

Give Your Credit a Post-Holiday Checkup – and Save Money in 2006

As you survey the damage done to your waistline and wallet by the holidays, why not make January the month you review and repair your credit report and raise your credit score?

Credit scores determine far more about our lives than we realize. Not only do these computerized three-digit measurements of creditworthiness influence how much we'll pay for a credit card or a house or car loan, plenty of non-lenders – such as future employers – like to check that information as well. (The average credit score nationwide is 677, while generally, a credit score above 720 is considered attractive to most lenders.)

As you start the New Year, it makes sense not only to check your credit report and credit score, but also to understand the proper things to do to maintain the best numbers possible. Some New Year's resolutions for your credit rating:

Get all three credit reports and scores at the same time: You'll have to spend around \$5 to access your credit score, but you can get your credit reports for free at a website called annualcreditreport.com. This particular site accesses all three credit bureaus, Experian (www.experian.com); Equifax (www.equifax.com) and TransUnion (www.transunion.com). Respond quickly to inaccuracies in writing either by mail or online, and make sure you do this at the same time every year. It won't affect your credit score if you do this more than once, but it's a good idea to mark a specific time and follow through.

Resolve to pay on time: Yes, it's obvious, but with such busy schedules, many people fail to remember the day to put the checks in the mail so they'll clear on time. Do any of the following. First, get a calendar and when bills come in, mark payment days 5-7 days ahead of due dates so the U.S. Mail gets your payment in on time. Second, check out the electronic bill payment service at your bank – and program in payment reminders so you never forget to push that button.

Get current: If you have missed payments on an account, do whatever it takes to get current and then never let yourself fall behind again. According to myfico.com, the longer you pay bills on time, the better your credit score. Placing your bill payment schedule on a calendar will help.

Understand the problems with your credit: It takes seven years to remove a collection account from your credit record, even if you've paid it off. Write down the exact month when that mark on your report will be removed, and make sure it happens.

Get rid of balances in sequence: Come up with a beginning of the year plan to pay off credit card balances in a sensible order. There's a temptation to move around

outstanding balances if you get a good offer. Sometimes it still makes legitimate sense to do this if it cuts your borrowing cost, but make sure you don't shift balances too often – focus on paying balances off, the highest-rate ones first.

Limit your credit inquiries: You might get sexy credit card offers and refinancing notices at a rate of five a week, 52 weeks a year, but that doesn't mean you need to check all of them out. In fact, an excess number of credit inquiries can lower your score. Use your January credit review period as part of an overall financial plan for the year that will allow you to investigate credit sensibly if you need to do it at all. And when you do investigate credit, do so within a focused period of time, optimally two weeks. And then don't go back to the well for a very long time.

If you do borrow, ask lenders which bureau they use. If you are making an effort to keep your credit in check and your reports accurate, this won't make a lot of difference, but it always pays to ask a potential lender – particularly a mortgage lender – if there is one brand of credit report they favor over others. It's important because you may have a significantly higher or lower score on one report compared to the next one.

Cut up the card – don't close the account: Closing accounts – even those that have had zero balances for years – can be a lousy idea. Lenders want to see a long record of credit management, and longtime accounts that you haven't touched in years may actually help your score because it shows you have some restraint.

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The Biggest Financial Mistakes People Make in Divorce - and How to Avoid Them

At best, divorce is a time of distraction in one's life, when emotional and family concerns take center stage and financial issues often take a back seat. Yet divorce is one of the biggest triggers of bankruptcy in a world where bankruptcy has gotten a lot tougher to file. That means that financial planning is crucial when a marriage breaks up.

Anyone filing divorce should seek the help of financial and tax advisers as well as attorneys skilled in divorce, experts say, because the financial issues that get pushed to the background eventually can take a surprising and disastrous toll on the newly single ex-spouse and his or her children.

Here are some ways to avoid a money debacle on the other end of divorce.

Start with a budget: No matter how sophisticated you think you are about your finances, don't pass up the opportunity to set a basic financial budget for your new life. A CERTIFIED FINANCIAL PLANNER™ professional can help you ask the important questions that will assist you in understanding what life will be like when you are living with a single job income stream or a temporary income stream provided by an ex-spouse. It's always an eye-opener. The Lilac Tree (www.thelilactree.org), an Evanston, Ill. based not-for-profit organization for divorcing women, routinely stresses that the budgeting process is crucial, since women now outnumber men in filing for bankruptcy and their long-term earnings prospects are generally dimmer.

Find experienced divorce advisors: A good divorce attorney isn't necessarily a shark. The choice of attorneys - for men as well as women - should fit the challenges being faced on both sides. Good divorce attorneys definitely cost money, but they pay for themselves when talking with financial advisers in advocating for their clients. Some CFP® professionals are also certified in divorce planning and can help your team with financial discovery, analysis and long-term projections. Among other financial issues, they should understand Qualified Domestic Relations Orders - known as QDROs (pronounced "Quad-Rows") to ensure that pension assets will be shared fairly.

