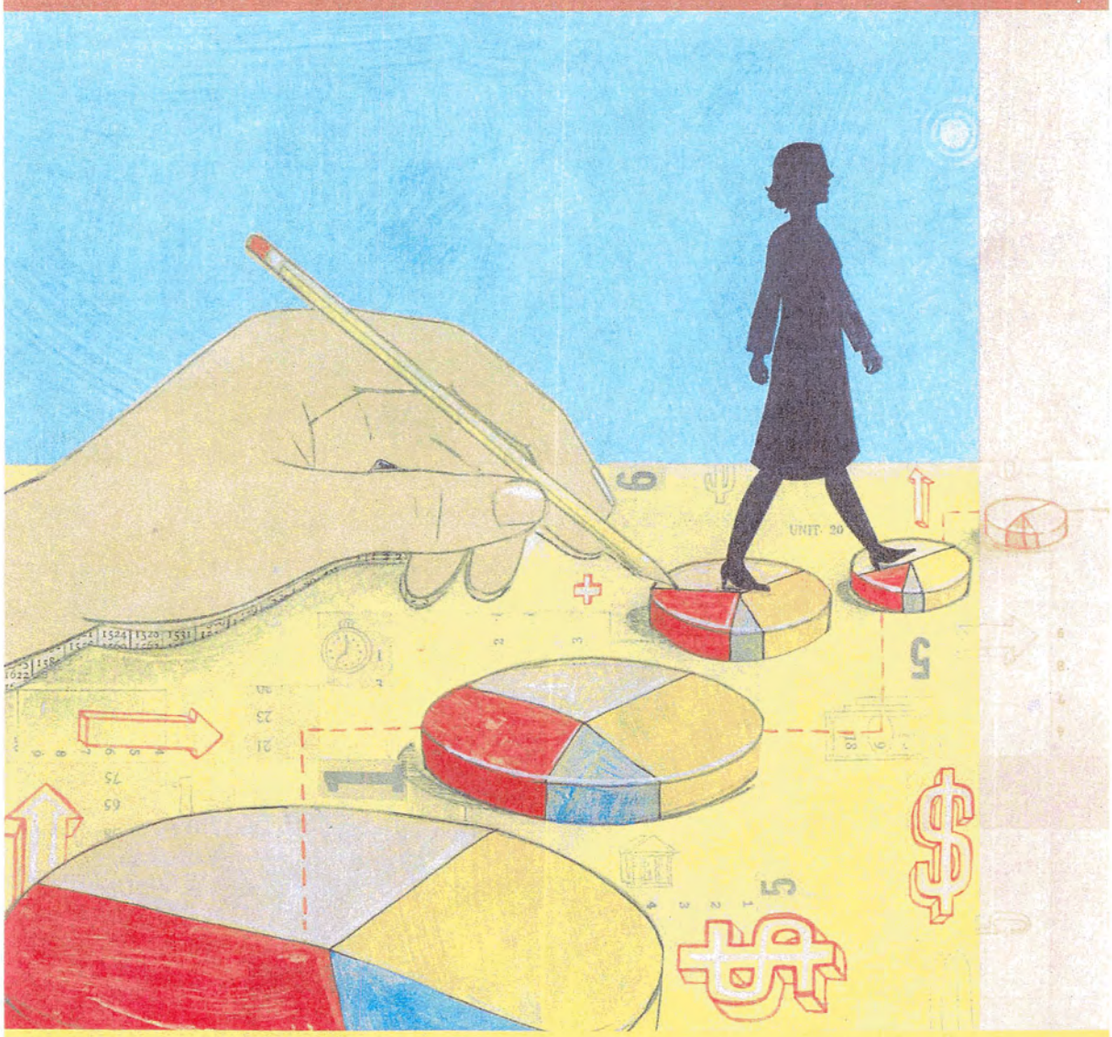
LIFE ANSWERS FROM AARP

MONEY MATTERS

YOUR GUIDE FOR FINANCIAL SECURITY



AARP

The power to make it better.™

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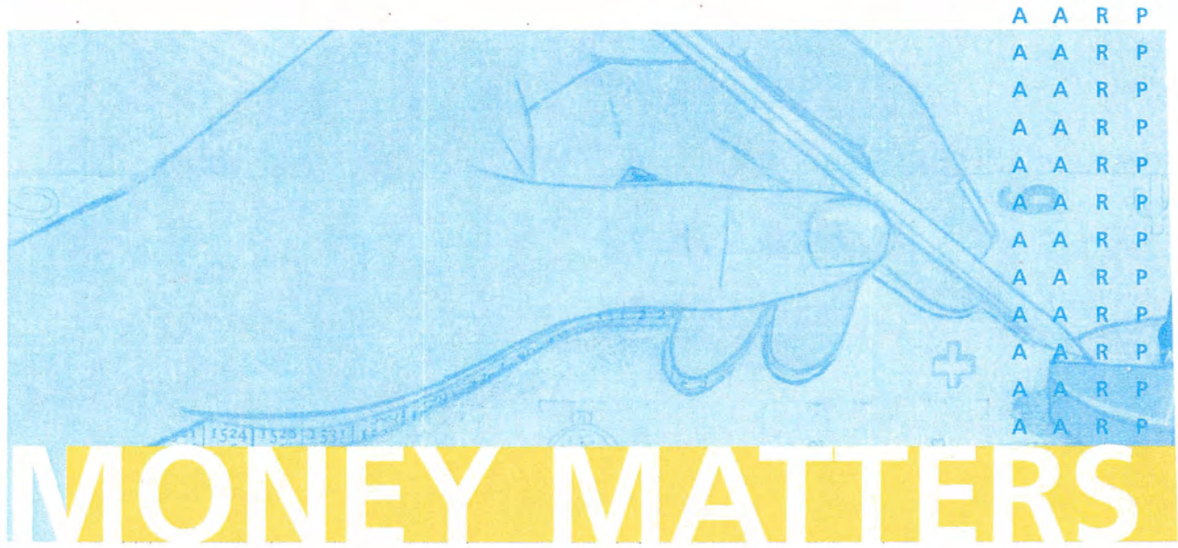

MONEY MATTERS

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This booklet is part of a series of AARP publications that provide life answers for people age 50 and over.

MONEY MATTERS

Do you get uncomfortable when someone mentions the words "financial planning"? You're not alone. Some people feel overwhelmed thinking it's a big task to plan for their financial future.

There's good news, though. Financial planning is easier than you think By following the steps outlined in this booklet, you can begin to map out your path to financial security

You'll find helpful tips on how to set financial goals, organize your financial papers, find a financial professional, understand your investment options, be a wise borrower, and a safe investor.

