Kiplinger's CA-Simply Money Financial Advisor Index

Select financial advice on the following topics:

- Automobile Advice
- Budget Advice
- Business Advice
- Checking Account Advice
- Credit Card Advice
- Investment Advice
- Miscellaneous Advice
- Mortgage Advice
- Tax Advice

Automobile Advice

Choosing the right auto insurance
Cutting auto expenses

Choosing the right auto insurance Browse

The best way to cut insurance costs is to reshop your policy. Premiums for the same coverage can vary by as much as 100%, so a couple of hours on the phone can save you hundreds of dollars.

Consider increasing deductibles to lower your costs. The deductible is the amount you agree to pay before insurance coverage begins. For instance, the usual deductible for collision and comprehensive coverage (fire, theft, and vandalism) is $200. Increasing this deductible to $500 may reduce your collision premium as much as 30%.

Talk to your insurance agent about dropping coverage you may not need. For example, if you have adequate health and disability insurance at work, you may not need medical payments coverage. Or, if your car's value is less than $1,500, you might consider dropping collision and comprehensive coverage altogether.

You also may be able to do without uninsured motorist coverage (which pays for injuries to you or your passengers caused by hit-and-run, uninsured, or underinsured drivers) if your health and collision coverage already protect you or if you live in a strong no-fault state, such as Michigan. Some states, though, do require you to carry uninsured motorist coverage. If you are required to have it, consider $15,000 per injured individual and $30,000 total per accident.

Also, look into discounts of 5% to 10% offered to safe drivers, non-smokers, or honor roll students, and for air bags, anti-theft devices or driver training. Be skeptical of special add-on policy features such as life insurance or disability pay.

* This is triggered when the Auto/Insurance category is used.

Cutting auto expenses Browse

Your auto expenses seem to be running high. If chronic mechanical problems are the reason, and your car is out of warranty, check for the following:

Secret warranties. Sometimes a manufacturer will pay to fix chronic mechanical difficulties known to afflict certain models even though the car is out of warranty or the defect wasn't covered by the warranty to begin with. If so, it sends word to dealers via a technical service bulletin. For instance, Ford will replace the original brake rotors and linings on 1989, '90 and '91 Thunderbirds and Mercury Cougars free of charge because the original semi-metallic brake linings can cause the rotors to wear unevenly. General Motors will service out-of-warranty power steering units that lose power in cold weather on all 1982 through 1988 Oldsmobile front-wheel drive models. Dozens of other makes and models are subject to similar "secret warranties." It doesn't hurt to ask.

Recalls. If you bought your car used, you may be driving a recalled model without knowing it. A recall is issued to correct safety defects. To find out whether your car has been recalled, you can call the National Highway Transportation Safety Administration at 800-424-9393 or 202-366-0123. Be prepared to give the manufacturer's vehicle identification number, which you'll find mounted on a plate on top of the dashboard on the driver's side. NHTSA's Technical Reference Division can also provide a computer printout that includes consumer complaints, technical service bulletins and safety recalls for specific makes, models and model years at a cost of $20 to $35.

If your auto expenses include hefty payments on an automobile loan--and if such payments are a staple of your monthly budget because you generally buy a new car as soon as you pay off the old one--you might consider leasing your next new car. With a lease you can avoid making a big down payment, and monthly payments are less than with a typical auto loan. There is a never-ending debate about whether leasing costs more or less than buying over the long run. There is no simple answer, but if you drive 15,000 or fewer miles a year, take good care of your cars and always have car payments, a lease could save you money.

You're not the leasing type if you buy your cars for cash or pay them off as soon as possible and drive them until they drop. But, if your high automobile expenses are due to repairs to keep your car running, give careful thought to whether it's time to sell the clunker.

* This is triggered if the Auto category exceeds $300 per month for three months. Reset every six months.

Budget Advice

Setting up a budget
Using categories for budgeting
Budgeting expense categories accurately
Exceeding a monthly budget
Staying within a budget
Budgeting accurately
Budgeting for unusually high expenses

Setting up a budget Browse

Your budget is a powerful financial planning tool. You can use it with Kiplinger's CA-Simply Money reports to look at expenses over a specific period--either as actual expenses versus budget, or as expense categories over/under budget. And in time, a good budget can help you find ways to save money. A budget isn't a straitjacket. Think of it as a spending plan rather than rigid spending limits.

There are two ways to set up your budget. If you like, let Kiplinger's CA-Simply Money supply the figures based on your spending history, after you have recorded two or three months' income and expenses.

Or, you can fill in each expense category yourself, estimating an amount. Pull together bills, bank statements, canceled checks and credit card statements from the last few months to help you come up with realistic estimates. If you have enough information already entered in Kiplinger's CA-Simply Money, print out a report that itemizes your spending by budget category. Then, determine which expenditures are fixed and which are discretionary (see below). Add in the monthly amount you'd like to put toward long-term goals, such as a down payment on a house or retirement savings. If there's a shortfall, you can decide where to pare discretionary spending.

Whichever way you proceed, enter a monthly dollar amount for as many expense and income categories as you can think of. Then get down to business.

- Be realistic. Don't underestimate expenses just to make the budget balance. You'll be more likely to stick to a budget that reflects your real spending needs.
- You can't change fixed expenses (such as housing payments) easily, so budget them first. Then determine variable expenses, including discretionary debt payments (such as payments beyond the minimum on credit cards and home-equity credit lines), auto expenses; groceries; utilities and entertainment.
- Next, address saving for emergencies. Figure that you need three to six months' living expenses. Then budget for long-term goals--college or retirement, for example. Kiplinger's CA-Simply Money's Investment Goal Calculator can help you decide how much to budget here. (You'll find it in the System menu.)
- Estimate the yearly cost of unexpected expenses. These include home repairs, major car repairs, and medical expenses. Budget one-twelfth of the total as a monthly expenditure so you won't be caught unprepared.

Even if you create a budget and then don't look at it again for six months, you'll have a feel for what you can afford and where you might need to cut back if you succumb to an off-budget splurge.

See also Budgeting accurately; Staying within a budget.

Using categories for budgeting Browse

Be sure to assign categories to your transactions so that your budget reports accurately reflect your spending. You can customize each Finance Group to meet your unique financial planning needs. Along with the categories provided by Kiplinger's CA-Simply Money, you may find it helpful to add some of the following categories:

- Alimony and/or child support expenses
- Domestic help
- Dry cleaning/laundry
- Dues (professional, club, union, etc.)
- Education (current tuition or loan repayment)
- Fast food/restaurants
- Gardener
- Health club
- Homeowners Association fees
- Home furnishings
- Home security system
- Insurance--disability, health, home, and life
- Pets, including food and medical bills
- Prescriptions
- Personal care, including haircuts, cosmetics, etc.
- Postage and mailbox fees
- Television (cable, repairs, etc.)
- VCR (tapes, repair, rentals)

To add new categories and sub-categories, choose Categories from the Edit menu.

Remember that the more information you supply about your expenses, the clearer the budget reporting will be. For instance, you may find that your level of "Miscellaneous" expenses is high. Seemingly insignificant outlay, for such things as lunch, coffee and sodas at work, newspapers, dry cleaning and taxis, can truly add up. Breaking them out into specific categories will help you control spending.

It's easiest to keep track of expenses you pay for by check or credit card, because you leave a paper trail. If your budget is tight and you have trouble accounting for cash spending, consider carrying a notebook to track small cash expenditures. Or, pay more of those expenses by check or with a credit card (assuming you pay the balance off at the end of the month.) Then assign categories for them instead of lumping them all in "Miscellaneous." Keeping closer tabs on what you spend can help you pinpoint areas of overspending, and help you decide whether, and how, to adjust your spending habits.

* This is triggered if five or fewer categories have balances for the last two months.

Budgeting expense categories accurately Browse

Whenever you exceed a budget category, examine the expenditures in that category. Unusual circumstances may be the cause: for example, unexpected medical bills or major home repairs that were unavoidable. Remember that a good financial plan means saving and maintaining emergency funds equal to at least three months' living expenses. You can use this emergency fund to pay unexpected bills, but replace what you use as soon as possible.

If the expense that puts you over your budget is discretionary, consider holding off on it; or, hold down spending in this or another category next month to make up the shortfall.

If unusually high expenses are not the cause, your original estimate for this category may be off base. Don't underestimate expenses just to make your budget balance. Be realistic.

If your original budget was realistic and you aren't incurring unusual expenses, look at your spending habits and determine how to reduce spending in this category.

See also Staying within a budget.

* This is triggered whenever a transaction exceeds the budget for that month.

Exceeding a monthly budget Browse

Unusual circumstances may cause you to go over budget in any given month. For example, you may incur major medical or home-repair expenses. It's okay to break your budget occasionally. But take care not to break it consistently. Consider holding off on some other expenses this month or holding down overall spending next month to make up the shortfall.

Perhaps your original budget wasn't realistic. Assuming you have recorded at least two months' income and expenses, you could let Kiplinger's CA-Simply Money define a budget for you based on your spending history. Use the Auto Budget option to do this.

See also Setting up a budget and Staying within a budget.

* This is triggered whenever a transaction causes expenses to exceed total budget.

Staying within a budget Browse

If you are having trouble staying within your original budget, perhaps it was not realistic. Have you greatly underestimated any expenses? You'll be more likely to stick to a budget that reflects your real spending needs. If you have trouble determining realistic budget figures, Kiplinger's CA-Simply Money can help by creating a budget for you automatically.

Have you based your budget on the expectation of extra income, such as a bonus? It's better to base your budget on known income only. Then, any extra income can be saved or invested painlessly--or squandered guilt-free.

Have you been dipping into savings or buying on credit to make up the shortfall? Review your expenses carefully. Look for ways to cut expenses, or consider ways you could increase your income.

See also Setting up a budget.

* This is triggered whenever total categorized expenses exceed total budgeted categories by 10%, for three months.

Budgeting accurately Browse

Have you overbudgeted for expenses? You can tell by looking at a budget report that shows expenses over/under budget. Don't forget that Kiplinger's CA-Simply Money can help you determine a more realistic budget by creating a budget for you automatically.

Being under budget indicates you have unused income. If you've been recording all your expenses, then congratulations--you have money left over that you can save or invest. Use these funds to pay off interest-bearing debt, accumulate a three-month emergency expense fund, or make long-term investments. Then revise your budget to include estimated expenses for these categories. An ideal budget leaves very little money left over, but instead tries to balance income with expenses--including the "expense" of savings.

If you're not recording all your expenses, make an effort at least to record expenses from checks, credit card statements and bank statements. The better you keep track, the more control you'll have over your finances.

See also Setting up a budget.

* This is triggered whenever total categorized expenses are lower than total budgeted categories by 10%, for three months.

Budgeting for unusually high expenses Browse

When you seriously exceed a budget category for six months or more, there could be several reasons:

- You may have had unusually high expenses in this category that were unavoidable. Unexpected home repairs could be the cause, for example, or you may have had unexpected medical bills. Make sure you set aside enough money to cover at least three months' expenses, to meet such emergencies when required.

- Your original estimate may have been inaccurate. Don't underestimate likely expenses just to make your budget balance. Be realistic.

Whatever the cause, if the estimate is accurate and you exceed an expense category repeatedly, you must either cut back your spending in this category or others, or increase your income--or both.

See also Setting up a budget.

* This is triggered when expenses for a category exceed budget by 20% for six months.

Business Advice

Setting up a payroll account
Writing a payroll check
Paying employee withholding taxes

Setting up a payroll account

Browse

Things to consider when setting up a payroll account:

- You are required to withhold federal income taxes for every employee.
- You are required to withhold Social Security and Medicare tax from each employee and pay a matching amount of tax for each employee.
- You are liable for state and federal unemployment taxes.
- And, you may be required to pay for worker's compensation or disability insurance.

Get a copy of Circular E, Employer's Tax Guide, from the IRS for details on when federal tax deposits are due. (Call 800-TAX-FORM to order a copy.) Publication 334, Small Business, may also be helpful. Check with your state's department of labor for details about unemployment, worker's compensation and disability insurance requirements.

