

Why Maintaining Your Credit Score Becomes Even More Important During the Continuing Credit Crunch

It's always a good idea to be vigilant about your credit score, but even if borrowing loosens up a bit in 2009, you still need to do everything necessary to keep your credit score high.

Fair Isaac, the company that created the FICO score, has been working on a new version of its landmark credit scoring method that might have serious consequences for you if you're planning on borrowing for a home or establishing any other new credit in 2009.

The new version of FICO is going to be particularly focused on your balances, not only on your on-time payment records.

Your top priority under this new system: Get those balances down.

Reports say that the new FICO revision will actually allow a bit of lenience on late payment – something that might affect more than a few consumers with the downturn in the economy. Obviously, this won't mean that someone can chronically pay late, but once or twice won't make the same impact as in earlier FICO versions.

Yet credit utilization – essentially the amount of credit you're actually using relative to your credit limit – is a much bigger deal simply because high balances are so prevalent right now. From the lender's perspective, high balances mixed with a tough economy means a higher risk of default among customers.

So what's a good target utilization rate for all your revolving credit accounts? No more than 50 percent of your credit limit, and if you can get it significantly lower than that over time, that's a good plan. So, the lower your credit utilization, the better your score.

What does that mean for ordinary Americans who don't meet that under-50 percent goal? It means you shouldn't be applying for new credit or refinancing for awhile. But because most lending institutions may continue their strict lending requirements, you might as well defer borrowing goals in favor of reforming your credit behavior.

So instead of bemoaning your tougher chances of getting a loan for a home or a car, why not use the current environment to launch a credit makeover that will position you for a better shot six months to a year from now? Some ideas:

You'll need at least a 740 score for the best rates: You'll often hear that credit scores of 700 and up will get you best customer status with lenders. You should aim higher. For the lowest rates and best terms, you need to get your credit score above 740 (the top credit score, by the way, is 850), so keep that target in mind.

Budget: If you've never reviewed your spending and picked out areas where you can cut, you've never done a budget. Start tracking your spending either on paper or with financial planning software and start pinpointing what spending you can shift over to paying off debt.

One more time -- get those balances down: Get all your non-deductible debt under 50 percent of your credit line in each account. Go after your balances with the highest interest rates first, and once you hit 50 percent...keep trying and get those balances down further.

Get some advice: It might not be a bad time to sit down with a tax professional or a financial adviser – such as a Certified Financial Planner™ professional -- to talk about the way you're going to manage your debt going forward.

Keep an eye on your credit reports: Remember that you have the right to get all three of your credit reports -- from Experian, TransUnion and Equifax -- once a year for free. You can do so by ordering them at www.annualcreditreport.com. Don't order all three of them at the same time, though. By staggering receipt of each of your credit reports, you'll get a continuous picture of how your credit picture looks because the three bureaus feed each other the latest information. You'll also be able to clean up errors as you find them -- errors can drag down a credit score – and you'll also keep an eye out for identity theft. Oh, and by the way, keep in mind that all “free” credit report sites are not free – if they ask you for a credit card number, remember they're doing that because they want to *charge you*. Just go to the site above and you'll be fine.

Get on time and pay more than the minimum: Yes, we indicated above that you might get a bit of a break on late payments with the new FICO system, but that's a break you should consider only in a dire emergency. Electronic bill payment will allow you to save on postage while guaranteeing on-time postage, and the budgeting advice mentioned above will allow you to put a few more bucks toward getting that loan or credit card bill paid off.

Once you're paid off, don't close the account: In the world of credit scoring, closing accounts (even those that have not had balances for years) is 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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Ways To Save Money On Health Care And Health Insurance In Troubled Times

Whether you buy your healthcare coverage through your employer or independently, you need to look at your coverage the same way cost-cutting entrepreneurs do. Buying coverage in the future won't stop at finding the best price – what you pay increasingly will involve how well you're personally managing your health.

According to a report last year by benefits consultant Watson Wyatt, nearly half (47 percent) of the 453 large U.S. employers currently offer a consumer-directed health plan (CDHP), a high-deductible plan offered with a personal account that can be used to pay a portion of medical expenses not covered under the plan. In the world of independently purchased health insurance by businesspeople, it's the same concept as the pairing of a high deductible health plan (HDHP) with a health savings account (HSA).

Also, don't be surprised if your employer or insurer is going to get tougher about you losing weight, quitting smoking or taking part in a monitored exercise plan.

Here are some ideas to help you take the first step in monitoring these costs:

Change your negative healthcare behavior: Lowering the number on your bathroom scale will not only have immediate health benefits, it will also make your health insurance options and potential out-of-pocket costs more affordable over time. A Stanford University and Rand Corporation study reported that lifetime medical costs related to diabetes, heart disease, high cholesterol, hypertension and stroke among the obese are \$10,000 higher than among the non-obese. It added that lifetime medical costs could be reduced by \$2,200 to \$5,300 following a 10 percent reduction in body weight.