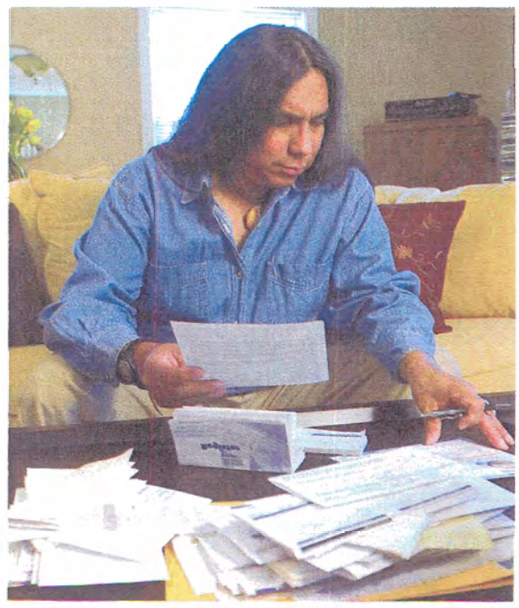
PLANNING YOUR FINANCES

Financial planning is the process of determining your financial goals and how you will reach them. It's essential, no matter how much money you have, because your financial plan keeps you in charge of your money and your life.

Financial planning is not a one-time activity. It's an ongoing process. Ideally, you start your financial planning early in life so you don't have to worry about money after you stop working. If you are getting a late start, a good financial plan will help you catch up. Continue your financial planning after you stop working to make sure your income lasts as long as you need it.

Making a financial plan

Your financial plan can be as simple or as detailed as you want it to be. You can develop it yourself or you can hire a financial planner to help you prepare it. Your plan can chart your fiscal course over the next 5 or 10 years; or it can help you make sure you have enough money to buy your next car. Of course, every financial plan should include a strategy to help you save for retirement. Making a financial plan is best done in small steps:



By following the few simple steps outlined in this booklet, you can begin to map out a path that could lead you to financial security.

Step 1: *Get organized.* Organizing your household's important papers will give you a clear picture of your financial status. Start by listing your family's bank, investment, and retirement accounts. Find and file your financial documents, including real estate documents, insurance policies, and tax records. Make a master list of all these papers and where they can be found. Use the chart on page 7 as a checklist of what documents to look for and where to keep them.

Step 2 *Set your financial goals.* Goals identify what brings us pleasure. They give us something to look forward to and work toward. Your goals might include buying a house, taking a vacation, or saving for retirement.

Write down your goals. Next to each goal, put how much you think it will cost to meet it, and your .target date for reaching the goal. Leave a space so you can fill in the date when you actually reach it. Use the *AARP* Retirement Roadmap to help you navigate your retirement dreams. It's at www.aarp.org/finance.

Step 3 *Evaluate your cash flow.* You can't make financial plans until you know how much money you make and where you spend it This is called your "cash flow." To calculate your income, add up all the money you receive from salary, pensions, Social Security, bank interest, investment returns, and other income sources. Your expenses will include your regular bills, plus the money you spend using cash or credit cards. Use this information to decide whether you need to make more money—or cut back on your spending—to meet your financial goals.

Step 4: Calculate your net worth. Identify everything you own (assets like your home, boat, saving accounts, mutual funds) and everything you owe (liabilities include your mortgage and credit card debts). Subtract your liabilities from your assets to determine your net worth. This figure tells you how much you would be worth if you had no debt. Calculating your net worth is a good "reality check" when you're making financial plans.

Step 5: Make assumptions about the future. You can bet that your life, and the financial world, will change over the next 5 or 10 years. Inflation can take a bite out of your earning power. Interest rates may fall. Your investments could take a plunge. You might even get sick, lose your job or lose your spouse.

You can't predict that these things will happen. But you can be financially prepared in case they do. For example, if you expect prices to rise, you might invest your money more aggressively so its value keeps pace with inflation. If your family members tend to live well into their

90s, you might decide to put aside extra money for retirement, or buy long-term care insurance.

Step 6: Adopt a financial strategy. After reviewing all the financial information you've collected, take another look at your goals. Decide which goals are priorities. Then, figure out how you will find the money to fund those goals. Should you cut back on your expenses? Use your annual bonus to fund a goal? Move money from your savings account to a mutual fund? Revise your goal? Put it on hold for a while?

Developing a financial strategy involves prioritizing your options and plotting the most realistic way to meet your goals.

Resources

- Use AARP's retirement calculator at www.aarp.org/financ to see how much you need to save for your financial future.
- Several associations of financial planners make it easy to find a member in your area. These include:

The Financial Planning Association (FPA)
4100 E. Mississippi Ave.
Suite 400
Denver, CO 80246
1-800-282-PLAN
www.fpanet.org

National Association of Personal Financial Advisors
3250 N. Arlington Heights Rd.
Suite 109
Arlington Heights, IL 60004
1-888-FEE-ONLY
www.napfa.org

American Institute of Certified Public Accountants
Personal Financial Planning Division (AICPA-PFP Division)
1211 Avenue of the Americas
New York, NY 10036
1-888-999-9256
www.aicpa.org

Storing important documents

In your safe deposit box

- Automobile titles
- Birth certificates
- Certificates of deposit
- Citizenship and naturalization papers
- Copy of financial notebook
- Death certificates
- Education degrees
- IRA papers
- Legal agreements
- Marriage/divorce documents
- Military discharge papers
- Property bills of sale
- Property deeds
- Personal property appraisals
- Personal property inventory and pictures
- Stocks and bond certificates

In a fireproof box at home

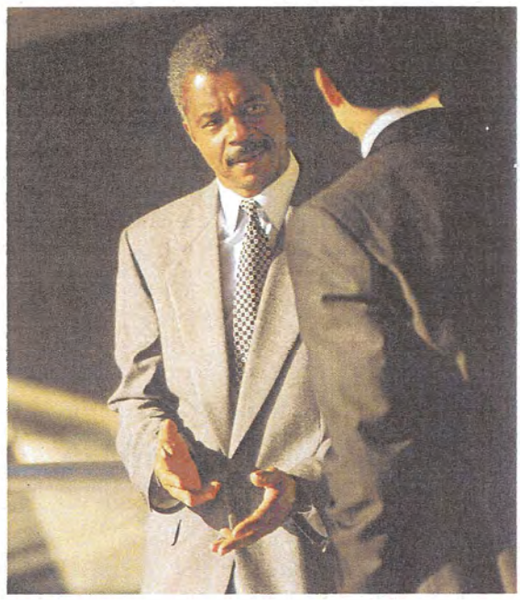
- Financial power of attorney
- Insurance policies
- Living will
- Medical power of attorney
- Property tax receipts
- Trust documents
- Warranties
- Wills

With your attorney, relative, friend or agent (copies)

- Burial instructions
- Financial plan
- Financial power of attorney
- Medical power of attorney
- Living will
- Trust documents
- Wills

WORKING WITH FINANCIAL PROFESSIONALS

As more employers move from traditional pensions to defined contribution plans—the 401(k) is the best known—workers must shoulder a greater responsibility for managing their retirement savings.