Note that Kiplinger's CA-Simply Money does not calculate the amounts of withholding automatically; instead, it records the amounts from previous paychecks. Use the Calculator if there is a change in an employee's hours or rate.

You may want to consult an accountant to help you set up your accounts, decide on the accounting procedures you want to use, and advise you on the complex tax decisions facing business owners.

See also Writing a payroll check.

* This is triggered when a payroll account is opened.

Writing a payroll check Browse

You are required to withhold the following taxes for every employee.

FIT	Federal Income Tax
FICA	Employee's portion of Social Security and Medicare under the Federal Insurance Contributions Act. (You must also match your employee's FICA contributions.)

You may also need to withhold state income taxes. In addition, you are liable for:

FUTA	Federal unemployment tax
SUI	State unemployment insurance

You may also need to make deductions for other employer-paid taxes or items, including union dues, insurance premiums, and retirement plan contributions.

Get a copy of Circular E, Employer's Tax Guide, from the IRS for details on when federal tax deposits are due. (Call 800-TAX-FORM to order a copy.) Publication 334, Small Business, may also be helpful.

Household employees:
If you're writing a "payroll" check to a household employee, such as a nanny, housekeeper or babysitter, you're required to pay Social Security and Medicare taxes if you pay your employee more than $50 per quarter. You're also liable for state and federal unemployment taxes on the first $7,000 of wages if your employee earns more than $1,000 per quarter. IRS Publication 926, Employment Taxes for Household Employees, available from the IRS at the phone number above, spells out your obligations in detail.

See also Paying employee withholding taxes.

* This is triggered when a paycheck is written.

Paying employee withholding taxes Browse

You are responsible for paying employee withholding taxes, as well as your matching Social Security contributions and other obligations. Kiplinger's CA-Simply Money can help you do this promptly and accurately:

- Use the Scheduler to remind you to take care of payroll liabilities. When deposits are due depends on how much tax you withhold. Check Circular E, Employer's Tax Guide, for the schedule that applies to you. (Call the IRS at 800-TAX-FORM for a copy.)

- Use the Reports feature to track how much you owe for each payroll liability category. Under the Tools menu, choose Financial Reports, and select Category Summary. Print this report.

- Set up a Payee for each liability category. For example, set up a Payee called Franchise Tax Board to pay state unemployment insurance, disability insurance, and income taxes.

For complete information about withholding taxes, talk to your accountant or CPA.

* This is triggered in the middle of the first quarter of use for a Business Finance Group.

Checking Account Advice

Choosing the best checking plan
Avoiding overdrafts
Avoiding overdraft charges
Checking account transaction errors
Earning higher interest
Using printed checks
Tracking unreconciled transactions
Avoiding duplicate transactions

Choosing the best checking plan Browse

Bank fees have been on the rise, and the least-expensive checking account you could find a few years ago may now be nickel and diming you mercilessly. If so, it's time to shop around. Even your own bank may offer an account that will cost you less. The key is finding the account that charges the least for your banking pattern.

Review recent account statements. How many checks do you write per month? How many ATM transactions do you make? How widely does your account balance fluctuate? The best choice for many people is an account with a low minimum balance requirement and no checkwriting charges. But if you write fewer than ten or so checks, a no-fee account that limits checkwriting may be suitable. Heavy ATM users should look for a bank that doesn't charge you to use other banks' ATM machines. (About 25% of banks don't.) If your balance scrapes bottom at the end of the month, look for an account that lets you meet an average monthly balance instead of a minimum.

A bank may waive service charges for checking if you keep a savings account in the same bank. In a low-interest-rate environment, it costs you relatively little in forgone income to keep a minimum balance in checking or savings to avoid checking fees. Keeping the average minimum balance of $500 in a non-interest-bearing account costs you about $15 a year when market rates are 3%--less than the average annual account fee of $60.

Other points to consider:

- Can your paycheck be deposited automatically?
- Does the bank offer telephone service for balance inquiries and some transactions (transfers between accounts, loan payments, etc.)?
- Are there plenty of automatic teller machines, conveniently located?
- Can you arrange for automatic transfers of funds, without charge?

You may get better terms at a credit union--if you're eligible to join one--than at a bank or savings & loan. Credit union members must share a common bond--usually they work for the same employer or belong to the same church or professional group. But you may also be able to join a residential or community credit union that admits any resident of the town, city, or county. Check your phone book for the credit union league in your state, which can refer you to any community credit unions in your area. Also look to family members for eligibility--most credit unions let immediate family members join, and some permit extended family, such as in-laws or cousins.

If you use your checking account for your business, compare banks on these points:

- Usage rate. There should be no penalty for writing lots of checks.
- Location and hours. Both should be convenient to your business.
- Direct deposit of paychecks. Employees may want this benefit.
- Hold policy. Make sure it's lenient, so that if you deposit a check to meet payroll, your bank doesn't hold the check and hold up payday.
- Out-of-state facilities. If you travel frequently, determine accessibility in other states, and whether long-distance services are available.
- Other useful features such as signature guarantees and notary service.

See also Earning higher interest.

* This is triggered when you set up a Checking Account button.

Avoiding overdrafts Browse

If you have written a check or checks that will overdraw your account, you need to transfer sufficient funds from other accounts to cover them, or withhold some of the checks. Charges on returned checks range from $5 to $25 each, and should be avoided. Repeated overdrafts may also adversely affect your credit rating.

You may want to ask your bank to add overdraft protection to your account--an automatic loan that guarantees your checks will not "bounce." The interest and fees on a short-term overdraft loan are almost always substantially less than the bounced-check charges. But remember that the interest may be as high as 18%, so try to pay off the balance as quickly as you can. It's easy to fall into the "trap" of overdraft protection--a large outstanding balance that gets harder and harder to pay off.

See also Avoiding overdraft charges.

* This is triggered every time a Checking Account balance drops below zero.

Avoiding overdraft charges Browse

Overdraft charges can range from $5 to $25 each, and can easily be avoided. When you write checks, keep an eye on your current balance, which is automatically calculated and displayed in the Checkbook window or register. Be sure to enter all checks as well as electronic payments, ATM withdrawals, and other checking account transactions.

You may want to ask your bank to add overdraft protection to your account--an automatic loan that guarantees your checks will not "bounce." The interest and fees on a short-term overdraft loan are almost always substantially less than the bounced-check charge. But remember that the interest may be as high as 18%, so you should pay off the loan as quickly as you can.

See also Avoiding overdrafts and Choosing the best checking plan.

* This is triggered every time you reconcile a Checking Account and the monthly service charges exceed $15.

Checking account transaction errors [Browse]

Kiplinger's CA-Simply Money signals you whenever a payment is significantly higher than your previous payments to the same payee. When this happens, check your entries to be sure that you:

- Entered the amounts correctly.
- Entered the payee name correctly.

* This is triggered if you have written two previous checks to the same payee, and the current check exceeds the average by 150%.

Earning higher interest Browse

You may have an excessive balance in either your checking or savings account(s). When you leave more money in a non-interest-bearing checking account than is required to cover checks, you are giving up the opportunity to earn interest or dividends on the excess. Instead, let your cash work for you. If your checking account does not earn interest, consider opening a money-market account from which you can transfer funds into checking as needed.

If you have a high balance in your passbook savings account or money-market account, you can earn higher returns by shifting the money into other short-term investments. Beating the low returns on CDs, bank money-market accounts and money-market mutual funds usually entails some additional risk. But the risk may be small relative to the added return. Some higher-yielding choices for short-term savings:

U.S. savings bonds may boost your return without additional risk. At a minimum rate of 4%, Series EE bonds are a good parking place for money you need in six months to two years. You must hold the bonds for a minimum of six months, but the 4% you earn may beat the rate you'd get on a short-term CD or money-market account. If you hold the bonds five years or longer, you earn a market-based rate equal to 85% of the average return on five-year Treasury bonds. In addition, the interest is tax-deferred until you cash the bond and is free from state and local taxes. (It can also be free of federal taxes if used to pay for college.)

Short-term bond mutual funds buy a variety of corporate debt securities that mature in one to five years. They can beat the return on one-year CDs by 2 to 4 percentage points, and you can redeem shares whenever you like. Short maturities limit volatility and minimize capital loss should interest rates rise. However, shares may lose some principal if rates rise or if a corporate issuer gets into trouble.

Short-term municipal bond mutual funds may be appropriate if you're in a high tax bracket. The returns on muni bond funds are free from federal tax and may also be free from state and local tax if the fund buys locally issued bonds. After taking taxes into account, the returns can beat those of other short-term bond funds. But as with regular short-term bond funds, you can lose some principal if interest rates rise or if a bond defaults. To minimize that risk, stick with funds that invest in short-term, high-quality bonds.

If you have cash in excess of an emergency reserve, consider longer-term investments, such as bonds, stocks and mutual funds that buy them. See also Setting investment goals and Establishing saving habits.

* This is triggered if the average Checking Account balance is more than $5000, or the average Savings Account balance is more than $7500.

Using printed checks Browse

Writing checks by hand takes time because it requires two steps: first, you must hand write the check in your checkbook; then you must enter the information in Kiplinger's CA-Simply Money checkbook register. Save time by printing checks directly through your computer. When you use the electronic checkbook, all you have to do is enter the information and select "Print." Kiplinger's CA-Simply Money updates the checkbook register automatically.

Cut down your bill-paying time with customized checks. Order checks by selecting Order Supplies from the System menu, or by using the catalog enclosed in the Kiplinger's CA-Simply Money box.

Tracking unreconciled transactions Browse

One reason to reconcile your checking account, and your mortgage and other loan accounts, is to be sure all transactions have cleared. When a transaction has not cleared after 60 days, you may want to check up on it.

If the unreconciled transaction is an uncleared check, determine the following:

- Did you print the check? Perhaps you entered it into the register but never checked the "print" button.
- Did you mail the check? Call the payee to see if it was received.
- Did the payee cash the check? Call to verify this.

If you can answer "yes" to all three questions, contact your bank to see why the check has not cleared.

If the unreconciled transaction is a mortgage or other loan payment, contact the lender immediately to be sure you're not inadvertently behind in your payments.

* This is triggered whenever there is an unreconciled transaction 60 days older than your latest reconciled transaction.

Avoiding duplicate transactions Browse

It's easy to accidentally enter the same transaction twice, especially when you are entering several transactions at once. Kiplinger's CA-Simply Money notifies you whenever identical transactions occur on the same day. Check the transaction registers for errors, and delete a duplicate transaction, if necessary.

* This is triggered as soon as you enter a transaction with the same date and the same payee or payor as a previous transaction.

Credit Card Advice

Setting up credit card accounts
Consolidating credit cards
Using home equity to reduce interest expense
Avoiding credit card service charges
Cash advances from credit cards
Using credit card balances
Using liquid assets to reduce interest expense
Gold credit cards
Travel cards
Staying under credit card limit

Setting up credit card accounts

Browse

Competition among credit cards is stiff, which makes it easier for you to get the best credit card value. The newspaper Barron's publishes a weekly list of selected cards, along with the issuer's name and location, annual card member fees (if any), interest rates, and grace periods. Your local newspaper may publish a similar weekly list. Ram Research (800-344-7714) and Bankcard Holders of America (800-553-8025) will send you lists, with phone numbers, for a nominal charge.

Like many people, you may receive credit card applications in the mail. If you do, determine whether any of the lenders offer to assume your current card debt. If you find one that does, take time to compare its terms with those of your current card. Here's what to look for:

- Annual percentage rate (APR). If you keep a balance in your account every month, look for a low interest rate. Rates range from 9% to 22%, and can be fixed or variable. Look for cards with rates under 14%, but be aware that the lower the rate, the better your credit rating and financial status must be to qualify. Too much available credit, including credit cards you don't use, can count against you. If you have a walletful of plastic, consider canceling some of your current cards before applying for a low-rate card.