Know what you're buying: Whether you buy health insurance through an agent or your employer, insist that they explain exactly what you're getting for your premium, and where deductibles do and don't apply. That way, you'll have a baseline when you buy your own coverage. If you're purchasing your own insurance policy, compare the premium savings from a higher deductible plan with your usage pattern of health services. What you save can often cover your high deductible. The California Medical Association offers a plan comparison checklist on its website, www.cmanet.org.

Always research and discuss the potential cost of a diagnosis: If your physician diagnoses a condition that requires tests, prescription drugs, a hospital stay or ongoing therapy, ask polite but detailed questions about what you'll be charged, from the doctor's bills to ongoing ancillary costs associated with treatment. Ask the doctor or his office manager if discounts can be negotiated through cash payments or other means. You also need to be careful that you're not being charged a rate for uninsured patients when you are simply going to paying for all or part of the bill to get to your deductible. Lastly, consider asking doctors for generic options and samples of prescription drugs to extend your savings.

Make sure your exact spending is reducing your deductible: Keep a binder or a filing system to monitor how this year's out-of-pocket spending is reducing your insurance deductible. Your insurer's total may not always be accurate or up-to-date. Also, make sure you understand which procedures are offered through your plan that will be paid even though you haven't paid up your deductible.

Check local pricing resources: In non-emergency situations, you should always compare prices on treatments. Check with local medical boards and state health officials to see if they have online databases on costs for various medical procedures. Also, if there is a support group for your condition, talk to members about what they paid locally for care.

Be smart about emergency and non-emergency health visits: Emergency-room visits tend to cost \$300 to \$1,000 compared with \$150 at an urgent-care center and \$35 to \$45 at a convenience-care clinic in a drug store or some other location. First, make sure the alternatives to hospital emergency room care are acceptable for your illness. Write yourself a note at some point to check out these options in your community so you understand what they offer, what their hours of business are, and under what conditions you'd choose them. In particular, make sure the facility and the provider are in your health plan's network so whatever you pay out-of-pocket counts toward your deductible. Also rely on your insurer's 24-hour advice hotline for guidance on where to go for care. Either tape that call or keep a written record of it in case you have a claim denied.

Talk to a financial advisor about planning for long-term care: If you or a loved one are diagnosed with a chronic illness, that's a financial issue that requires a plan. As tough as it may be to focus on money issues at a stressful time, make an appointment with a tax professional or a Certified Financial Planner™ professional to discuss affordability options that will safeguard your assets, including Medical Spending Accounts that can backstop out-of-pocket costs on high-deductible policies.

Take advantage of your company's flexible spending account: A flexible spending account is a separate, tax-advantaged account where you deposit funds to pay for medical expenses not paid by your insurance. You need to check what your particular company's FSA allows you to stockpile funds for, and you will need to estimate carefully because you'll have to spend out these funds by a particular annual date or lose the remainder. It's also good to discuss how you're allocating those expenses with a financial advisor.

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Planning a Cost-Effective Job Search

Whether you've already cleaned out your desk or are expecting your department to be next at work for cuts, in this economy, it definitely makes sense to plan a job search before you actually have to do one. Call it a response plan.

Here are some basic steps in getting that process started:

Start or build your emergency fund: Unemployment insurance won't even come close to meeting your cash needs when you're out of a job. Start slashing your spending and funnel that extra cash into an emergency fund that won't be touched for anything but essentials – housing payments, food and insurance expenses. Get a headstart on building an amount equal to 3-6 months of those expenses as soon as you can, first by cutting your basic spending and then possibly by paying the minimums on debt purchases until you get that fund in good shape. If you've still got your job after you hit your emergency fund target, then keep your tight spending in force and go back to attacking any debt that you have more forcefully.

Get advice on finances, taxes and possible legal issues: There's nothing better than going into an exit interview with a plan to put yourself in the best situation possible when you lose your job. You might start by talking with a Certified Financial Planner™ professional and a tax expert about any spending, saving or tax specifics you should focus on now as a way to blunt the damage from lost income later. And depending on the situation and your room to negotiate, it might not be a bad idea to invest in the services of a workplace attorney to make sure you know what to ask for in an exit package. Always ask if you can build unused vacation and sick days into a package and see what you can do about extending health benefits before you start having to pick up the cost via COBRA. COBRA refers to the Consolidated Omnibus Budget Reconciliation Act, which gives workers and their families who lose their health benefits the right to choose to continue them under their group plan for a limited time.

Research health coverage beforehand: The recently passed federal stimulus package provides 65 percent subsidy for COBRA premiums for up to 9 months, which is good news because COBRA can be very expensive. In any event, it makes sense to research individual, high-deductible coverage that might be an affordable alternative to staying on your employer's health plan while you're looking for your next job. Many quality carriers offer enrollment online, but ask around and see if friends or associates know good agents who can find coverage that fits you so you'll be prepared if you need it.