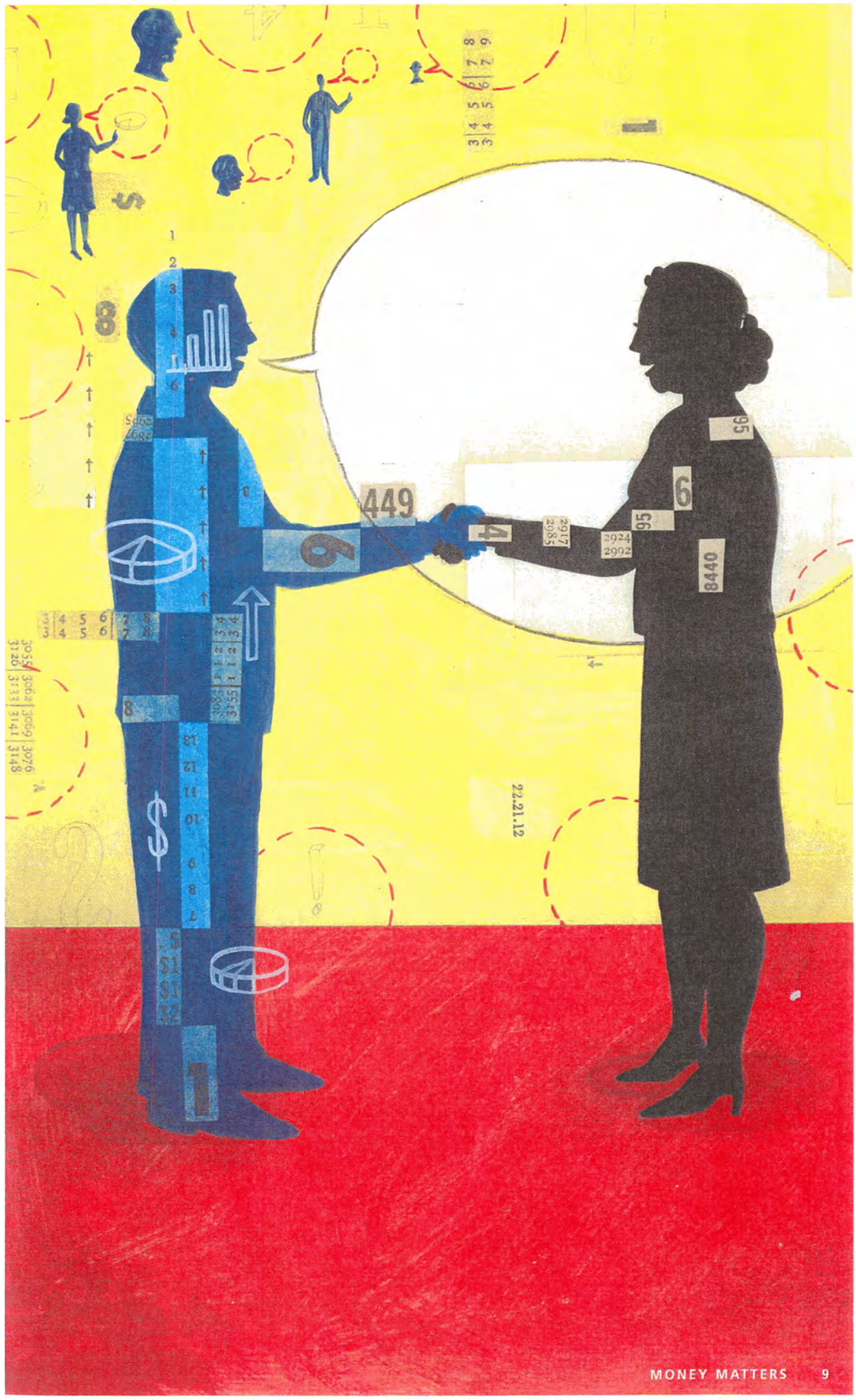


As well, the financial world you have to navigate is increasingly complex. You may lack the time, expertise or inclination to go it alone. Working with a financial professional to provide guidance may be what you need. But finding the right one may be as confusing as navigating this new financial world on your own.

Many financial professionals call themselves by similar names, including financial planner, financial adviser, or investment counselor. However, they don't all provide the same services. Some financial professionals will work with you to identify your life goals, develop and implement an investment plan, and provide ongoing advice. Others will assist you with very specific concerns, such as choosing the most advantageous college savings plan, purchasing a long-term care policy, or developing a retirement savings plan for your small business. Once you decide exactly what you need help with, you can match your needs to the expertise and experience of a financial professional.

Choosing a financial planner

Ask your friends and colleagues for recommendations. Lawyers, bankers or other financial professionals may be good sources for suggestions. Interview at least three financial planners before you hire any one. A face-to-face meeting is a good



way to make sure the chemistry is right. Be sure to at least ask these following questions:

What service or product will I receive from you?
You need to know right off the bat what the financial planner can actually offer you. If you need an investment strategy and the financial planner only offers insurance products, you may find their service, while valuable to some, doesn't meet your needs.

What professional licenses do you hold?
Financial professionals will most likely hold some license that allows them to perform a particular service, or sell a particular product. This license will vary according to what service is offered. For example, to perform certain tax services, the financial professional should hold a Certified Public Accountant (CPA) license from a state board of accountancy, while someone selling an insurance product should be licensed by your state as an insurance agent. Whenever you meet with a financial professional, be sure the license they hold and the service it entitles them to perform meets your needs.

What are your credentials?
Just because someone might say they're a financial planner doesn't mean they're qualified to help you. That's why it's important to check a planner's experience and credentials before you hire them. For example, some financial designations require a financial planner to pass a comprehensive examination, work for a certain number of years, and agree to follow a code of ethics, while others only require a brief multiple choice test.

While credentials set apart the advisers who earned them, you should never judge

a financial professional by a designation alone. Instead, use it as just one of the ways to learn more about the professionals you are considering. Ask them what they had to do to earn it. Ask if they have ever lost or given up a designation. Find out what code of ethics they follow and if they put their clients' profit ahead of their own. Finally, you should contact the organization issuing the credential to verify whether the professional you're considering did, in fact, earn the credential and remains in good standing.

How are you paid?

Some financial planners charge a flat fee to help you develop a financial plan. They don't necessarily manage your money, leaving it to you to carry out their recommendations. Others earn their living from commissions that are based on the amount of money you invest or the products they sell you. Still others charge you both a fee and receive commissions. There's no one best way to pay for financial planning services. You must decide what makes the most sense and makes you the most comfortable. No matter how they are paid, you should completely understand the process.

Can I have it in writing?

Before you hire a financial planner, make sure you get a written estimate of the costs involved. This estimate should list the fees you'll be expected to pay directly or indirectly. Compare this with estimates you receive from other planners. Also, make sure you get in writing an agreement on exactly what you are paying for. It will vary depending upon the product or service offered, but all financial professionals should be able to provide you the documentation you want.