- Grace period. If you pay off your credit card balance every month--so you never pay any interest--be sure your card has a grace period, during which you can pay the balance in full without accruing interest. A 25- to 30-day grace period--from the day the bill is mailed--is typical. If you pay in full, avoid cards with no grace period. If you usually carry a balance, the grace period is moot, since you sacrifice it anyway by not paying in full each month.

- Annual fee. If you pay off the balance every month, look for a credit card with no fee (or consider asking your current lender to waive the annual fee). If you customarily keep a balance in your account, look at interest rates first, then annual fees.

- Secured credit cards. If your credit rating is poor, a secured card may make sense. This kind of card requires you to make a deposit equal to the card's credit limit, usually from $300 to $3000. Some lenders put your deposit into an interest-earning CD, an added benefit. Be aware that any charges you make on the card are guaranteed by your deposit. If you fail to pay promptly, you may forfeit some or all of your deposit.

See also Using home equity to reduce interest expense ; Using liquid assets to reduce interest expense; Consolidating credit cards.

* This is triggered when a Credit Card Account is set up.

Consolidating credit cards Browse

If you are carrying balances on high-rate credit cards, consider consolidating them onto a low-rate card to save on interest charges. With a lower-rate card, you can "refinance" what you owe on high-rate cards by rolling the balance onto the new card. To do this, write a "convenience check" against your new credit line; or, take out a cash advance, deposit the money in your checking account, and then write a personal check to pay the old balance. Some card issuers may charge a fee or higher interest rate for such advances and convenience checks, but many charge nothing. And some even offer incentives to transfer balances.

An alternative to consolidating cards is to pay as much as you can on your highest-rate credit card first, while paying just the minimum on other cards. Once you pay off the card with the highest interest rate, begin working down the balance on the next-highest.

If you decide to consolidate your cards, compare the following:

- Annual percentage rate (APR). If your accounts carry a balance most months, the most important consideration is the interest rate. Rates range from 9% to 22%, and can be fixed or variable. Look for cards with rates under 14%, but be aware that the lower the rate, the better your credit rating and financial status must be to qualify. Too much available credit, including credit cards you don't use, can count against you. If you have a walletful of plastic, consider canceling some of your current cards before applying for a low-rate card.

- Grace period. If you carry balances, you can ignore the grace period. Cardholders who pay in full each month typically get 25 to 30 days to pay without accruing any interest. But if you don't pay in full, you forfeit the grace period.

- Annual fee. If you customarily keep a balance in your accounts, look at interest rates as well as annual fees before you consolidate. A no-fee card with a higher interest rate may not result in overall savings.

Example:
Suppose your average balance is $2000. With an APR of 18%, you pay $360 a year in interest. With a 12% APR, you pay $240 a year, and save $120. Even if the lower rate card has an annual fee as high as $50, you still come out ahead.

The newspaper Barron's publishes a weekly list of selected cards, along with the issuer's name and location, annual card member fees (if any), interest rates, and grace periods. Your local newspaper may publish a similar weekly list. Ram Research (800-344-7714) and Bankcard Holders of America (800-553-8025) will send you lists, with phone numbers, for a nominal charge.

* This is triggered when you have more than one Credit Card Account and the interest charges are high.

Using home equity to reduce interest expense Browse

You may be paying considerable interest charges on credit card account(s). This interest is not tax deductible. You can reduce interest costs, plus take a tax deduction for the interest you do pay, by using a home-equity loan to pay off the debt. For anyone who owns a home, the cheapest possible source of credit is almost sure to be a home-equity loan. Because it is a secured loan, the interest rate is usually low--sometimes just a point or two over the prime lending rate. And interest on the first $100,000 of the loan is tax deductible.

Example:
Suppose you are paying 16% interest on a $10,000 credit card debt. Using a home-equity line to pay it off might reduce the interest to 8%, and all the interest would be tax deductible. If you are in the 28% tax bracket, the carrying costs, after taxes, would be reduced from $1,600 to $576.

Although the tax law encourages consumers to borrow against their homes, caution is advised. Before you decide on a home-equity loan, consider the following:

- Defaulting on payments may jeopardize your home. Don't take out a home-equity loan unless you're confident you can repay.

- Closing costs on a home-equity loan may be several hundred dollars, which could offset your tax savings. But costs can vary dramatically, so search for a home-equity line of credit with low start-up costs. Setting up a Credit Line account with Kiplinger's CA-Simply Money can help you track these transactions.

- Using a home-equity loan to pay off credit cards simply transfers your debt; it does not **reduce** your debt. Avoid the temptation to run up credit card balances again.

- Consider using savings to pay credit card debt. Interest paid on your card may be as high as 18%, but after-tax earnings on savings could be as low as 2 or 3%. See also Using liquid assets to reduce interest expense.

* This is triggered when you have high credit card interest expense and sufficient home equity.

Avoiding credit card service charges Browse

When your credit card account shows an entry for Service Charges, the entry should represent late penalties, annual fees, fees for cash advances or similar charges, but not interest. If you have incorrectly entered an Interest Payment as a Service Charge, correct it now.

If you entered the Service Charge correctly, and the amount represents a late penalty, use the Scheduler to help you remember to pay your credit card bill before the penalty date.

If the service charge represents an annual fee, consider switching to a card with no fee, especially if you don't carry balances. If you switch lenders, remember that a high annual percentage rate (APR) may cancel out the benefits of reducing or eliminating the annual fee. Consult the weekly newspaper Barron's or your local newspaper for a weekly list of selected cards and their annual fees, annual percentage rates, and grace periods. Two other organizations that offer inexpensive lists of no-fee and low-cost credit cards are Ram Research (800-344-7714) and Bankcard Holders of America (800-553-8025).

You might also consider asking your credit card issuer to waive the annual fee. Many major credit card issuers are anxious not to lose their cardholders to lower-cost card issuers, and may agree to reduce or waive the fee if you tell them you are planning to switch.

See also Setting up credit card accounts.

* This is triggered whenever there are credit card service charges.

Cash advances from credit cards Browse

Using a credit card is an expensive way to get cash. Interest is usually charged from the day you take the advance; there is usually no interest-free grace period. In addition, many credit card lenders charge a higher rate of interest on cash advances, a percentage fee (1% to 5% of the amount you borrow), or an additional flat fee for each advance (typically $1 to $10). Clearly there is no such thing as a free cash advance on a credit card.

Review your card terms carefully before taking a cash advance; use your ATM card instead if there are funds available in a checking or savings account.

If you must take occasional cash advances, look for a card with a low interest rate and no extra cash advance fees.

* This is triggered by Check or ATM type transaction noted on your credit card account.

Using credit card balances

Browse

If one of your credit cards has a credit balance, it is probably from a refund. If you plan to charge a purchase in the next two months, use this card to do so. If not, or if the credit balance is more than you want to spend, request a cash reimbursement. Credit card issuers do not pay interest on credit balances, so don't neglect the use of your money. You could be using it somewhere else to earn interest.

* This is triggered when a Credit Card Account has a credit balance.

Using liquid assets to reduce interest expense Browse

Liquid assets are funds in savings, checking, money-market, and credit union accounts that you can access immediately without penalty. If your liquid assets equal more than three months' living expenses, use these assets to pay outstanding credit card debt, loans, and other liabilities. This saves money by eliminating unnecessary finance charges, and actually may "earn" you a 15% or higher investment return: the difference between the interest you earn on savings and the interest you pay on the debt.

Example:
If you have $1000 in savings, it may only earn 3%, or $30, in interest a year. But if you owe $1000 on a credit card, you may pay 18%, or $180 in interest. The difference between what you're earning and what you're paying is a negative 15%. Use the $1000 in savings to pay off the card.

See also Using home equity to reduce interest expense.

* This is triggered when liquid assets exceed four times monthly expenses, and credit card interest is high.

Gold credit cards Browse

Should you carry a gold card? If you travel frequently, you may find that the extra perks on gold credit cards come in handy. Premium cards usually offer collision damage waiver protection, which allows you to decline a rental car company's insurance policy; purchase protection, which reimburses you if an item bought with the card is stolen or damaged within 90 days; emergency travel, medical and legal assistance when you travel in foreign countries, and emergency roadside assistance. You may also receive discounts on car rentals, hotels and restaurants.

The extra trappings probably aren't worth it if you pay higher interest or annual fees than you would on an ordinary card. But if you never carry a balance on your credit card, you can ignore the interest rate and look for a no-fee gold card that lets you enjoy all the extras and never pay a dime. Two organizations that offer inexpensive lists of no-fee and low-cost gold credit cards are Ram Research (800-344-7714) and Bankcard Holders of America (800-553-8025). Gold cards offer high credit lines--usually $5,000 or more--and often have reasonable interest rates. Typically, you must have a household income of $35,000 or more and a good credit rating to qualify.

* This is triggered when you use a credit card for purchases in travel and other categories.

Travel cards Browse

Frequent travelers are ideal candidates for credit cards that award frequent flyer miles. You typically earn one mileage point for each dollar charged, excluding cash advances; but points can add up quickly for travelers who charge heavily. The cards aren't cheap--annual fees range from $35 to $75, and interest rates are as high as 19.8%. But if you play these cards right--by charging a lot and paying it all off each month--the rewards can be well worth the annual fee. Moderate chargers who pay in full should weigh the benefit of extra mileage against the annual fee. Those who carry balances are better off with a low-rate credit card, since the interest charges on these high-rate cards will probably outweigh the frequent flyer mileage benefits.

Contact the airlines you use most often to see which card or cards they are affiliated with. Many frequent flyer cards award bonus miles when you sign up for the card.

* This is triggered when travel expenses average more than $500 for three months.

Staying under credit card limits Browse

When you have exceeded your card's credit limit, you may be charged additional fees. If you have sufficient funds, make a payment to bring your account balance under the limit.

Meanwhile, call the lender to request an increase. Some lenders will grant a temporary credit limit increase to cover the costs of an emergency, such as an illness or a funeral. Others will agree to a permanent increase if you have had your card for awhile and your payment history is good.

To avoid exceeding the limit in the future, track your outstanding balance more carefully, especially when you're close to the limit. Look at your budget to see where spending cuts may be appropriate.

* This is triggered when a transaction exceeds the card limit.

Investment Advice

Establishing saving habits
Setting investment goals
Tracking your securities
Updating your portfolio
Staying invested in mutual funds
Salaried retirement savings
Self-employed retirement savings
Funding a retirement plan
Dollar-cost averaging
Dividend reinvestment plans
Using discount brokers
Buying no-load mutual funds

Establishing saving habits Browse

The most reliable way to turn a modest sum into measurable wealth is to add something to the pot on a regular basis. Even small amounts can grow to impressive sums. Say you invested $5,000 today in an investment earning 8%. Leave it untouched, and it grows to nearly $25,000 over 20 years. But add $100 a month to the pot, and you end the same two decades with almost $84,000--more than three times as much. Some basic saving and investing guidelines:

1. **Pay off high-rate debt first**. If you're paying interest at a rate well in excess of what you could earn on an investment (such as 18% credit card debt), paying off the debt is the best investment you can make. See Using liquid assets to reduce interest expense.

2. **Set aside three to six months' of living expenses** in a liquid reserve account, such as a savings account, bank money-market deposit account, taxable or tax-free money market mutual fund or a short-term CD. Use this account for emergencies, and replenish it after using it. That way, a major unexpected expense won't force you to liquidate a stock, bond, mutual fund or other investment when the price is depressed.

3. **Set a specific goal**. Vaguely defined savings goals can lead to half-hearted efforts to achieve them. Instead of "financial security," why not aim for "a million dollar net worth by age 60" or "college education for my two kids." You can use the Investment Goal Calculator (under the System menu) to help you determine how much you'd need to set aside monthly to achieve your goal over time. Once you settle on an amount you can afford to save, build it into your budget as a regular expense, just like a car payment or utility bill. See Setting up a budget.

4. **Put your savings on autopilot**. You can make regular saving or investing effortless (and eliminate the need for willpower) by setting up an automatic payroll deduction that shuttles part of your pay to a savings account or a U.S. savings bond. Better yet, set up automatic transfers from a checking or savings account to one or more mutual funds. A good time to start is just after a raise by allocating the extra pay--or even half of it--to automatic deductions. Your saving will seem less like self-denial if you've never had your hands on the extra money.