Properly value your assets: If you're getting the house, does it have a 20-year-old furnace and a roof that's about to cave in? A thorough inspection by a licensed inspector could help. If you're getting the family car, is it past warranty with a funny sound coming from under the hood? If your spouse runs a lucrative business that you've worked for or invested in, how do you know you're getting the right share? Hiring a valuation expert may be necessary. Divorcing spouses need to make sure they have enough money to finance repairs and replacement of assets that they'll be paying for as a single person.

Remember -- kids have rights: In many states, college-age children have the right to demand financial support or college funding at the state level so their education isn't interrupted. While both parents should advocate in their kids' best interest, this isn't always the case. Be aware of your state's divorce laws with respect to secondary child support.

File taxes wisely: There are always special situations in a divorce that will determine whether a couple will need to file jointly or separately during the last year that the marriage exists. This is definitely worth discussion since tax fraud can be a liability issue for the spouse who had no involvement or awareness of the fraud taking place.

Get help documenting child support: Child support guidelines vary from state to state. But generally the criteria for establishing child support amounts is typical throughout the United States and these guidelines are established by each state's legislature. If your state has a special program that allows a spouse to pay into a special account so child support is recorded every month, consider it. It provides a paper trail and enforcement system for assuring that kids get the money they need. Federal law requires all child support payments be made by wage assignment and health insurance by Health Insurance Orders. Child support collection statistics reflect that only 20 percent of non-custodial parents pay their court ordered child support monthly. That's why so many laws have been established to force compliance. Make sure you know them.

Once the divorce is over - watch the spending: Budgeting early in the process may cut down on the risk of overspending, but divorced spouses setting up new homes may not be able to resist. For some, spending makes them feel better, and this is one of the biggest reasons ex-spouses face financial disaster after divorce.

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Taking Responsibility for Retirement: How Today's Scary Headlines Can Help Your Retirement Plan

First, it was the combined whammy of the tech wreck and the post-9/11 recession that battered our 401(k) accounts. Next was inflation in health care and education costs that further diverted indebted consumers from concentrating on retirement. Now come the headlines that any company facing tough times – or intense shareholder pressure – can pull the rug out from under its retirees hoping for the traditional three-legged stool of retirement – pension, Social Security and savings.

All three legs are in trouble – we aren't saving enough, Social Security is under attack and traditional pensions are disappearing – fast.

For retirees facing a sudden loss of pensions and benefits, there are really very few options save going back to work or turning home equity into a personal bank. So the time to start taking on the lion's share of your retirement responsibility is now, whether you're five, 10, or 20 years away from hanging it up, if that's your plan.

One general tip. If you're not really certain where you stand, get some help. If you've never sat down with a financial adviser it may be time to get a second opinion on your retirement readiness. The meeting may yield some ugly news, but it's better to know the options than cross your fingers.

Here are some things you may want to discuss:

What does 'retirement' mean to you? It's arguable that traditional retirement is going to be dead for many of us. So you may want to start thinking about a second part-time career or new ways to earn.

Think about an annuity: Annuities are investments that provide fixed or variable payments to the investor over a set period of time. The collapse of traditional plans is putting new focus on the annuity business, and it's worth talking about with an expert.

Do a retirement spending dress rehearsal: In the last few years before retirement, see how much you can live like you're already retired. Give up the lattes and the pricey clothes and dinners; see if you can live with a smaller car or a used one. Retirement is easier if you can downshift into it, both from a monetary and activity standpoint.

Get in shape -- physically: It may be strange to hear health advice tied to your financial wellbeing, but it should be one of the first things you consider. That's because the numbers on a bathroom scale, blood pressure monitor or cholesterol report can dramatically affect the cost of your healthcare and insurance premiums going into retirement. You'll find that pre-existing conditions can boost your premiums – or

possibly deny you coverage. That's a very ugly surprise going into the years when you're going to need healthcare coverage the most.

Consider a career shift: It may be a bit extreme to switch careers just because a particular employer has better benefits and savings options. But if the job appeals to you and you can make a move without endangering what you've already accrued, why not consider it?

Use your catch-up options: Various IRA and 401(k) options allow you to make additional contributions over standard savings limits above the age of 50. Make sure you know what those additional amounts are and take full advantage of them.

Don an investment inventory: In a 30-to-40-year career, an individual may have gathered bits and pieces of pension benefits and personal savings and investments along the way. Likewise, there might be insurance policies, savings bonds and other small investments that may have slipped one's attention. A re-evaluation of retirement options should begin with a full accounting and reorganizing of all investment and savings assets, preferably in an organized outline that's easy for you and your adviser to access.

Think about health savings accounts: Today, there are strict limits and spending rules for health savings accounts, but if some lobbyists get their way, there might be a day when health savings accounts can become a long-term savings solution similar to a 401(k) plan. Getting into the pre-tax savings habit with health care dollars is a good habit to get into in case there's more flexibility awarded to these accounts in the future.

If you need help finding a financial adviser to best meet your needs, visit the Financial Planning Association's PlannerSearch at www.fpanet.org/public.

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