MANAGING YOUR SAVINGS

When you save your money, you usually place it in a savings account, money market account, or another savings vehicle so it can earn interest. How safe it is, how much interest you earn, and how easy it is to get to your money depends on the type of account you have.

Savings accounts

When you deposit money in a savings account, you give your bank (or credit union) the right to use your money until you withdraw it. In return, the bank pays you a fee, or "interest" The amount of interest you receive depends on how much money you have in the account and the bank's interest rate. Make sure the Federal Deposit Insurance Corporation (FDIC) insures your bank. If your bank goes out of business, the FDIC will replace the money you had in your checking/ savings account, up to $100,000, and up to $250,000 for retirement accounts.

Certificates of deposit

A certificate of deposit, or CD, is a special type of deposit account. When you purchase a CD, you agree to let a bank use your money for six months, one year, five years, or more. In exchange, you earn a higher rate of interest than you'd get if you deposited the money in a savings account. There is a penalty if you withdraw your money early. When you cash in your CD,

you receive the money you originally invested, plus any interest the bank owes to you: Like savings accounts, CDs you get from a bank are insured up to $100,000.

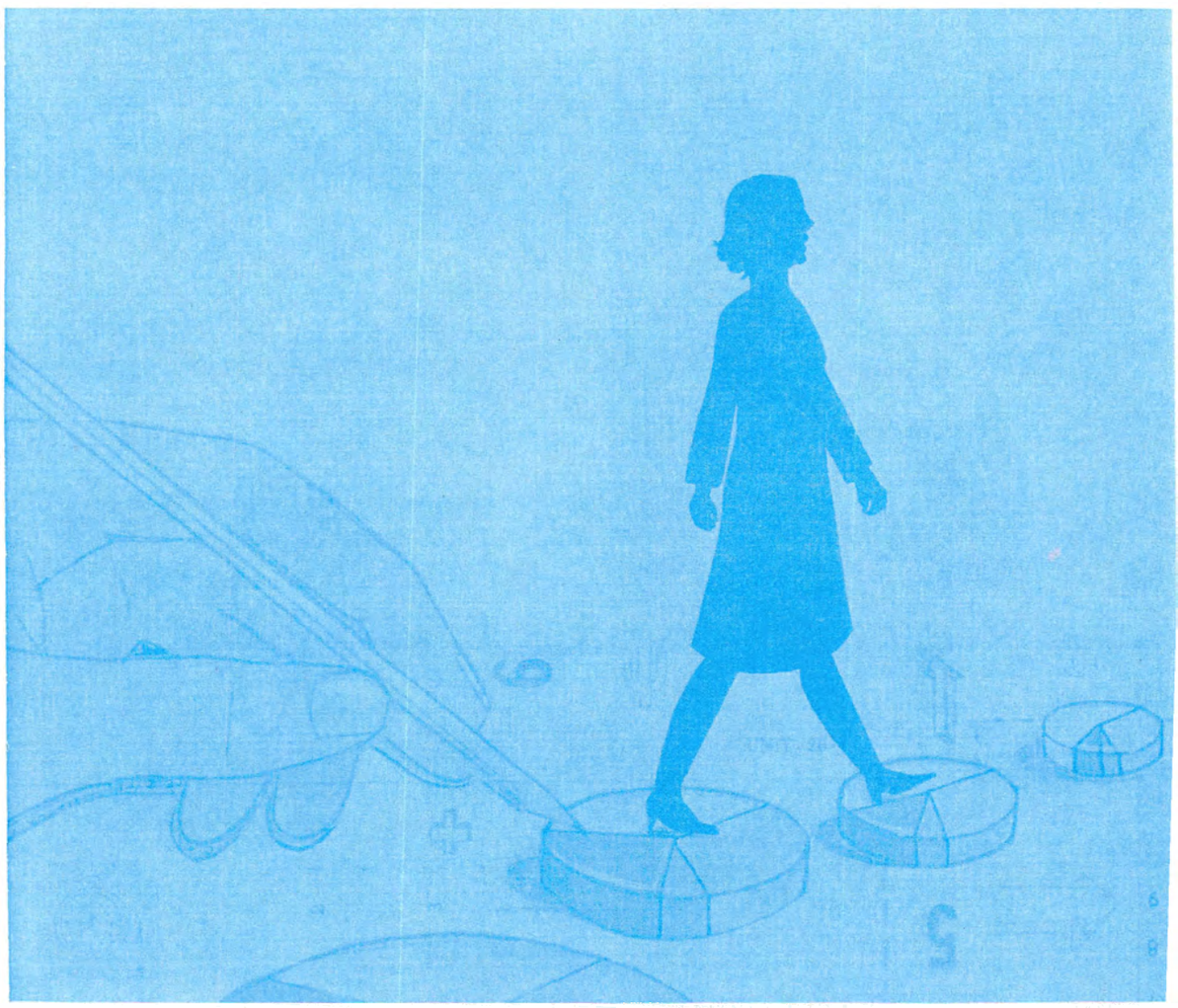
Money market accounts

Money market accounts are like savings accounts, except that they often pay a higher interest rate. Your bank may only let you make a certain number of withdrawals from your money market account, or write

a certain number of checks on the account each month. The FDIC insures your deposits against loss.

Savings Bond

You can buy U.S. savings bonds for as little as $50 or as much as $10,000. Every bond has a "maturity date" after which it no longer earns interest. Maturity dates range from 20 years for the Series HH bond to 30 years for Series EE and Series I inflation-indexed bonds. When you cash the bond at maturity, you get the money you originally invested, plus the interest it earned. The federal government backs all bonds. Most financial institutions and some employers sell savings bands. You can also shop for savings bonds and find out the maturity date and value of each of your bonds online at www.savingsbonds.gov.



MANAGING YOUR INVESTMENTS

You don't just wake up one morning and decide it's time to start investing on Wall Street. Your first exposure to the market may come when you have to decide how you want to invest the money you are setting aside in a 401(k) or IRA.

Before you're ready to buy that first stock, bond, or mutual fund share on your own or in your 401(k), you'll need to figure out a few things about yourself.

Your goals

Start off by calculating how much money you already **have** on hand to meet your goals. Then, estimate how much money you need to earn and how long you have to earn it. Knowing where you're going and when you need to get there will help you choose the proper investments.

Your style

Investing can be risky business. Just as you can **make** money when your investments increase in value, you can also lose money if the value of an investment declines.

Save yourself some sleepless nights by deciding up front how comfortable you feel about taking risks. **Start** by asking yourself how much money you can afford to lose.

And remember: If you buy investments **that** promise to make you a p a t deal of money in a short period of time, your chances of losing your money are much greater than if you settle for an investment that earns a moderate return over a longer period.