5. **Take advantage of tax-deferred savings plans**. Your money grows faster when the money isn't nicked by taxes each year. Tax-deferred vehicles generally require you to keep your savings intact until age 59 1/2. But if your savings goals are long-term, take advantage of the opportunity to let your earnings compound in an IRA, 401(k), Keogh, SEP-IRA or tax-deferred annuity. See also Salaried retirement savings and Self-employed retirement savings.

See also Setting investment goals.

* This is triggered when a Savings Account button is set up.

Setting investment goals Browse

The key to selecting appropriate investments is to decide first what your goals are for the money. The goals themselves, and the time you have to achieve them--along with your age, income, job security and tolerance for risk--should influence the kinds of investment you consider.

Short-term goals. These might include a vacation to Europe next summer or a down payment on a new car next year. That's not much time, so the stock market wouldn't be a good place to invest the money. You wouldn't want to be forced to sell your stocks in a downswing just because the time had come to buy your airline tickets. Don't put into the stock market money you think you might need in the next one to three years. Certificates of deposit that mature about the time you'll need the cash, or a money-market or short-term bond fund that allows you to withdraw your cash instantly by writing a check would be a better choice for these goals. See also Earning higher interest.

Medium-term goals. Maybe you'd like a larger house in three or four years. With more time comes more flexibility. Safety is important but you are in a better position to ride out bad times in financial markets. For medium-term goals like these, you might consider longer-term CDs that pay more interest than short-term certificates, or mutual funds that invest in stocks that pay good dividends but don't fluctuate much in price. A fund would give you high income (for reinvesting in more fund shares), a chance to ride along if the stock market zooms, and decent (but not ironclad) protection against a drop in stock prices.

Long-term goals. For goals many years in the future, such as a comfortable retirement or a college education for the kids, you can consider a wide range of possibilities: growth-oriented mutual funds, stocks, corporate and government bonds. Also take maximum advantage of tax-sheltered plans such as individual retirement accounts and 401(k) plans. See also Salaried retirement savings and Self-employed retirement savings.

Investment choices:
In general, the further away your goals are, the more risk you can (and should) take. This list of choices starts with the most conservative investments, appropriate for short-term goals, and proceed to the most aggressive, appropriate when you have plenty of time to ride out stock market ups and downs.

Low-risk:
- Bank money-market deposit accounts: FDIC insured.
- Bank certificates of deposit: Usually a penalty for early withdrawal. FDIC insured.
- U.S. savings bonds: Must hold a minimum of six months. Must hold five years to earn maximum returns.
- Money-market mutual funds: Fully liquid. Not FDIC insured.
- Treasury bills: Mature in one year or less. Backed by U.S. government. $10,000 minimum purchase.
- Short-term bond funds: Invest in corporate and government bonds maturing in one to five years. Some risk to principal if interest rates rise.
- U.S. government bond funds: Invest in U.S. Treasury IOUs. Fully liquid. Usually smaller minimums than for bonds themselves.

Moderate risk:
- Treasury notes: Mature in two to ten years. Backed by U.S. government. $1,000 to $5,000 minimum purchase.
- High-quality corporate bond mutual funds: Stick with bonds of top-rated companies with the best prospects for paying interest and principal on time.
- Ginnie Mae funds: Invest in mortgage-backed securities of the Government National Mortgage Association. Yields tend to reflect current mortgage rates.
- Municipal bond mutual funds: Invest in tax-free bonds issued by state and local governments.
- Income-equity mutual funds: Aim for a high level of dividend growth. Often concentrate on utility companies.
- Growth and income mutual funds: Invest in common stocks of well-established companies, but also

seek current dividend income.
- Balanced mutual funds: Most keep 40% to 60% of assets in bonds or preferred stocks at all times, with stock of well-capitalized, established companies usually making up the rest of the portfolio.
- Index mutual funds: Buy stocks that form a market index, such as the S&P 500 or S&P 100. Returns roughly match the index.
- Growth mutual funds: Seek long-term capital gains by investing in established companies whose stock prices are expected to rise faster than inflation.
- Real estate investment trusts: Buy real estate properties or mortgages and pass the profits on to shareholders.

Higher-risk
- High-yield bond funds: Also known as junk-bond funds. Invest in bonds rated below investment grade by Moody's or Standard & Poor's.
- Aggressive-growth mutual funds: Seek maximum capital gains. Often focus on small companies.
- International and global funds. Invest companies outside the U.S. Have currency risk in addition to market risk.
- Sector funds: Invest in a single industry, such as gold, biotechnology or health care. Can be highly volatile.

See also Dollar-cost averaging; Dividend-reinvestment plans; Using discount brokers; Buying no-load mutual funds.

* This is triggered when an Investment Account button is set up.

Tracking your securities Browse

When the expiration date for a security is less than 30 days away, you need to begin thinking about what to do with your freed-up cash. Consider your goals for this money. If a CD is about to mature, for instance, and this money is invested for the long term, you may want to look for a higher yielding investment. See also Setting investment goals and Earning higher interest. But don't ignore risk when seeking higher returns. If you're risk averse or will need the money in two years or less, stick with low-risk vehicles, such as a bank CD, money-market mutual fund or short-term bond fund.

* This is triggered when the expiration date for a security is less than 30 days away.

Updating your portfolio Browse

To get an accurate representation of your portfolio value and net worth, you need to update your stock and mutual fund prices--either by hand or by computer. With Kiplinger's CA-Simply Money, you can update prices automatically using Modem Stock Price Updates (under the Operations menu.) For instructions, see Modem Stock Price Updates in the program help file.

* This is triggered when all stock prices in your data base are more than 45 days old.

Staying invested in mutual funds Browse

If a mutual fund shows a paper loss, selling can earn you a tax-saving deduction. But beware of the "wash sale" rule.

If you sell shares before the end of the year, you report the loss on this year's tax return, and that will cut your tax bill. But what if you want to get the tax break but really don't want to part with your shares for good? It's possible, but beware the wash-sale rule. It blocks the tax loss if, within 30 days before or 30 days after the sale, you buy back the same shares. There are two ways to have your cake and eat it too. One is to sell your shares before year-end and wait for 30 days (starting the day after the sale) before buying them back. The other is to buy identical shares in November, wait for 30 days (starting the day after the purchase) and then sell the old shares.

Alternatively, you could get around the wash sale rule entirely by selling your shares and buying shares of a different mutual fund with a similar investment strategy.

* This is triggered between November 1 and December 31 and you have at least one Investment button.

Salaried retirement savings Browse

Individual Retirement Accounts: You have until April 15 to make an IRA contribution for the previous year. Each year, you can deposit up to $2,000 of your earnings from a job or self-employment, and there is no tax on the earnings inside the account until you withdraw the money, presumably in retirement.

Despite confusion on the issue, most people can still deduct their IRA contributions. A two-pronged test controls deductibility. First, are you or your spouse covered by a retirement plan at work? If not, you can deduct your IRA contributions no matter how high your income. If either you or your spouse is covered by a plan at work, however, how much you earn does matter.

If you are single and are covered by a plan, your IRA contribution is deductible if your adjusted gross income is $25,000 or less. As income rises between $25,000 and $35,000, however, the deduction is phased out. For married couples, at least one of whom is covered by a plan, IRAs are fully deductible when AGI is $40,000 or less. The $2,000 annual deduction limit is phased out as AGI rises to $50,000.

Even if you can't deduct the contribution, it still makes sense to fund an IRA. The real power of the IRA lies in the tax-deferred status of its earnings, which turbocharges the compounding process. A series of 20 $2,000 IRA contributions earning 10% a year compounded annually over 20-years grows to nearly $115,000. The same investment outside a tax-deferred account becomes only $92,000 because the IRS gets a chunk of the earnings each year, so there's less to compound.

You can open an IRA account with a bank, a mutual fund or a brokerage, and can invest in CDs, mutual funds, stocks, bonds or other investments. There is an extra 10% penalty tax for tapping the money before you reach age 59 1/2--unless you schedule payouts to deplete the IRA over your expected lifetime.

401(k) plans: If your employer offers one, a 401(k) salary reduction option (or its cousin, the 403(b) plan offered to public school teachers and employees of nonprofit organizations) is an excellent vehicle for retirement savings. Money you earmark--usually 2% to 15% of your annual salary up to a maximum of just under $9,000 in 1993--goes into the account tax-free, and the earnings are tax-deferred. A bonus: Many employers match employees' contributions 50 cents on the dollar, or even dollar for dollar, up to a certain amount. Don't pass up the chance to earn an immediate 50% or 100% return if it's offered.

Employers typically provide several options for investing your salary set-asides, often giving you a choice of stock in the company itself; a stock, bond or money-market mutual fund; or a guaranteed investment contract (GIC)--an insurance-company product that's similar to a bank CD but not covered by FDIC insurance. If you're ten or more years from retirement, tilt as heavily toward stocks as you dare. This isn't heedless risk-taking: stocks are volatile over the short-term, but they have almost always outperformed interest-paying investments over any given 15-year period. (If your company matches your contributions with company stock, consider other alternatives for the rest of your 401(k). You already depend on the company for your livelihood. You risk having too many eggs in one basket if you also depend on it for your investment results.) As retirement approaches, shift gradually to more conservative investments. But don't abandon stocks altogether. You'll need the growth they offer to protect you from inflation after you stop bringing home a paycheck.

A rule of thumb: The percentage of your investments in stocks should equal 100 minus your age.

Plan to keep your 401(k) money invested at least until you turn 59 1/2. In most cases, you'll pay a 10% penalty tax in addition to ordinary income taxes to tap the money earlier. However, nearly all 401(k) plans permit "hardship" withdrawals for such things as buying a home or paying for college or medical care. And many will allow you to borrow from your account at reasonable rates, often at the prime rate or a point above prime.

See also Setting up a paycheck button.

*	This is triggered between March 15 and April 15 if you have a Paycheck button.

Self-employed retirement savings Browse

If you earn any self-employment income--from your own full-time business, a sideline business or free-lance or consulting work--consider setting up your own retirement plan to shelter some of that income. Funds you contribute to these accounts via a bank, mutual fund or brokerage are tax-deductible, and earnings inside the account grow tax-deferred.

- A **Keogh** plan is a pension plan for self-employed individuals. You're eligible if you own a full-time business, a sideline business or do freelance or consulting work--even if you're already participating in a company pension plan and are actively contributing to an IRA. One popular version of a Keogh--called a money-purchase defined contribution plan--permits annual contributions of 25% of net self-employment income, up to a maximum of $30,000. (To arrive at the definition of net self-employment income for Keogh contributions you must first deduct the contributions, which has the effect of lowering the limit to 20% of precontribution income.) However, if you choose this type of plan, you commit yourself to contributing a fixed percentage of income each year. A more flexible version--called a profit-sharing defined contribution Keogh--has an effective limit of about 13% of earnings, up to a $30,000 maximum. As long as the Keogh is set up by the end of the year, contributions you make up until the tax filing deadline can be deducted for that year. Earnings accumulate tax-free until you take them out at retirement. As with an IRA, withdrawals from a Keogh before you turn 59 1/2 will usually trigger a 10% penalty--unless you set up a schedule of payouts to deplete the fund over your expected lifetime. If you have employees, you must make Keogh contributions for them as well as yourself.

- A **SEP-IRA** (simplified employee pension plan) is similar to a profit-sharing defined contribution Keogh. You can deduct contributions of up to roughly 13% of your earned income, or $30,000, whichever is smaller. Earnings grow tax-deferred. You choose your own investments, and can open your account as late as April 15 and still deduct contributions for the previous year. If you miss the December 31 deadline for opening a Keogh, you can use the SEP as a last-minute tax shelter. If you have any employees, you must contribute for them as well as yourself.

* This is triggered when no paycheck is recorded for a year.

Funding a retirement plan Browse

You must open or fund your IRA (individual retirement account) or SEP-IRA (simplified employee pension plan) before April 15 of this year in order to get tax benefits for last year.

