

Your FINANCIAL HEALTH

A digest of money management tactics for the family physician November 2000



Smart-money holiday spending tips

The holidays are a financially unique time of year. Hundreds of thousands of retail, e-commerce and other companies compete for billions of dollars of business. Many stores earn nearly 50 percent of their total annual income between Thanksgiving and New Year's Day. Very often individuals and families get caught up in what can become a spending frenzy, shelling out thousands of dollars on gifts each year. The problem is that some of us overdo it and end up in financial trouble as a result in January.

That's why it's a good idea to map out a holiday spending strategy in advance so you can be sure to get the best value — and joy — from the money you spend on loved ones this holiday season.

The first step: Identify your past holiday spending habits. Circle the answer in the following self-quiz that best describes what you did last year. In 1999:

A. I was a model of financial responsibility. I shopped early (from a list, of course), looked for meaningful gifts at good value, took advantage of sales, and paid cash for everything.

B. I used restraint and moderation, jotting down ideas, making an effort to buy most gifts with cash; when I did use credit, I made sure the balance was paid off in January... February at the latest.

C. I indulged a little; after all, the kids or grandkids are only young once. Besides, now that last year's bills are paid off, I figure I can afford this year's festivities.

D. I went crazy. I bought with reckless abandon, put everything on plastic, have no idea how much I charged and may well still be paying off those bills...I really don't know.

Check your answer: If choice A best describes you, you know how to enjoy the holidays without going into debt. If B resembles your shopping pattern, you're not alone. Most people waver between extravagant self-indulgence and prudent responsibility during the holidays. If choices C or D sound familiar, consider a different approach this year.

Here are some spending tips that can help you get the biggest bang for your 2000 holiday bucks:

1. Work out and write down your holiday budget. Designate X dollars for gifts, Y for decorating, Z for travel, entertainment, and so on. Then keep a running tally, being sure to track and deduct amounts from each list as you spend the money. This will allow you to monitor your spending more carefully.

2. Make a gift list. This is the same principle you should use at the grocery store. If you shop without a list, you will spend more money. It's as simple as that. If you're not sure what to get your favorite people, take a window-shopping tour of the malls with a pencil and paper and jot down ideas as you go. Or consider the direct approach: Ask the people on your list what they would like; it beats guessing, which only wastes money on things they may neither want nor appreciate.

3. Remember, it is the thought that counts...not necessarily the price of the gift. If you spend \$200 on Emma, that doesn't mean you have to spend another \$200 on Liz just to keep things even. The right gift has no price; it is special because it has meaning for the recipient...often for the giver, too.

4. Start shopping for deals and bargains as early as possible. Even though the economy is strong, competition among retailers, mail order companies and e-merchants is keen. Look for discounts.

5. Consider setting up a holiday account at your local bank so you will have a stash of cash to pay for next holiday's festivities. It's an old-fashion idea, but it is still one of the simplest, most effective ways to fund holiday expenses.

The bottom line: For most people, the holidays are a mixed blessing, a combination of seasonal warmth and good cheer...tinged with money worries. However, by planning ahead and budgeting your spending, your holidays this year can be an enjoyable and worry-free time for you and for your family. ■

A Self-Quiz:

Have you outgrown the need for life insurance?



There is a common misconception that life insurance is strictly for younger folks. Many of us believe that, as we grow older, we also outgrow the need for life insurance. That may not be true.

Some people may need more life insurance coverage now. No matter what our age, life insurance can help provide financial security for loved ones, help settle an estate and make sure that personal and financial objectives are met.

Not sure? Take the following self-quiz. It may help you decide if you need additional life insurance coverage. Check the boxes that reflect your situation:

I have a spouse I want to protect. If you pre-decease your spouse, life insurance can help guarantee that he or she is financially secure for life.

My employer-provided insurance was designed to terminate or reduce at retirement. Many people lose valuable life insurance coverage at retirement. Many also recognize the need to replace that lost protection.