Your choices

There's no shortage of places to invest your money. Check the stocks and mutual funds listed in each day's newspaper and you'll quickly be overwhelmed by the possibilities. There are over a thousand different funds. The trick, of course, is finding the investment that is right for you. Here are some of the most common choices:

Money market funds

Money market funds are mutual funds that put their money in low-risk investments. Although they are considered safe, they are not insured by the FDIC. Money market funds typically provide a higher return than money market accounts from a bank.

U.S. Treasury securities

The U.S. Treasury issues three types of federally insured securities to pay for government activities. Treasury bills mature in one year or less; treasury notes mature in two to 10 years; and treasury bonds mature in up to 30 years. Each offers different rates of return. Treasury securities are guaranteed by the federal government.

Bonds

Bonds are loans that an investor makes to a company or a government. The loan is paid back after a fixed number of years. In the meantime, the investor receives regular interest payments. Corporate bonds pay a higher interest rate than municipal bonds. However, municipal bond interest is free from federal income tax. It also could be free from state taxes if you live in the state where the bond is issued. Bonds usually require a minimum investment of at least $1,000. Bonds vary widely in their quality and risk level.

Mutual funds

Companies providing mutual funds combine your money with money from other investors to invest in an assortment of stocks and bonds. Mutual funds are a good way for smaller investors to gain diversity of their investments. The risk level of a mutual fund depends on the stocks and bonds in which the mutual fund invests.

Stocks

Stocks are shares of ownership that a company sells to individuals to raise the money it needs to conduct business. When you own stock in a company, the value of your shares usually rises and falls over time, depending on how well the company is doing. If the company prospers, the value of your stock will increase. If the company does poorly, your stock won't be as valuable.

College Savings Accounts

Today there are a variety of options to save for a child or grandchild's education that provide you tax advantages. Examples include the Coverdell Savings Account (Education IRA), 529 plans, the Uniform Gifts for Minors Act (UGMA), and the Uniform Transfer to Minors Act (UTMA).

Research your investments

You can get information on investments from financial publications, financial planners, or trusted professionals. Listen to what others tell you about an investment. But always conduct your own research before making a purchase.

Read articles about your investment in independent finance magazines and newspapers.

Find out how organizations such as Standard and Poor's (www.standardandpoors.com) and Moody's Investment Services (www.moodys.com) rate the performance of a particular investment. To research mutual funds, look for the Morningstar (www.morningstar.com) and ValueLine (www.valueline.com) guides in the reference section of your local library.

Check your state securities regulator or the Securities and Exchange Commission (SEC) to see if the product is appropriately registered.

Monitor your investments

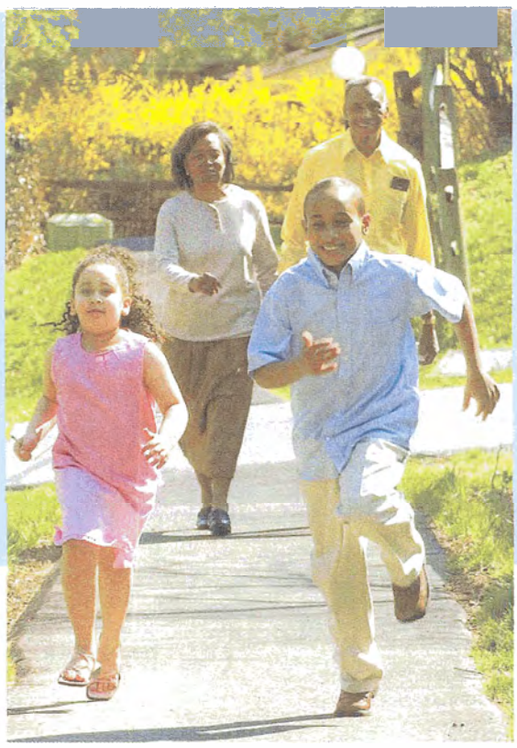
Once you've made an investment, watch it carefully to make sure the investment continues to perform well. Keep up with the financial news written about your investment. Review your investments at least annually to make sure they still meet your needs and rebalance if necessary. But don't rush to sell poorly performing investments. Watch the troubled investment more carefully and schedule another review in six months.

Resources

- To learn more about the world of investing, go to www.aarp.org/finance.
- For comprehensive information on personal finance, check out www.mymoney.gov.
- The Securities and Exchange Commission (SEC) regulates securities dealers and provides a host of educational information for investors. Visit the commission's website at www.sec.gov or contact the SEC Office of Investor Education and Assistance, 100 F Street, NE, Washington DC, 20549, 202-551-6551.
- The National Association of Securities Dealers (NASD) offers online brochures to help people learn about investing. Visit the NASD website at www.nasd.com or contact NASD's Office of Individual Investor Services, 1735 K Street, NW, Washington, DC 20006, 1-800-289-9999. NASD Dispute Resolution, a subsidiary of NASD, resolves disputes between consumers and stockbrokers.

INVESTING FOR RETIREMENT

It used to be that people could count on pensions from their employers to provide a comfortable retirement. In a pension, the employer invests some of your paycheck and then pays you a specific amount when you retire.



These days many employers are moving away from pensions, or defined benefit (DB) plans, to defined contribution (DC) plans. These plans require the employee to take an active role in investing for retirement. How much you receive depends on how much you and your employer contribute to the plan, and how successful you are in investing that money.

Defined Contribution Plans

Here are some examples of defined contribution plans that you manage yourself:

401(k) plans

A 401(k) plan is a payroll deduction plan that lets you save a portion of your current salary for retirement. These plans are referred to as "tax deferred" because you don't pay taxes on the money you put into a 401(k) until you withdraw the money at retirement. As an employee, you invest your 401(k) funds as you see fit, within the options provided by your company Some companies match a portion of the money that their employees contribute to a 401(k) plan.

Roth 401(k) plans

If your employer offers it, a new option is a Roth 401(k) plan. It works similarly to a regular 401(k) plan, but like a Roth IRA, contributions are made with after-tax dollars, and the account grows tax-free.

Investing can be risky business. Just as you can make money when your investments increase in value, you can lose money if the value of an investment declines.

However, unlike the Roth IRA, there are no income restrictions to participate.

403(b) tax-deferred annuities

A 403(b) plan, like a 401(k) plan, is funded by employee contributions and, often, matching contributions from the employer. The 403(b) plan is designed for employees of certain nonprofit organizations, such as schools, hospitals, and churches.

Keogh plans

Keogh plans allow self-employed workers to establish tax-deferred retirement plans for themselves and their employees. Each type of Keogh plan places different limitations on the percentage of your income that you can contribute each year to the plan. There are also limitations on the dollar amount you can contribute.

Individual Retirement Accounts

You can also plan for your retirement by contributing money each year to an Individual Retirement Account, or IRA. An IRA is an investment account that you open through a bank, brokerage firm, or mutual fund to buy investments, such as stocks, bonds, and mutual fund shares. Those investments will grow tax-deferred or tax-free, depending on the IRA. You can withdraw your funds without penalty anytime after you turn 59½.