- An **IRA** (individual retirement account) allows you to put up to $2,000 of your earnings aside each year and owe no taxes on the earnings until you take the money out. What's more, your contribution earns you a tax deduction if you file your taxes singly and have an adjusted gross income of less than $25,000, or if you file jointly with an AGI less than $40,000. As income rises between $25,000 and $35,000 on a single return and between $40,000 and $50,000 on a joint return, the right to the deduction is phased out. When your earnings exceed those limits, you can still deduct IRA contributions if neither you nor your spouse is covered by a company-sponsored retirement plan. If you qualify to deduct contributions, don't pass up the chance to reduce your tax bill. Even if you can't deduct the contribution, it can still make sense to fund an IRA. The real power of the IRA lies in the tax-deferred status of its earnings, which turbocharges the compounding process.

- A **SEP-IRA** (simplified employee pension plan) allows you to put even more into tax-deferred savings if you own a full-time business or a sideline business or do free-lance or consulting work. You can deduct contributions of up to roughly 13% of your earned income, or $30,000, whichever is smaller. Earnings grow tax-deferred. You choose your own investments, and can open your account as late as April 15 and still deduct contributions for the previous year. If you have any employees, you must contribute for them as well as yourself.

There's no deadline for contributing to a 401(k) or 403(b) plan, but if your employer offers one, contribute as much as you can. Money in these plans doesn't show up as income on your W-2 form, so it's not taxable on the return you'll file next April. Hiking contributions by $250 a month, for example, has the same tax-saving power as scrounging up $250 a month in itemized deductions. Contributions avoid state taxes, too. If your company matches part of the contribution, you're even further ahead.

* This is triggered between March 15 and April 15.

Dollar-cost averaging Browse

Dollar-cost averaging is a good way to reduce your investment risk. By investing regularly, you can smooth out the ups and downs of the market. You simply invest a fixed amount on a regular basis--say, monthly. Because you are investing a fixed amount at regular intervals, your dollars buy relatively fewer shares at high prices and relatively more at low prices. As a result, the average purchase price of the stock or mutual fund shares is lower than the average of market prices over the same time frame.

This technique also adds forced discipline to your investing. You can make it effortless by setting up automatic deposits from your checking account to a mutual fund. The trick is to stick to your schedule, regardless of whether stock or bond prices go up or down.

Dividend reinvestment plans Browse

You may be able to use stock dividends to buy additional shares of stock commission free. About 800 corporations make it easy for you to invest through dividend reinvestment plans (DRIPs), which automatically reinvest any dividends you earn in additional shares of stock. This lets you take advantage of compounding, and in most cases you can buy additional stock in small amounts, often for as little as $10 and sometimes at a discount from the market price.

A handful of companies--including W.R. Grace, Exxon, Barnett Banks, Procter & Gamble and Texaco--let you make your initial purchase directly through them. To invest in other companies you'll have to go through a brokerage firm and pay commissions. Once you're in a DRIP, however, you can say goodbye to commissions on that stock; most companies don't charge them. At most you'll have to pay a brokerage fee or service charge when you sell.

Using discount brokers Browse

Can you reduce commissions by using a discount broker? If you make your own investment decisions and don't need or want investment advice or recommendations from your broker, there's no need to pay for them. Discount brokers such as Fidelity, Quick & Reilly, Charles Schwab and numerous others don't make specific buy and sell recommendations. What you get is fulfillment of your order, period. Because they don't have to support research departments and because most of their business is done over the phone, discounters can charge considerably less than full-service brokers to accomplish your transactions--on average, one-fourth the commissions charged by full-service brokers. However, very small trades are often cheaper at a full-service firm. Discounters typically charge minimum commissions of $25 or $35, regardless of the size of the transaction. At a full service firm, the minimum commission might be, say, $35 or 25% of the transaction amount, which produce lower commissions on small trades, such as on 10 shares of a $5 issue.

There's nothing wrong with using both a full-service broker and a discounter. If you need to sell several thousand dollars' worth of stocks or bonds to raise cash, look for a discounter to exercise the trade at the lowest possible cost. When you need investment advice and information, or if a full-service broker puts you on the trail of a good investment opportunity, it's only fair to make those trades through that broker. One or two solid recommendations can be worth several bargain-rate trades.

A 1992 **Kiplinger's Personal Finance Magazine** analysis rated 16 full-service brokers on commissions, fees, research, in-house mutual funds, arbitration policies, clarity of monthly statements and other criteria. Rated highest were A.G. Edwards, based in St. Louis, and Kemper Securities, based in Chicago.

Buying no-load mutual funds Browse

If you don't have the time, desire or ability to evaluate mutual funds, you should find a financial adviser to help you choose--and you should expect to pay for that service in the form of a mutual fund load or sales commission. But if you choose your own funds, you can avoid commissions by sticking to no-load funds.

How to choose from a field of thousands? These questions should help you find the best candidates:

What's the fund's objective? A fund's goals should match yours. If you have long-term goals and can tolerate price fluctuations in the short-term, a growth or aggressive growth fund may be appropriate for at least some of your investments. Growth-and-income and balanced funds are more conservative, and thus appropriate for medium-term goals or investors not willing to accept wide price fluctuations. Money you need to tap in less than two years should be in the most conservative investments, such as CDs or a short-term bond fund.

What's the fund's performance record? How has the fund performed in relation to the market as a whole, and compared with other funds with the same objective? Compare the total return (price changes plus reinvested earnings) over one, three, five and ten years against a broad market index, such as the S&P 500, and against the average for all funds with the same objective, such as growth funds or growth-and-income funds. Also look at the pattern of returns to get a feel for how volatile the fund is. Some funds grow slowly but steadily; others may gain 40% one year and lose 30% the next. Choose a level of risk you're comfortable with.

What's the fund's expense ratio? Found in the prospectus, the expense ratio shows how much of your potential earnings gets eaten up by the costs of running the fund. Pay attention to this number, but don't fixate on it. All things being equal, a low expense ratio is a plus. But a fund with substantially higher total returns overcomes the drag of a relatively high expense ratio. Expense ratios tend to affect payouts from bond funds more than stock funds, and they can make an important difference in money-market funds.

What services does the fund offer? Some funds make it easier than others to open and close accounts, get information about net asset values, switch from one fund to another within a family, and so forth. Large fund families, such as Dreyfus, Fidelity, Oppenheimer, Putnam, T. Rowe Price and Vanguard, usually make it easy to switch from one family fund to another by letting you switch over the telephone and sometimes by waiving or reducing sales fees.

Miscellaneous Advice

Kiplinger's CA-Simply Money registration
Using the full range of buttons
Setting up a paycheck button
Archiving finance groups
Direct-depositing salary
Controlling utility usage
Protecting assets with liability insurance
Setting up child care and medical set-aside accounts

Kiplinger's CA-Simply Money registration Browse

Send in your registration card so you can receive technical support, and the latest information from Computer Associates, including:

- New product announcements
- Special offers
- Invitations to special events

In addition, warranty registration ensures free replacement of defective disks or disks that are not the correct format for your computer within 90 days of purchase.

* This is triggered after you have used Kiplinger's CA-Simply Money for thirty days.

Using the full range of buttons

With fewer than three income and account buttons, you may not be taking advantage of the power of this program. Kiplinger's CA-Simply Money can track all of your accounts--checking, savings, credit cards, investments, and so on. By supplying a complete picture, Kiplinger's CA-Simply Money helps you stay on track toward achieving your financial goals and assists with day-to-day recording and balancing.

If you have not set up accounts for credit cards, savings, and so on, take the time to do so. Go back into your existing account register and enter the correct accounts for appropriate transactions.

You'll find it easier to create a budget and use program features if you set up more buttons. Remember to assign all transactions to categories, too.

See also Setting up a budget and Using categories for budgeting.

* This is triggered if you have fewer than three buttons for Savings, Credit Cards, Credit Lines, Mortgages, Investments and Income Sources.

Setting up a paycheck button Browse

When you set up a paycheck income button, be sure to itemize all federal, state, and other deductions from the gross amount. This allows Kiplinger's CA-Simply Money to track your federal, state, and Social Security tax, as well as disability and other contributions, automatically.

For example, if you enter the federal tax paid with each paycheck, it is possible to see a chart of taxes you've paid to date. Careful accounting makes life easier when tax time rolls around.

To keep track of your 401(k) contributions, set up an Asset Account for the 401(k). Then, on your paycheck distribution list, add the negative contribution amount to that asset (choose Asset in the Browser box and select your 401(k)). The amount is subtracted from your gross paycheck and automatically added to the balance in the asset account.

Once you have paycheck distributions set up, Kiplinger's CA-Simply Money remembers them. All you have to do is drag the Paycheck button onto the account where you normally deposit paychecks. Tax and 401(k) deductions are automatically recorded. See also Salaried retirement savings.

* This is triggered when you set up a Paycheck button.

Archiving financial groups Browse

On January 1, begin recording transactions for the new year. To keep your financial records organized, archive data for the old year at the end of December. Pull down the File menu and choose Archive. This gives you a "snapshot" of the current finance group up to the date you specify. You can open up the archived group at any time and print reports and graphs to see how the year went. This can be useful for tax purposes, as well as for tracking your financial progress.

To start with a "clean slate" for the new year, simply choose File/Archive again, and Remove all transactions up to the end of the year. Kiplinger's CA-Simply Money clears all transactions in all accounts, but remembers the final balance for each. You can start fresh with last year's ending balances as this year's starting balances.

* This is triggered between December 1 and December 31.

Direct-depositing salary Browse

Many companies will forward your paycheck directly to your bank. This ensures faster deposit of your income, eliminates misplaced checks and saves you from waiting in bank lines.

It's easy to start direct deposit. Company policies differ, but typically you give your personnel or payroll representative a check from the bank you wish to deposit to, and fill in any necessary forms. Your paycheck is deposited by wire into your account--often days before you would otherwise receive it. Your company may still send you a nonnegotiable "check" to document the deposit.

* This is triggered every three months if you don't record your salary as a direct deposit.

Controlling utility usage Browse

When your utility expenses are higher than usual, check expenditures in utility subcategories--gas, electricity, water, and so forth--to see where the increase occurred. An unusual increase might indicate a leak. Otherwise, look for ways to trim your utility bills.

Home heating and cooling costs are usually the largest portion of home energy use. Consider these conservation tips:

- If you heat with oil, an annual furnace tune-up can reduce oil consumption by 5% to 10%. Installing a flame-retention burner on an older system can reduce consumption by 15%--allowing the typical household to recoup the cost in about three years.
- Make sure your home is properly insulated. If you have forced air heating and cooling, insulate the ducts that pass through unheated areas, clean or replace the filter monthly, and check once a year for leaks by feeling around duct joints for escaping air while the fan is on.
- No matter how you heat or cool, check for airtightness by moving a lighted candle around windows and doors. If the flame dances, you could benefit from caulking and weather stripping.
- Close windows and shades when you're not home to keep your house cool during hot days.
- Many utility companies offer free or low-cost energy audits. An inspector looks for airtightness, adequate insulation, and energy efficiency. He or she will also give you a detailed list of suggestions for cutting energy efficiency.

Water heating is usually the second biggest chunk in the home energy budget. Some ways to conserve:

- If your water heater is warm to the touch, add an insulation blanket. Also insulate hot-water pipes when they are accessible.
- Install aerators in faucets and flow restrictors in shower heads. This can cut hot water used for bathing by 50%.
- Unless your dishwasher needs a higher setting, lower your water heater temperature from 140 degrees F to 120 degrees F. You'll save about 18% in water heating energy.
- Run washers only when you have a full load.
- Water lawns more thoroughly and less frequently, at night or in early morning. Check for and repair sprinkler leaks. If you have an automatic sprinkler system turn it off when a storm is forecast and leave it off until needed.

* This is triggered when the current month's utility expense exceeds the average of the previous three months.