I will likely elect the “joint and survivor” option for my employer-provided pension. If you take this option (rather than the “single life” choice), benefits will be lower. Also, at your death, your spouse’s benefits may be reduced even further. Life insurance on you can

replace lost income at your death. In fact, many people take the single life option, thereby receiving a larger benefit while living. Then life insurance is purchased to replace the benefit at death.

I don’t want a final illness to deplete my estate. For many people, the largest medical bills they incur are the result of a single, final illness. Not all of them are necessarily covered by Medicare, private health insurance and long-term care insurance. Life insurance can help ensure that cash is available to meet final expenses or provide quality-of-life funds for your spouse or family.

I know that inflation can return and undermine my spouse’s standard of living after I am gone. Inflation may not be a factor today. Historically, however, we know it can easily return. Even at low levels, inflation can wear down purchasing power over time, especially for those living on fixed incomes.

I have children and I would like to leave something for them. Life insurance can help you keep your promise to your heirs. Coverage can be earmarked to provide an instant, income-tax-free inheritance for your children.

I have grandchildren, and I want to give them a head start in life. Insurance can provide cash to help them pay education bills, put together the down payment on a first home or take advantage of other opportunities.

I have a favorite charity I’d like to remember...and be remembered by. Life insurance is an excellent vehicle for helping your alma mater or favorite charitable institution.

The point: Life insurance is not just for young families. Best of all, thanks to mortality and expense improvements, rates for older policyowners can be downright attractive.

Recommendation: If you checked even one box, recognize that you may not have outgrown the need for life insurance. Find out more about how life insurance can help you accomplish your goals, whether you are 25, 65...or somewhere in between.

Purchasing Power and Inflation

Time to reduce purchasing power from \$1.00 to 50¢

INFLATION RATE	TIME
4 %	18 years
6 %	12 years
8 %	9 years
12 %	6 years

Example: If you retire on a fixed income of \$3,000 a month, and inflation remains a modest 4%, the purchasing power of that money will drop by half — to \$1,500 — in 18 years. If inflation comes roaring back to the levels of the early 1980s, your money’s value will decline even faster. Life insurance can “replenish” assets and help undo the effects of inflation.

I realize that my estate settlement costs may outstrip my estate liquidity, but I don’t want my heirs to be forced to sell off assets. Life insurance can provide the liquidity needed to cover expenses and preserve other assets for your loved ones’ future needs.

For 50 years, the Academy has provided quality life and disability insurance for members and their families. Contact AAFP Insurance Services at (800) 325-8166. We’ll mail you the information you request to help you make your own informed insurance decisions regarding AAFP-sponsored policies underwritten by New York Life Insurance Company, New York, NY 10010 on policy form GMR. You can review the plan literature (features, cost, eligibility, renewability, limitations & exclusions) in the privacy of your home or office. There is no cost to apply. No obligation to accept coverage.

No salesperson will call.

Ten tips...

Protect your credit cards this holiday season

Many of us, numerous times each day, expose ourselves to credit card theft. With the holidays upon us, the pace picks up even more. We slip them in the gas pump, punch in the numbers on our computer keyboard, slide them through the slot at the grocery checkout line, and hand them over to complete strangers at restaurants and stores. And the bad guys are just waiting to capture your number, run up big bills, and turn your credit rating into a disaster.

Fortunately, there is much you can do to protect yourself from the growing crime of credit card theft.

Why the problem? Three reasons. First, sheer volume. Last year, 78 million of the 105 million households in the U.S. had at least one

credit card. But that's only part of the story. Actually, reports the National Foundation for Consumer Credit, there were more than 506 million major credit cards in circulation, and another 800 million debit cards.¹

Second, says the NFCC, we're not leaving home without them! We're using credit and we're stockpiling debt. In 1999, the average American household with at least one credit card carried a balance of \$7,564. That is up significantly from \$2,985 in 1990.