IRAs are called "Individual" Retirement Accounts because you open them in your own name. There's no such thing as a joint IRA, even for married couples. If both you and your spouse are employed, you can each contribute the maximum amount to your own IRA each year. If only one of you is employed, you can set up a regular IRA for the working spouse and a spousal account for the non-working spouse.

All IRA contributions must come from your earned income, including wages, salaries, tips, and bonuses. Here are the maximum contribution limits:

Tax Year	Under Age 50	Over Age 50
2006	$4,000	$5,000
2007	$4,000	$5,000
2008	$5,000	$6,000

The contribution limits are higher for people over age 50 to encourage late starters to "catch-up" on their savings.

You don't have to deposit the same amount of money in your IRA each year. You can even make contributions to more than one IRA. However, your total IRA contribution can't exceed the maximum contribution level in any one year.

Traditional IRA

This IRA lets you defer paying taxes on your IRA earnings until you start withdrawing the money from that account in retirement. Depending on your income, and whether you have a pension or 401(k) plan at work, you may also be able to deduct your annual IRA contributions from your taxable income each year.

The Traditional IRA has several rules governing contributions and withdrawals:

- With limited exceptions, you can't begin withdrawing money from this IRA without penalty until you reach 59%.
- You must start withdrawing money from this IRA-and paying taxes on that money-when you turn 70%.
- If you fail to make withdrawals on schedule, or don't withdraw enough money, you will pay a penalty.
- You can't contribute any more money to this IRA after you reach age 70%.

Roth IRA

If you qualify to open a Roth IRA, you will never pay taxes on the income you earn through your IRA investments, as long as your withdrawals comply with IRS rules. This means that your earnings from a Roth IRA grow tax-free over many years. In addition, these rules apply:

- You can't deduct your annual Roth contributions from your taxable income.
- You can't start using your Roth earnings until you turn 59% and have had the account for at least five years.
- You don't have to withdraw money from the account, or pay any additional taxes, when you turn 70%.
- You can keep contributing money to this IRA for as long as you have earned income.

How to decide

At face value, it may seem that the Roth IRA, with its tax-free investment growth and flexible withdrawal policies, is the better deal for a retirement saver. For some investors, this may be true. But whether a Roth is best for you will depend on your own financial situation, including your tax bracket, your other income sources, and your other investments. To be sure, check with a tax specialist.

Remember that you choose where your IRA funds will be invested. The investments you make won't be any safer or more lucrative because they are part of an IRA account. Research your investments thoroughly and invest with care. Take care when deciding how much money to withdraw from your IRA each year. Many retirees try to take only the minimum required withdrawals so that their IRA funds are more likely to last them throughout their retirement years.

Annuities

Annuities offer another tax-advantaged way to guarantee some income for life, or for a specific number of years. An annuity is a contract between you and an insurance company. Based upon the amount you pay in premiums, the company pays you income according to an agreed schedule. Consider annuities only if you plan on investing for the longer term; otherwise, it might not be worth it. Be sure to examine all your options and the associated fees carefully before making a purchase.

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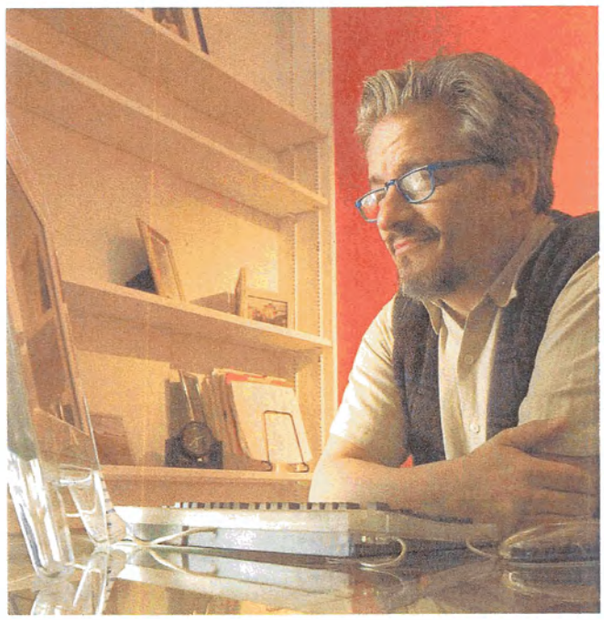


Many **options**

Do you want to pay one lump sum or installments:! Be aware that if you pay a **lump** sum—a "single premium annuity"—and later wish to invest more, you will have to buy another **annuity.** A "flexible payment **annuity" allows** you to invest more at any time.

Immediate or later payments. If you want payments to begin immediately, you can get an immediate annuity. Otherwise, you could buy a deferred annuity, which will begin payments at a later date. Even with deferred annuities, you can buy one that starts paying you in just a few years (although the payouts will likely be smaller).

Payment schedule. You can select from a variety of payout options: **monthly,** quarterly, or annual payments. Annuities are tax-deferred, not tax-deductible. Your money earns interest without you having to pay taxes. However, when you do start drawing from the **annuity, you** will pay taxes on the interest so consider the tax implications of your payout choice. Also if you make a withdrawal before you are 59½, you will pay a 10% **penalty.**

Length of time. You'll need to determine if you want payments for as long **as** you live, for **as** long **as** both you and a survivor live, or for a fixed time. You will probably hear these options referred to as a "life annuity," "joint and survivor **annuity,** "or a "period certain **annuity."** The longer the time the insurance company must make payments, the less each payment will be.

These are the two main categories of annuities.

Fixed. If you want **predictability,** buy a **fixed** annuity. It lets you set a guaranteed schedule of payments for a fixed period of time. Consider products that include cost of living adjustments (COLAs), **as** a way to keep up with **inflation.** Be aware that there may be **fees, such as** mortality and expense charges, deducted. Study so-called

"bonus" offers on fixed annuities that make it look like you're getting a higher than usual interest rate. The bonus rate may only be good for a limited time—like a teaser rate on a credit card, the good terms that attracted you to the annuity may expire and you may end up with worse terms.

Variable. If you're willing to take some risk in exchange for the chance to increase your future income, you can consider a variable annuity. You select how the company invests your money from among a variety of mutual funds. Your income will vary, subject to the success of the mutual funds that are in your annuity. There may be a guaranteed minimum you will earn, with an unlimited upside; or there may be no minimum guarantee at all. Variable annuities are generally not for those already retired or near retirement, because their purpose is to grow retirement savings tax-deferred over a long time. Furthermore, the minimum rate guarantee may be as low or close to as low as what you could earn with a CD—but you'd be paying much higher fees for the annuity.

Pay attention to fees and penalties. Here are some things to look for:

- *Surrender charge.* This is the penalty if you want to cash out the annuity. It typically declines the longer you hold the annuity until it disappears eventually. Pay close attention to surrender charges; they can have a big impact on the value of your annuity.