Protecting assets with liability insurance Browse

Your net worth indicates that you're a good candidate for extra insurance against personal liabilities. This is especially true if you own a pool, a boat, or any other potential accident site that may attract people outside your immediate family. An umbrella liability policy picks up where the liability portions of auto and homeowners policies leave off, and covers you against "trip and fall" lawsuits that exceed your base liability limits. For a relatively small amount of money you can insure yourself against that quintessential American financial hobgoblin: the huge personal lawsuit.

For example:
You may be able to buy a $1 million umbrella policy for as little as $100 or $200. If your current home insurance covers liability to $500,000, the umbrella policy would give you coverage to $1.5 million. If your current auto insurance covers liability to $300,000, the same umbrella policy would raise that limit to $1.3 million.

Shop around and get information from more than one insurance agent. Some companies require that you have auto or homeowners coverage with them before they will sell you an umbrella policy.

* This is triggered when your net worth exceeds $300,000.

Setting up child care and medical set-aside accounts

Browse

Take advantage of child-care or medical set-aside accounts. Child care and medical reimbursement accounts, sometimes called flexible-spending plans--funnel part of your salary through special accounts to pay for child-care or medical expenses. The money escapes federal income and social security taxes, as well as state taxes in most states. As an example, a person in the 28% federal tax bracket who faces a 7% state income tax rate plus the 7.65% social security tax (on the first $57,600 in 1993) would save $426.50 in taxes on every $1,000 channeled through the account.

Most plans require employees to decide in November how much to set aside for the coming year. Check the deadline and carefully estimate medical and child-care expenses. Then be aggressive, to take maximum advantage of this break. You forfeit any money left in the account at the end of the year, but the tax benefits are so great that you can win even if you forfeit 25% of the money you assign to the account. If you have extra money in the account near year's end (particularly in a medical set-aside account) try to accelerate expenses if you can by buying, say, eyeglasses or prescription drugs you need before the end of the year.

If your employer doesn't offer this option, try to persuade your employer to adopt it. Employers often institute these plans in conjunction with cutbacks in other benefits--as a way to get Uncle Sam to pick up some of the slack via tax savings. There's something in it for the firm, too. Employers avoid their 7.65% share of the Social Security tax on money funneled through the accounts.

* This is triggered between November 1 and December 31.

Mortgage Advice

Categorizing home repairs properly
Renting vs. buying a home
Refinancing a "jumbo" loan
Deciding to refinance
Paying down your mortgage
Home improvements
Getting a new mortgage
Checking up on housing costs
Cutting homeowners insurance premiums
Checking your property tax assessment
Dropping private mortgage insurance
Checking your escrow payments

Categorizing home repairs properly Browse

Make certain home repairs are properly categorized to save taxes later. For tax purposes, work around the house is divided between projects considered repairs and those constituting capital improvements that enhance rather than just maintain the home's value. The distinction is critical. The cost of repairs is a nondeductible personal expense. What you pay for improvements is nondeductible, too, but such expenses add to your basis. Because you can add 100% of the cost of improvements to your basis, every $100 of such expenses will cut $100 of the potentially taxable profit when you sell. An improvement is anything that adds value to your home, prolongs its life or adapts it to new uses. For examples, see Adding value with home improvements. Be sure to keep receipts for all home improvements.

Repairs, on the other hand, merely maintain the home's condition. Repairs are extremely important for maintaining the value of your property and sometimes even add to its value. But for tax purposes, fixing a gutter, painting a room or replacing a window pane are repairs rather than improvements, and therefore don't increase your basis.

In some cases, the cost of projects that ordinarily fall in the repair category--such as painting a room--can be added to basis if the work is done as part of an extensive remodeling or restoration. Also, some major repairs--such as extensive patching of a roof--may qualify as basis-boosting improvements.

* This is triggered when the Home/Repair category is used.

Renting vs. buying a home Browse

If you are renting, you might want to consider buying a home to take advantage of the substantial tax benefits. But first, weigh the pros and cons of homeownership:

The advantages of owning:

- Current tax law favors homeowners. Uncle Sam in effect subsidizes your housing costs by giving you a tax deduction for the mortgage interest and property taxes you pay.
- You get another tax break each time you sell your home. As long as you buy a new residence within 24 months of the sale that costs more than the selling price of your old home, you can postpone capital gains taxes on the profit. Once you reach age 55, if you trade down to a lower-cost house or decide to sell your home and rent, you avoid any taxes on up to $125,000 of profit. To claim the $125,000 exclusion, you must have owned and lived in your home for three of the five years leading up to the sale.
- Homeowners can use the equity in their home as a source of tax-free borrowing--interest on a second mortgage or home-equity line of credit is deductible on loans of up to $100,000, regardless of how you use the money.
- Even though housing prices may not be escalating as in the 80's--and in some areas have actually fallen--homeownership has historically provided a hedge against inflation. If the inflation rate rises, home prices are likely to rise with it. And in the long term, you'll probably be making payments with inflated dollars. With a fixed loan, your loan payment remains relatively constant, while rents go up with inflation.
- As a homeowner, you have the freedom to remodel and redecorate to your liking. In a rental, you have less flexibility.

The advantages of renting:

- You're freer to move, since you have no long-term financial investment to consider. If your income is variable or if you are subject to job transfers, this is an important consideration. The transaction costs of buying and selling a house can amount to more than 8% of its value.
- You can invest what you would have spent on the down payment and closing costs and earn immediate returns. Your investments may do better than the equity you earn, especially if housing prices are not escalating.
- Your money is accessible. Money invested in real estate is not liquid. If an emergency arises, much of your capital could be tied up in home equity.
- You avoid the unpredictable repair and maintenance costs that homeowners face. When comparing the cost of renting to owning, remember to factor in these additional expenses.

* This is triggered when there is no Mortgage Account and the Rent category is being used.

Refinancing a "jumbo" loan Browse

If the balance on a "jumbo" loan dips below $202,300, you may save interest by refinancing with a conforming loan. Conforming loans are for amounts of $202,300 and under, and are usually offered at lower interest rates. Be sure to take into account the cost of refinancing. Use the Refinance Calculator provided by Kiplinger's CA-Simply Money to see how long it will take you to break even on the costs of refinancing.

See also Deciding to refinance.

* This is triggered if a mortgage transaction causes the balance to dip below $202,300.

Deciding to refinance Browse

An old rule of thumb holds that you shouldn't bother to refinance unless you can cut your rate by at least two percentage points. But the rule may not apply if you plan to stay in your home awhile.

Use the Refinance Calculator (under the System menu) to determine whether refinancing will be worthwhile. The analysis shows how long it will take to break even--that is, how long it will take for lower payments to recoup the costs of refinancing. Compare the break-even time with the period of time you intend to live in the house. If you plan to stay put substantially past the break-even date, it probably makes sense to refinance.

Also compare amortization tables, if you wish, between your old and new loan, or between different prospective loans. To do this, use the Loan Calculator, solve for Payment, press the Amortize button, and print a table for each loan. Experiment with higher payments, which will shorten the term of your loan. Compare interest payments and principal level after one year (payment 12), two years (payment 24), and so on.

If you have an adjustable-rate mortgage, it may make sense to refinance to a low, fixed rate if you plan to stay in the home awhile. You won't necessarily save a lot of money compared with the ARM you're trading in, because that loan will eventually adjust to reflect lower rates. But you do get the peace of mind of knowing you won't lose if rates rise. If you plan to sell within two or three years, you're probably better off keeping the ARM, because it's unlikely you'll be able to recoup the costs of refinancing.

If your goal is to pay off your loan sooner, you can either choose a loan with a shorter term, say 15 years, or keep the term the same but continue to make the same payments you made before you refinanced to a lower interest rate. That allows you to pay down the principal faster, but gives you the flexibility to make lower payments if your financial situation changes.

If you decide to take advantage of the temptingly low initial rates on adjustable rate mortgages, be sure to determine how much your payments may go up in the future. Most ARMs have an artificially low first-year rate that's less than the index rate plus the margin that will apply after the first year. (Most ARMs are pegged to an index, such as the one-year Treasury bill rate. Lenders usually add an additional amount to the index rate, called the margin. As an example, an ARM might adjust to the one-year T-bill rate plus two percentage points each year.) To see how competitive an ARM will be after the first year, ask the lender to tell you what the interest rate and monthly payment would be after the first adjustment if the index rate didn't change between now and then. Most ARMs limit increases to two percentage points a year and six percentage points over the life of the loan. ARMs can adjust downward, too, but a drop isn't likely at the first adjustment date because of the low initial "teaser" rate.

* This is triggered when you set up a Mortgage Account.

Paying down your mortgage

Browse

When your combined checking and savings balances exceed four months' of Expense transactions, you have extra cash!

Before you go on a spending spree, remember that you should keep three months' of living expenses in savings, to be used for emergencies. Any excess amount should go toward paying off debts with non-deductible interest, such as credit cards or personal loans You may then want to apply excess cash toward the principal due on your mortgage.

You can cut your interest expense dramatically and shorten the term on your mortgage by paying it off faster than you have to. When you pay extra principal each month, you're effectively investing the cash at the same rate as you're being charged on the mortgage. On a 10% loan, that's like earning 10% on your money. True, the mortgage interest you're **not** paying would have been deductible, but you also would have had to pay tax on earnings outside the mortgage. So the taxes are a wash.

Paying down the principal on an Adjustable Rate Mortgage (ARM) can lower your required monthly payments on the adjustment date (because the adjustment will be applied to less principal).

Prepaying is especially appealing in the '90s. First, the return on alternative, interest-bearing investments is down. Second, the potential liquidity problem created by paying early--how to get the money if you need it--has been solved by the widespread availability of home-equity loans. Third, the advantage of using debt to leverage your investment in an appreciating asset has been diminished where home values are rising slowly and demolished where home values have fallen.

However, if your mortgage interest rate is lower than the return you could earn on an investment, you may be better off carrying the mortgage debt, investing the extra cash elsewhere, and earning higher returns.

If you decide to make a payment toward your principal, be sure to note with the payment that the money is to be applied to the principal.

* This is triggered when your liquid assets exceed four months' living expenses.

Home improvements Browse

You've entered at least $500 worth of expenses in the home repair category this quarter. Be sure those expenses are really repairs and not home improvements.

Tracking your home improvements separately can save on taxes down the road. For tax purposes, work around the house is divided between projects considered repairs and those constituting capital improvements that enhance rather than just maintain the home's value. The distinction is critical. The cost of repairs is a nondeductible personal expense. What you pay for improvements is nondeductible, too, but such expenses add to your basis. Because you can add 100% of the cost of improvements to your basis, every $100 of such expenses will cut $100 of the potentially taxable profit when you sell. An improvement is anything that adds value to your home, prolongs its life or adapts it to new uses.

There's no laundry list of what the IRS considers an improvement. However, the items and projects on this checklist can qualify.

- Addition or conversion of unfinished attic, basement or other space to living area.
- Air-conditioning: a central system or window units that will be sold with the house.
- Attic fan, furnace humidifiers, heat pump, thermostat, hot-water heater, radiators and radiator covers.
- Bathroom: bathtub, Jacuzzi, shower, shower enclosure, faucets, toilet, sauna, medicine cabinets, mirrors, towel racks.
- Built-in bookcases.
- Doorbell, burglar- and fire-alarm system, smoke detector, intercom and telephone outlets.
- Electrical: new or upgraded power lines, replacement of fuse box with circuit breakers, additional outlets or switches, floodlights.
- Fireplace, mantel, chimney, built-in fireplace screen.
- Insulation, weather stripping and caulking.
- Kitchen: refrigerator, freezer, dishwasher or stove sold with the house, cupboards, garbage disposal, countertops, exhaust fan.
- Landscaping: trees, shrubs and underground sprinkler system.
- Outdoors: aluminum siding, skylight, deck, garage, garage-door opener, carport, shed, fences and gates, lamppost, walls, screen and storm doors, porch, new roof, gutters, termiteproofing, waterproofing, paving and resurfacing of a driveway or sidewalks, barbecue pit, birdbath, hot tub, swimming pool.
- Plumbing: new pipes, sump pump, septic system, solar-heating system.
- Rooftop TV antenna and wiring.
- Washer and dryer sold with the house.
- Windows: screens, storm windows, shutters, awning, weather stripping.