Get personal disability coverage now: Disability coverage offered through your workplace may barely cover you if you are disabled while working, but once your job is gone, there goes your coverage. It's always a good idea for individuals to have some personal disability coverage of your own, and you should buy it while you're employed because you need to prove income before you can get the maximum coverage based on your current income. No job, no income, so do it now.

Understand your unemployment benefits: Generally, it's a good idea to file immediately for unemployment benefits, even if you're getting severance. Check on these provisions as soon as

you can. Also remember that the federal stimulus plan applies here as well. Benefits will increase by \$25 per week for some 20 million jobless workers, while the first \$2,400 they receive in benefits will be exempt from federal taxes. Also, if you get a job before your severance or unemployment runs out, use those funds to top off your emergency fund and then attack debt so you're in a good position to weather any future storms.

Take advantage of any free job advice and assistance you can: If your employer is providing office space, resume-writing assistance or any other benefits to help you transition to your next job, by all means, take advantage of them. It's particularly smart to get advice with resume writing because as industries change, the type of experience that hiring executives want to see on resumes changes as well.

Network: Make sure you've identified key professional groups both locally or nationally that will allow you to meet colleagues and hiring executives in your industry or the industry you hope to work in next. And plan to do little things that keep you in touch with potential employers – make sure your cell phone, e-mail and voicemail are always working, and make sure you have resumes, cover letters and an interview outfit always at the ready in case you have a sudden opportunity to interview.

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How Does the Stimulus Plan Affect You? It's Good to Get Some Advice Now

The biggest benefit from the \$787.2 billion federal stimulus package will hopefully be a noticeable improvement in the nation's economy. But on an individual level, it's wise to check if you might be eligible for benefits in health care, education, various tax credits and housing.

A visit with a tax expert or a financial advisor such as a Certified Financial Planner™ professional can help you determine the best ways to use the following provisions that may affect you. It's also a good idea to get a financial checkup in an uncertain economy for the following reasons:

- As much as it might hurt to look at the performance of your current retirement accounts and other investments, the economy *will* recover. When an upturn comes, it's wise to position your holdings to take full advantage of the recovery.
- Your future plans with regard to spending for your home, your family and your education come into sharp focus under the stimulus plan, and making these provisions work for you in the short-term should be part of a long-term plan.
- If you fear your job might be in danger in the coming months or you might be facing pay or benefit cuts, it's good to talk through your personal finances before your employer makes a move. The best time to prepare for a job loss is while you're still making a salary. Not only is it a good opportunity to build an emergency fund, but it's generally easier to look for new opportunities while you still have your current one.

Here's a quick summary of the stimulus plan provisions that could affect your finances.

Educational provisions:

College student aid: The package awards \$15.6 billion to increase maximum individual student Pell grants by \$500.

American Opportunity Tax Credit: This credit temporarily provides taxpayers with a new tax credit of up to \$2,500 of the cost of tuition and related expenses, though it phases out for taxpayers with adjusted gross income in excess of \$80,000 (\$160,000 for married couples filing jointly). Forty percent of the available credit is refundable.

529 Plans: The scope of allowable education expenses expands to include computers and computer technology.

Tax credit provisions:

One more cap for the Alternative Minimum Tax (AMT): Lawmakers put one more patch on the AMT to protect a wider number of people from getting hit. This latest break for potential AMT targets increases the exemption amounts to \$46,700 (\$70,950 for married couples). The bill would also exclude interest on all private activity bonds issued in 2009 and 2010 from the AMT.

"Making Work Pay" Tax Credits: This is the refundable tax credit of up to \$400 for individuals and \$800 for families for 2009 and 2010 that would phase out for taxpayers with adjusted gross income in excess of \$75,000 (\$150,000 for married couples). This isn't a lump sum payment,

but instead is reflected in reduced payroll taxes.

Car Buyers Tax Credit: This allows a deduction for state and local sales and excise taxes paid on the purchase of a new vehicle through 2009. This deduction is phased out for taxpayers with adjusted gross income in excess of \$125,000 (\$250,000 in the case of a joint return).

Expanded Child Credit: This increases the eligibility for the refundable child tax credit in 2009 and 2010 by reducing the minimum income for eligibility to \$3,000.

Earned Income Tax Credit: This provision will create a temporary tax credit increase for working families with three or more children.

Housing provisions:

Refundable First-Time Homebuyer Credit: First-time buyers can claim a credit worth \$8,000 - or 10 percent of the home's value, whichever is less - on their 2008 or 2009 taxes. The added bonus is that the credit is refundable, which means that filers will see a refund of the full \$8,000 even if their total tax bill was less than that amount.

Unemployment and healthcare-related benefits:

Extension of Unemployment Benefits: The package provides 33 weeks of extended benefits through Dec. 31, 2009.

Unemployment Compensation: The first \$2,400 a person receives in unemployment compensation benefits in 2009 won't be taxed.

Short-Term COBRA Subsidy for Involuntarily Terminated Workers: This provides a 65 percent subsidy for COBRA premiums for up to 9 months, which will put a dent in the considerable cost of COBRA health benefits for the unemployed.

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