Withdrawals. Annuities have different withdrawal rules. Try to find a contract that allows you a one-time right to take out up to 10 percent of the accumulated cash value without a fee or penalty. This can be useful if you need to tap the annuity during the years the surrender charge is in effect.

Fees. You'll pay administrative fees and the underlying mutual fund expenses where your money's being invested.

Basic investment principles

Investment decisions don't have to be complicated if you focus on five basic principles of sound investing: low fees, indexing, diversification, rebalancing and simple choices. These principles form the foundation of prudent investing:

- Diversification: spreading investment choices over diverse areas of the market to help reduce overall risk. The old adage is true: don't put all your eggs in one basket.
- Indexing: a low cost option that offers broad diversification and risk management. Index funds, for example, are low-cost mutual funds that seek to mirror the performance of the broader markets they represent, such as "large company" stocks or "technology" stocks.

- *IRS rules.* In addition to the penalties imposed by the contract, taking money from an annuity may result in taxes and IRS penalties. As a general rule, if you withdraw money from an annuity prior to age 59½, you'll pay a 10 percent early withdrawal tax penalty. This applies to earnings, not the amount you deposited. The IRS thinks of your withdrawals as taking your earnings first and the amount you invested last. So if you withdraw money before you reach the contractual date for receiving income payments, it's likely that the entire amount withdrawn will be taxable. However, once your stream of income begins, the IRS will view each payment as a mix of earnings and the amount you invested. Only the earnings are taxable.

- *Safety.* Independent rating services examine the financial health of insurance companies that sell annuities, such as A.M. Best, Weiss Research, and others. An annuity bought at a bank is not FDIC insured.

Watch out for fraud. There are many reputable companies selling annuities. But annuities are a fertile area for fraud. One common technique is the switching, exchange or replacement of one variable annuity for another. A switch to an inappropriate variable annuity can cost you a great deal of money, but gives the salesperson a windfall. Be on the lookout if the proposal to replace the annuity comes from the salesperson, not from your own initiative.

Annuities sales people make very high commissions so there's pressure for them to sometimes force a sale. Be sure the agent is focused on your needs and doesn't simply come in and offer you a particular product without getting to know your situation first. Even so, don't trust too easily; sales training in annuities is intense, and the sales approaches can be slick.

- **Low fees:** in the long term, a small difference in fees can make a big difference in returns. Product fees and expenses reduce your investment return, so look for investments with low fees.

- **Rebalancing:** managing your investments to ensure proper diversification and desired asset mix. Because markets change over time, rebalancing helps you maintain your target asset allocation among stocks, bonds and cash.

Simple Choices; investing does not need to be difficult. Owning a few simple, well-chosen investments is a sound approach for many investors. And, if you don't understand an investment, then don't buy it.

MANAGING YOUR DEBT

Borrowing money—through either a bank loan or a credit card—gives you flexibility to purchase needed items when you don't have the necessary cash on hand.

But credit cards and bank loans also come with a price. If you borrow too much money, you run the risk of overextending yourself. High debt levels will affect your lifestyle, and your ability to save and invest, well into the future.

Getting credit when you need it

Even if you're not looking to borrow money in the foreseeable future, it's important to begin now to make sure you'll be a good candidate for credit if you need it. Start by following these steps:

- Establish a good credit history. You do that simply by paying all your bills on time. Your payment history affects not only whether you get credit, but how much interest you will have to pay.
- Know your rights and responsibilities. Three major laws—the Fair Credit Billing Act, the Fair Credit Reporting Act, and the Fair Debt Collection Practices Act—are designed to protect borrowers from unfair practices. For more information about these laws, visit the Federal Trade Commission website at www.ftc.gov/bcp/menu-credit.htm#rules.

Being a wise borrower

To avoid taking on too much debt, be sure to set realistic spending and borrowing limits for yourself. In particular:

Beware of predatory lenders who promote their services to those who may be financially distressed. These lenders charge high interest rates and use aggressive sales and collection tactics. Don't be pressured into acting quickly on any loan or credit offer. Always read carefully any loan agreement before you sign.

If you borrow too much money, you could run the risk of overextending yourself. This could affect your lifestyle well into the future.

- Be careful when using the equity in your home to secure a loan. Sometimes there are financial advantages to using your home's equity when you borrow. However, home equity loans with high rates or high fees are especially risky. Generally it is not a wise move to get a home loan to pay off credit card debt. If you can't make the monthly payments, you could lose your home!

  Get help if you become overextended with bills and debts. Nonprofit credit counseling agencies can help you get overdue bills under control. You should be aware, however, that some credit counseling agencies are more interested in selling you debt consolidation products than in giving you helpful advice.

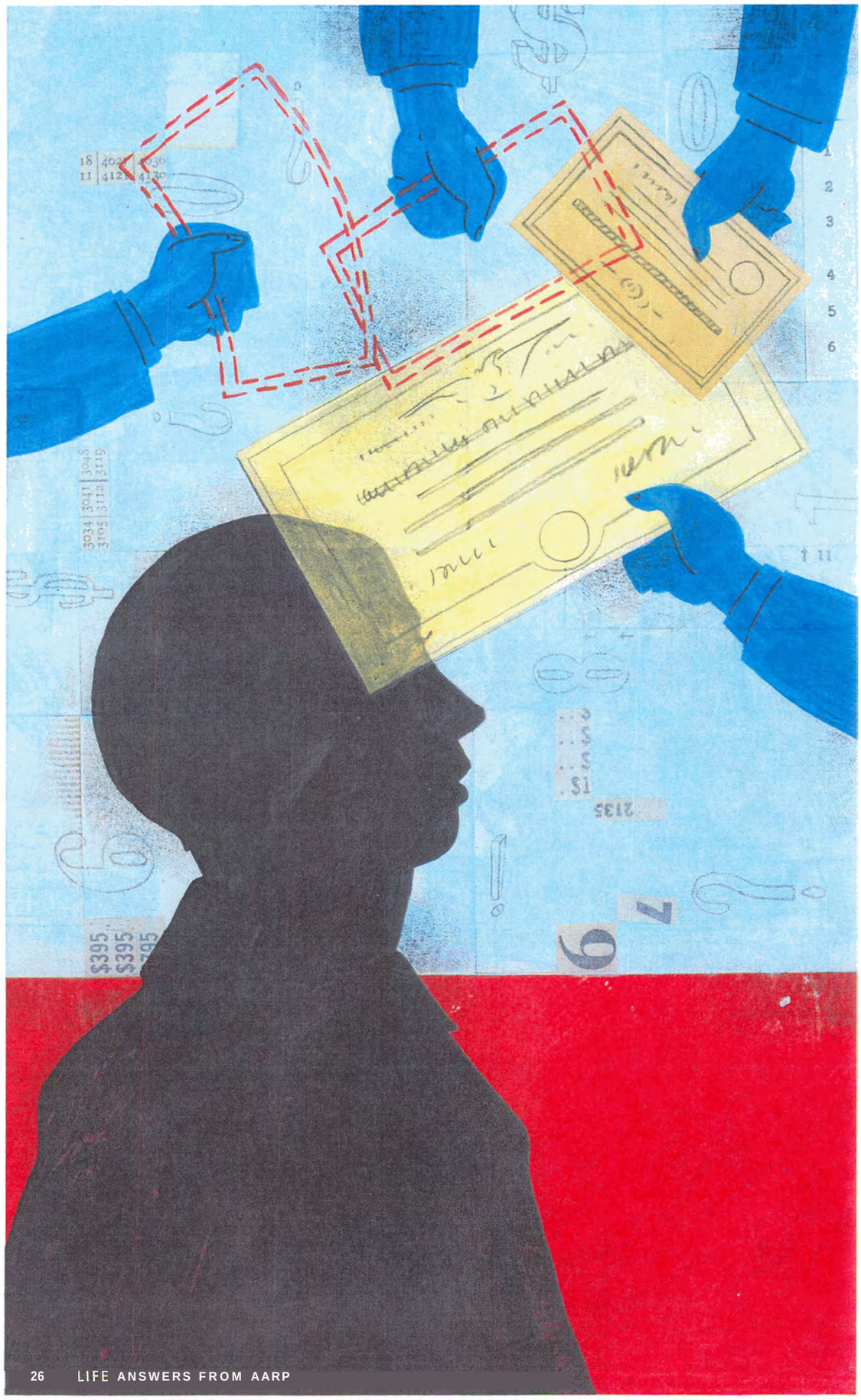
- Consider a reverse mortgage if you are 62 years of age, own your own home, and need income. A reverse mortgage is a loan on your home's equity that requires no repayment for as long as you live in your home.