Keep detailed records of any work done around the house, including receipts for items that might qualify as improvements. It's better to save papers you might not need than to toss out evidence that could save you money. In addition to receipts and canceled checks, keep notes of exactly what was done, when and by whom.

When toting up the cost of improvements, be sure to include any incidental costs. If you pay to have your lot surveyed as part of installing a fence, for example, the cost of the survey can be added to your basis. Although you can count what you paid hired workers, you are not allowed to add anything for your own time and effort if you do the work yourself.

To record a remodeling expense:
Click on your mortgage account button and use the Record Home Improvement window to record the expense. Or, from another account register, assign this expense to the Asset category, Paid in Equity/Mortgage (choose Assets in the Category Browser).

* This is triggered when home repair expenses exceed $500 per quarter.

Getting a new mortgage Browse

If you've just taken out a new mortgage or have refinanced your mortgage, you may need to adjust your income tax withholding to reflect higher or lower mortgage interest payments. If you have a new mortgage with higher monthly payments, you'll probably have larger mortgage interest deductions at year-end and can therefore reduce withholding throughout the year. If you've refinanced and your year-end mortgage interest deduction will fall, you may need to increase withholding to avoid paying penalties and interest for underwithholding.

Also be sure to keep track of your mortgage settlement costs. Many of the settlement costs you pay on a new mortgage or refinancing aren't tax deductible, but they can be added to the purchase price of your home to hike your tax basis when you sell. The higher the basis when you sell, the smaller any potentially taxable profit you have to report to the IRS. Be sure to add the following costs to your basis.

- Appraisal and credit report fees.
- Attorney and notary fees.
- Recording and title-examination fees.
- State and county transfer taxes
- Property inspection fees.
- Title insurance premiums.
- Utility connection charges.
- Amounts owed by the seller that you agree to pay, such as part of the real estate agent's selling commission or back taxes and interest.
- The cost of an option to purchase under a rent-with-option-to-buy arrangement.

If you have set up a new mortgage account because you refinanced, and this is the second time you've refinanced this mortgage, you may be due a substantial deduction for points paid on the first refinancing. (Each point represents 1% of the amount borrowed.) Points paid in a refinancing are usually not fully deductible in the year paid (unless all of the new loan is used for home improvements.) They have to be deducted over the life of the loan. But if you paid off a refinanced mortgage, the life of that loan ended--meaning you can deduct any as-yet undeducted points.

This is also a good time to be sure you're not overpaying for homeowners insurance, property taxes or private mortgage insurance. See also Cutting homeowners insurance premiums; Checking your property tax assessment; Dropping private mortgage insurance and Checking your escrow payments.

* This is triggered when you set up a Mortgage Account.

Checking up on housing costs Browse

Year-end is a good time to make sure you aren't paying too much for homeowners insurance, mortgage insurance or property taxes.

The best way to cut homeowners insurance costs is to reshop your policy. Premiums for the same coverage can vary dramatically, so a couple of hours on the phone can save you hundreds of dollars. Get price quotes from at least three companies. See also Cutting homeowners insurance premiums.

It can pay to periodically review your property tax assessment to make sure you're not paying more than your fair share of property taxes. You may have an inflated assessment because of factual errors in the description of your property or because the assigned value is higher than it should be, compared with comparable homes in your neighborhood. Getting a fair assessment may be as easy as correcting an error in your local assessor's office files or may require a formal appeal. See also Checking your property tax assessment.

If you put down less than 20% of your home's purchase price when you bought it, you're probably paying private mortgage insurance to your lender. But after a few years you can often drop the PMI coverage and cut your annual mortgage expenses by several hundred dollars. See also Dropping private mortgage insurance.

Make sure your escrow account isn't overfunded, especially if it doesn't pay interest. Lenders can normally keep a cushion of two months' tax and insurance payments in escrow. If there's a greater cushion in your account, request a refund. See also Checking your escrow payments.

* This is triggered between November 15 and December 31 if you have a Mortgage Account button.

Cutting homeowners insurance premiums Browse

The best way to cut homeowners insurance costs is to reshop your policy. Premiums for the same coverage can vary dramatically, so a couple of hours on the phone can save you hundreds of dollars. Get price quotes from at least three companies, including the company that insures your car--you may be able to get a price break if the insurer writes both your home and auto coverage.

Try to sidestep the system whenever you can by electing high deductibles--$500 or even $1,000 if you could afford to cover such losses on your own. You can reduce some premiums by as much as 40% if you pay for life's small mishaps and leave the insurance to cover the big ones.

Because you are unlikely to experience a total loss on your home (property and land), you usually will not need insurance for 100% of the replacement cost of your house. However, you won't be fully protected for even a partial loss unless your coverage at the time is equal to at least 80% of replacement cost. Many policies offer automatic annual increases for inflation that ensure you will keep your coverage over the 80% threshold.

Checking your property tax assessment Browse

It can pay to periodically review your property tax assessment--to make sure you're not paying more than your fair share of property taxes. Two things can lead to an inflated assessments--factual errors in the description of your property and an assigned value that's higher than it should be. To check for errors, look up your property record card in your local assessor's office, and check that the age, size, location, number of bathrooms, quality of construction, condition, description of easements or encroachments and so on are correct. Also make sure your property is classified as residential and that you're getting credit for any exemptions you deserve, such as those for senior citizens and veterans. Such errors can usually be corrected, and your assessment rolled back, without the hassle of a formal appeal.

If the property is accurately described, your case for a lower assessment rests on showing that the assigned value is too high. When pinpointing the value of your home, the best evidence is what you paid for it, if you purchased it recently. The next-best evidence is the sale price of similar properties sold during the most recent property revaluation period in your locality. It's up to you to locate similar homes--try to find properties on your street or in your subdivision if possible, within roughly 20% of your square footage, with similar amenities and construction. The information you need for comparisons can be found on property record cards at the assessor's office, which may also have a file on recent sales. You can also get sales data from deeds at the county clerk's office or from local real estate agents. If appropriate, dispute the assessed value by approaching the assessor's office or by filing a formal appeal.

Dropping private mortgage insurance Browse

If you're eligible to do so, you can cut hundreds of dollars off your mortgage expenses by canceling private mortgage insurance (PMI). PMI is required by most lenders if you put down less than 20% when you buy. But after a few years, you can drop PMI for loans owned by the Federal Home Loan Mortgage Corp. (Freddie Mac) or the Federal National Mortgage Association (Fannie Mae), both of which buy mortgages from many lenders.

Under Freddie Mac rules, you can drop PMI if you've owned the house for two years, your equity is 20% of the original price and the value hasn't declined. You can also drop it if your equity equals 25% of the value or an appraisal shows that you've raised your equity to 20% by adding improvements. And you can cancel if you have 20% equity on a 5-year-old loan.

Rules for loans owned by Fannie Mae are simpler. If your payment record is good and your equity is at least 20%, the lender must cancel your insurance on request. (You may need a new appraisal.) Both Freddie Mac and Fannie Mae require more equity if you have a second mortgage.

Some states have similar requirements for lender-owned mortgages. Check with your lender if you think you might qualify to drop the coverage.

Checking your escrow payments Browse

Most monthly mortgage payments include an amount for insurance and property taxes, which the lender holds in escrow until those bills are due. If your lender doesn't pay interest and you have more money in escrow than the lender needs to pay the bills, you're giving the lender a free loan. An analysis of accounts by Loantech, a Gaithersburg, Md., firm that reviews escrow accounts, found monthly payments to be higher than necessary roughly 28% of the time.

To check your account, ask your lender for a copy of the most recent escrow analysis, which should show your total annual and monthly escrow payments, the balance in the account and the dates when tax and insurance payments are due. Many contracts let the lender keep a cushion that will cover up to two months' payments. If there's a greater cushion in your account, ask your lender for a refund. Unless there's a legitimate reason for the extra cushion, such as an anticipated increase in premiums, you're entitled to a refund as quickly as the lender can process it--and to reduced monthly payments.

Tax Advice

Saving receipts for taxes
Choosing the best withholding level
Avoiding overwithholding
Totaling your investment and tax expenses
Paying state tax early
Year-end tax planning
Preparing your tax records
Accelerating deductions and deferring income
Prepaying mortgage payments
Redeeming mutual fund shares
Giving appreciated property to charity

Saving receipts for taxes Browse

Remember to save receipts for all tax-related transactions, including:

- Real estate taxes
- Charitable donations
- Job-search expenditures and relocation costs
- Child-care services
- Alimony and child-care payments made or received

Keep whatever evidence you would need to persuade the IRS that everything on your return is accurate. And hang on to the evidence as long as the IRS has the right to question your return. Normally the statute of limitations is three years after the due date of a return. If you haven't been alerted to an audit by then, it's probably safe to toss most of the records. (The statute of limitations is six years for taxpayers who fail to report income that is 25% or more of the amount of gross income they do report. And there's no time limit if the IRS can prove fraud.)

You can use Kiplinger's CA-Simply Money reports to print out a record of tax-related items, including:

- Investment Reports/Capital Gains
- Button Reports/Income, Payee, and Account
- Financial Reports/Tax Summary

See also Preparing your tax records.

* This is triggered when a transaction has a tax-flagged category.

Choosing the best withholding level Browse

If your withholding level is too low, you could end up owing interest and penalties to the IRS. If you haven't been penalized in the past and there has been no significant change in your financial situation, you probably have nothing to worry about. But if you were penalized last year or you have experienced a significant change in your financial situation--thanks to a substantial raise, perhaps, a spouse returning to the work force or a fat capital gain--you could be heading for trouble.

To see whether you're on track, you need to estimate your taxable income for the year, check the tax bill on that amount, and see how it will compare with the amount withheld from your paychecks for taxes. If payments are likely to fall below 90% of what you'll owe (or 100% of what you paid last year) you can be penalized unless you beef up payments before year-end.

Generally, you can claim one withholding allowance for each exemption you claim on your return for yourself and your dependents, plus an additional allowance for every $2,500 by which your itemized deductions exceed the standard deduction you could claim ($6,200 on joint returns and $3,700 on a single return in 1993). Two-earner couples, who often find themselves underwithheld, may need to forgo some allowances. You can make the necessary calculations using your tax return from last year and IRS Publication 919, Is My Withholding Correct? Order the free publication by calling 800-TAX-FORM. If you need to change the amount being withheld from your paychecks, file a new W-4 form with your employer.

Most Americans have too much withheld from their paychecks. If you are in that group, file a new W-4 with your employer to reduce withholding. If you are in the 28% tax bracket, claiming one extra allowance on your W-4 will increase your take home pay by about $55 a month. See also Avoiding overwithholding.

* This is triggered if federal withholding is less than 15% of your total income for the year.

Avoiding overwithholding Browse

About 70 million taxpayers receive federal tax refund checks averaging $900 each year. Although a refund seems like found money, your refund actually represents the return of an interest-free loan to Uncle Sam. There are better ways to force yourself to save. Say you reduce your withholding by $200 a month, putting an extra $200 a month into your paycheck. You can arrange with your bank to automatically shift $200 a month from the checking account where you deposit your paycheck to a savings account. Or ask your mutual fund whether it has an automatic investment plan. In addition to putting your money to work, you'll be able to get your money when you want it. With overwithholding, you can put your hands on your money only when the IRS gets around to sending you a check.

To avoid overwithholding, revise the W-4 form you file with your employer. In general, you should claim one allowance for each exemption you claim on your return for yourself and your dependents. You generally can add allowances to your W-4 for every $2,500 by which your itemized deductions exceed the standard deduction you could claim ($6,200 on joint returns and $3,700 on a single return in 1993). You also earn an extra allowance if you'll have at least $1,500 of expenses during the year that qualify for the child-care credit. Two-earner couples, who often find themselves underwithheld, may need to forgo some allowances. A separate work sheet that comes with the W-4 helps with that calculation.

Totaling your investment and tax expenses Browse

You may be able to deduct the cost of Kiplinger's CA-Simply Money, along with other investment and tax-related expenses. The following investment expenses are tax-deductible, but only to the extent that all your miscellaneous deductible expenses exceed 2% of your adjusted gross income.

- Cost of computer software and online services used to track your investments or do your taxes.
- Custodial fees for your individual retirement accounts, if you pay them directly.
- Rental of a safe-deposit box used to store taxable securities.
- Investment counselor or management fees, and fees paid to a tax preparer or accountant.
- Subscriptions to investment advisory newsletters.
- Cost of books and magazines purchased for investment or tax advice.
- State and local transfer taxes on the sale of securities.
- Fees paid to a broker or other agent to collect bond interest or stock dividends. (Unlike commissions paid brokers on the purchase of stock, a cost which is added to basis, this type of fee is deductible).
- Cost of travel to see your broker to discuss investments (but not just to check on the general condition of the market). If you drive, you can deduct 28 cents a mile or the actual cost, plus what you paid for parking or tolls.

Also included among miscellaneous expenses--deductible only to the extent that they exceed 2% of your adjusted gross income--are costs you incur in connection with your job, such as union or professional association dues, the cost of subscriptions to professional journals and trade publications, travel and entertainment expenses, the cost of special work clothes plus certain educational, job-hunting, automobile and home-office expenses.

* This is triggered after December 1.

Paying state tax early Browse

If you owe estimated taxes on self-employment or investment income, your state tax bill offers some planning opportunities. In most states, the final estimated tax payment is due in January of the following year. If you make your final 1993 payment in January 1994, it would be deductible on your 1994 federal return. Make that payment by December 31, 1993, however, and you can include the amount in your 1993 deductions. (The payment is considered to have been made in 1993 as long as your check is in the mail by the end of the year, even if it isn't cashed until the following year.) For the deduction of such a payment to withstand IRS scrutiny, it must be a reasonable estimate of the tax you owe for the year involved. You may not, for example, make a huge fourth-quarter estimated payment to beef up your federal deductions if the outlay is actually a deliberate overpayment of your state taxes that you'll soon get back in the form of a state tax refund.

In some cases, it's better not to accelerate the tax payment. If you are not itemizing deductions--because your total expenses won't pass the standard deduction amount--holding off on the fourth-quarter payment until January has a double benefit. It lets you hold on to your money a little longer and preserves the possibility that you'll get to write off the payment the next year. Also, if you expect to be in a higher tax bracket the following year, the value of the deduction would escalate. Finally, if you are subject to the alternative minimum tax (AMT), don't prepay your taxes. State income taxes aren't deductible at all under the AMT.

* This is triggered between November 15 and December 31.

Year-end tax planning Browse

There's only a short time left to trim this year's tax bill. These last-minute moves made by December 31 can cut your April 15 payment--or boost your refund.

- Accelerate deductions and defer income. Any income you can put off receiving until after midnight on New Year's Eve won't be taxed until next year. Moving deductions you'd have taken early next year into this year can trim your taxable income. By making some of next year's charitable contributions now, for instance, you can get the advantage of the deduction a year ahead of time. See also Accelerating deductions and deferring income.

- Accelerate income and defer deductions. If you expect to move into a higher tax bracket next year, the advice changes. You may want to take on the tax liability for any extra income now, and defer deductions until next year, when they'll have more tax-saving power.

- Set up an Individual Retirement Account or Keogh. See also Salaried retirement savings and Self-employed retirement savings

- Review your investment portfolio for tax savings. While you shouldn't let tax angles control investment decisions, this is a good time to look at stocks, bonds and mutual funds that have declined in value. Selling by year-end lets you claim the loss on this year's return. Losses offset any amount of gains first, then up to $3,000 of other income, such as your salary. In the 28% tax bracket, a $3,000 deduction saves you $840. If market considerations allow, put off sales that produce profits until the new year--unless you have losses to absorb them or you will be in a higher tax bracket next year.

  Before buying mutual funds, ask when dividends are paid. Buying just before the ex-dividend date raises your tax bill unnecessarily for the year. If you plan to sell mutual funds, be specific about which shares you're selling and ask the fund for a letter confirming which shares were redeemed. That gives you maximum flexibility when figuring your tax bill. See also Redeeming mutual fund shares.

- Take advantage of child-care or medical set-aside accounts. Child care and medical reimbursement accounts--sometimes called flexible-spending plans--funnel part of your salary through special accounts to pay for child-care or medical expenses. The money escapes federal income and social security taxes, as well as state taxes in most states. As an example, a person in the 28% federal bracket who faces a 7% state income tax rate plus the 7.65% social security tax (on the first $57,600 in 1993) would save $426.50 in taxes on every $1,000 channeled through the account. Employees are usually required to decide at the end of one year how much should go into the accounts the following year. Be aggressive. See also Setting up child care and medical set-aside accounts.

  * This is triggered between October 15 and December 31.

Preparing your tax records Browse

April 15th is approaching--it's time to begin organizing your tax records.

Documents you must have:

- W-2 form showing your salary and 1099 forms showing savings and investment income and the proceeds of stock and bond trades. These should have been included in your pay envelope or mailed to you by the end of January.
- Record of deposits to and withdrawals from your retirement plan
- Medical bills, if they exceed 7 1/2% of your adjusted gross income, and statements showing health-care reimbursements
- Canceled checks
- 1098 form showing mortgage interest paid.

If you don't do your return yourself, see your tax preparer early, or buy a good tax-preparation software program. If you hire someone to do your return, the best time to go is between mid February and the end of March. The quietest days at H&R Block are usually Sundays and Wednesdays. If you go to a certified public accountant or enrolled agent, the sooner you schedule an appointment the better. Consider doing your own return on your computer. It's fast and accurate, and the software costs about $40.

Pass up electronic filing: The IRS likes electronic filing because it saves the agency money, and forms sent in over the phone lines have been proven to be less error-prone than conventional paper returns. But the advantages to taxpayers are questionable, considering the fee of $25 or so to file through an authorized tax preparer. (You cannot file your return electronically on your own.) If you have a refund coming, that fee gets you your check approximately three weeks faster. If you owe money, you still must send a check through the mail, along with a form showing that the return data was sent electronically.

* This is triggered between March 1 and April 15.

Accelerating deductions and deferring income Browse

"Accelerate deductions; defer income" is a general tax-planning strategy that can pay off--if you do not expect to move into a higher tax bracket next year.

Accelerating deductions
This means incurring as many deductible expenses as possible before year's end so you can take the deduction on this year's tax return.

Expenses you can pay early to deduct on this year's federal tax return are:

- Charitable contributions. Make some of next year's planned contributions now. And clean out closets for items to give to charity. You can deduct the fair market value--15% to 20% of cost is usually a reasonable value for used clothing, for instance. The more documentation of your gift, including photos, the better. See also Giving appreciated property to charity.

- State taxes. If you make estimated state income-tax payments, mailing the fourth quarter installment by December 31 earns you the deduction in the current year. See also Paying state tax early.

- Interest on home-equity loans. Make sure your payments are up to date.

- January's mortgage payment. See also Prepaying mortgage payments.

- Furniture or equipment purchases that you will be making for your business. You can "expense" up to $10,000 worth of such expenditures right away, instead of depreciating the cost over five to seven years.

- If itemized deductions are close to the standard deduction, cram deductible expenses into a year you'll itemize and skimp on those expenses the following year, when you'll claim the standard deduction. You come out ahead because in the year you don't itemize, you get credit for the full standard deduction even if you actually spent less on deductible items. For 1993 the standard deduction is $3,700 on single returns and $6,200 on joint returns. If you're on the itemize-or-not borderline, it's time to decide whether this should be a "fat" or "lean" year. If you decide to itemize this year, start planning now to accelerate medical, charitable, tax and miscellaneous expenses so you can fatten up your deductions. If you plan to use the standard deduction, try to shove deductible expenses into next year, when they might have tax-saving power.

Deferring income
Any income you can put off receiving until after midnight on New Year's Eve won't be taxed until next year. It's tough for employees to postpone wage and salary income--holding off cashing a December paycheck until January does not hold off the tax bill. But if you are self-employed or do free-lance or consulting work in addition to a job, you have more leeway, assuming you use the cash basis of accounting. Delaying billings until late December, for example, can assure you that you won't receive payment until the next year.

If you have a significant amount of cash parked in a money-market mutual fund or bank account, consider shifting part of it to six-month certificates of deposit or Treasury bills. You might get a higher yield and you're sure to be rewarded with tax benefits. Interest you earn on a money fund or bank account between now and the end of the year is taxable on this year's return. Interest on T-bills or CDs with maturities of one year or less, however, isn't taxable until next year, when they mature.

* This is triggered between November 15 and December 31.

Prepaying mortgage payments Browse

You may be able to boost your mortgage interest deduction--and cut the tax bill--on this year's return by making the payment you would otherwise make early next January before the end of December. Although the law blocks the deduction of expenses that are prepaid, a mortgage payment due in early January is generally for interest that accrued in December. If you do this, try to make the payment a week to ten days before the end of the year, so the mortgage servicer can include the interest amount on the 1098 form it sends you and the IRS. Interest on a last-minute payment that doesn't show up on the form is still deductible, but claiming it might lead to a letter from the IRS asking you to explain things.

If you speed up the January payment one year, remember to do the same thing the following year. Otherwise, you'll wind up with just 11 months' worth of mortgage interest deductions.

If you expect to be in a higher tax bracket next year, you should ignore this advice, of course.

See also Accelerating deductions and deferring income.

* This is triggered between November 15 and December 31 if you have a Mortgage Account button.

Redeeming mutual fund shares Browse

When you redeem mutual fund shares, plan the transaction to produce the best tax result. If you specifically identify the shares to be redeemed ("200 shares purchased June 14, 1988, at $16 a share"), the basis of those shares establishes the tax consequences of the sale. Your basis is generally what you paid for the shares; compare it with the redemption price to figure gain or loss. (To identify shares, either order the redemption by letter, or if you telephone, follow up with a letter and ask for a written confirmation.)

If you don't identify shares, one of two methods applies. With the first-in/first-out (FIFO) method, the IRS assumes you redeemed the shares you have owned the longest, which could produce a larger-than-necessary tax bill. As an alternative, you can use the average basis. Basically, this involves dividing your total investment in the fund by the total number of shares you own. The result is the average basis, which you use to figure gain or loss.

Giving appreciated property to charity Browse

If you plan to make a substantial charitable donation, consider giving away appreciated property, such as stocks or mutual funds shares, rather than cash. Assuming you've owned the asset more than a year, you get to deduct the current value of the gift, but you don't have to pay tax on the appreciation that built up while you owned it.

Giving away appreciated assets can make sense even if you aren't planning to get rid of the securities. Say you're planning a $5,000 gift to your church's building fund. Instead of cash, you give $5,000 worth of stock that, if you sold it, would produce a $2,500 gain. You get a $5,000 deduction (saving you $1,400 in the 28% bracket) and avoid the $700 tax on the gain (saving another $196). You can then use your $5,000 cash to buy back the stock. Your basis will be $5,000 and only future appreciation will be taxable. (Note: If you're subject to the alternative minimum tax, the appreciation will be taxed at the 24% AMT tax rate.)

You can also give an appreciated asset to another family member, such as a child. That can save the family money by passing on the tax bill to someone in a lower tax bracket. Say you need to sell $10,000 worth of stock to meet college tuition bills, producing a $5,000 capital gain. In the 28% bracket, that costs you $1,400. But if you give the stock to a child and he or she sells it, the $5,000 is taxed in the child's tax bracket. At 15%, the tax bill is just $750, saving the family $650.

(One caution: To qualify to claim your child as a dependent, you must pay for more than half of his or her support. If the child uses the gift for his or her own support, you might fail the 50% test and lose the $2,300 dependency deduction. You could still come out ahead, however, depending on how much money you save by shifting the gain into a lower bracket. And if you can't claim a child as a dependent, he or she gets the exemption, making an extra $2,300 of his or her income tax-free.)