Checking your credit

Check your credit reports once a year. It's a credit healthy thing to do—and now it's free. You can order your free reports three ways:

1. Call 1-877-322-8228
2. Visit www.annualcreditreport.com
3. Mail a request form to Annual Credit Report Request Service, PO Box 105281, Atlanta, GA 30348-5281

Just because people call themselves financial planners doesn't mean they're qualified to help you make financial decisions.



PROTECTING YOUR RETIREMENT SECURITY

As long as you have money to invest, other people will be looking for ways to try to get it from your pocket to theirs.

Thousands of people lose millions of dollars to investment fraud and inappropriate investments every year. It doesn't matter if you have just a little to invest, or are well versed with the investment scene. In fact, AARP research shows that investors who think they are experienced may be more likely to fall for an investment scam.

Often the difference between wise investing and losing big investment dollars comes down to the homework we do before we put our money down. Knowing who and what to look out for, as well as what types of investments are right or wrong for us, can help make wise and safe investment choices and help protect against investment scams. Scarnrners work hard to take our money. So we need to work smart to keep it away from them.

Con artists follow the headlines to come up with stories about the next big money maker. When gas prices at the pump are high, investing in oil wells is pitched as the next sure money maker. They may offer amazing high-return investments, "rare" gold coins, viaticals, senior settlements, or variable annuities that don't meet the needs of the investor. When the deal sounds too good to be true, it probably is.

When is an investment not really an investment? It might be what's called a Ponzi scheme. Of course the promoters don't call it a Ponzi scheme; they call it a wonderful way to make a lot a money fast. The problem is that the promoters don't actually invest your money Instead they use your money to pay off earlier investors. As long as more investors join in, which happens for awhile because of word-of-mouth advertising spread by the happy first investors, everything seems fine. But since no real investment is being made, it can't last long. After a time, the con artists pocket the investors' money and disappear.

Scammers make their money by gaining your trust. A con artist may have an impressive string of initials after his name. She may be a broker your friends swear by, an insurance agent you've known for years, or a persuasive financial adviser. He may be someone you met at a religious or social event. They also find their victims through unsolicited emails, telephone calls or free investment seminars.

The difference between wise investing and losing big investment dollars comes down to the homework we do.

The products may change, the pitch may sound fiesh, but the deals typicallyshare common traits that should send up a red flag. Some red flags are promises of very high returns, guaranteed profits, no risk, or pressure to act quickly. By knowing the scammers' tricks, you can become a wiser investor and avoid losing your financial security in a fraudulent product.

To protect yourself against frauds and scams, you need to do your own research and not rely on enticing promotions. People offering honest investments welcome questions and will give you time to do your homework.

Resources

The Federal Trade Commission (FTC) publishes consumer brochures and booklets about credit. It also can provide you with instructions for filing complaints. You can find these materials on the FTC website (www.ftc.gov), or call 1-877-FTC-HELP. To contact the FTC by mail, write to the Federal Trade Commission, CRC-240, 600 Pennsylvania Avenue, NW, Washington, DC 20580.

- The Federal Citizen Information Center (FCIC) distributes many publications about credit. Visit the FCIC website (www.pueblo.gsa.gov), write to Consumer Information Catalog, Pueblo, CO 81009, or call 1-888-8-PUEBLO.
- The nationwide Cooperative Extension System offers on-line learning tools on personal finance at www.extension.org.
- The Home Equity Conversion Kit is available from AARP. Order publication #D15601 by writing to AARP Fulfillment, 601 wE Street, NW, Washington, DC 20049.
- For a complete guide to financial planning, visit www.aarp.org/money.

Check the product. Most investment products must be registered with state securities regulators or with the Securities and Exchange Commission (SEC).

Check the person. People selling most investment products must be licensed by state regulators or with the SEC.

To check on an investment offer or the person making the offer, contact your state securities regulator. You can find state regulators at www.nasaa.org (click "Contact Your Regulator"). For SEC information, go to www.sec.gov (click "investor information") or call 1-800-SEC-0330. Also check out www.aarp.org/investmentfraud.

Who supervises your bank? Several agencies supervise banks and other financial institutions. First, find out what type of financial institution you use. Then, contact the appropriate agency for information about how your institution is regulated, or how to file a complaint against that institution.

- The Office of the Comptroller of the Currency (OCC) supervises all national banks. Contact OCC at www.occ.treas.gov or call 1-800-613-6743.
- The Federal Reserve System supervises all state-chartered banks that are members of the system. Contact the Federal Reserve at www.federalreserve.gov or call 202-452-3693.
- The Federal Deposit Insurance Corporation supervises state banks that don't belong to the Federal Reserve System. Contact the FDIC at www.fdic.gov or call 1-877-275-3342.
- The Office of Thrift Supervision supervises savings and loan associations. Contact them at www.ots.treas.gov or call 1-800-842-6929.
- The National Credit Union Administration supervises federal credit unions. Contact the administration at www.ncua.gov or call 1-800-827-9650 to report a fraud.

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