Third, cyber-theft has become big business. Even sites touted as secure (whatever that means) are being cracked every day. The biggest credit card heist, reported MSNBC, involved stealing more than 485,000 credit card numbers from an e-commerce site... and then storing them in a U.S. government agency's web site.²

The holidays are like

Christmas for credit card thieves. It's their busy season, too. What can you do? Here are some suggestions compiled from the FTC and credit agencies.

1. Check your credit and debit card balances carefully. Why? Because you can never be completely certain, no matter how careful you have been, that your number has not been stolen. Review every entry. If you have a question about something, contact the credit card company immediately.

2. Be wary of internet purchases.

E-commerce has become big business, and you can't beat the convenience and speed. However, this is still a new way to do business. Therefore, the fact of the matter is that no site can completely guarantee the security of your credit card. Many people simply refuse to shop on line for that reason alone.

3. Double check to make sure you have your card after every purchase. We use plastic more and more frequently these days; our cards are in and out of our wallets all the time. Don't leave it on the counter of the store at the mall or on the trunk of your car while pumping gas. Also, make sure it's *your* card you get back. Busy restaurants and stores may be running half a dozen credit cards through at a time. Either intentionally or by accident, it is possible to get the wrong card returned.

4. Never leave your cards unattended.

Some people toss them in a drawer at work; others in the glove box of their cars. There are more credit card thefts in the workplace than in any other single location...followed by thefts from cars.

5. Encourage clerks to confirm your identity...and those of would-be thieves.

A growing number of people are no longer signing their credit cards, but print the words, "CHECK ID" in the signature box. Ideally, the clerk will then ask to see other identification. This may be a minor inconvenience for you, but a major hurdle for credit card thieves trying to use your card.

6. Try to avoid letting your card out of your sight. In one well-publicized fraud case, a store clerk was double- and triple-swiping cards through the scanner to add purchases, a trick that might not be all that easy to catch by a person in the midst of holiday shopping.

7. When shopping by phone, only give your credit card number when you have called to place an order (not when the other party initiates the call).

8. Report missing cards immediately.

The good news is that you are only responsible for \$50 in fraudulent purchases. (This is also why the FTC recommends that you not bother with loss-protection insurance.) However, credit card thieves work fast, and within hours can gum up your credit for years to come.

9. Destroy unwanted or expired cards immediately. Cut up cards so no one can read the numbers.

10. Memorize your ATM pin number. Don't carry it in your wallet.

Having your credit cards stolen during the holidays can add stress and frustration to an already busy time.

Of course, there are no sure-fire ways to guarantee that you will never be the victim of a credit card thief. However, by following the above ten suggestions, you can protect yourself best and increase the odds of enjoying a crime-free holiday season. ■



¹ Source: The National Foundation for Consumer Credit. Web site: www.nfcc.org.

² "Vast Online Credit Card Theft Revealed," MSNBC, March 17, 2000. Web site: www.msnbc.com/news.

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Financial Footnote

Bogus travel deals and tour peddlers who go bankrupt cost consumers \$12 billion a year and account for one in seven calls to the National Fraud Information Center, according to the National Consumers League. The best protection is to do your homework before plunking down your money. Then, consider paying by credit card. If the deal goes sour, you can withhold payment. Most of all, never sign up for a tour that involves making a deposit on a “free” trip. If you have concerns, run the offer by the US Tour Operators Association: (212) 599-6599. Web address: www.ustoa.com



SAFETY TIP...

When staying in a hotel, do not hang the “please make up room” sign on the door when you go out. It advertises to would-be burglars that the room is empty. ■

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Your Financial Health is sent to Academy members courtesy of AAFP Insurance Services, Inc. Material for this publication is written by John R. Ingrisano—author, educator and journalist on money management and financial matters. Mr. Ingrisano has served as an advisor to AAFP Insurance Services since 1985. © Copyright 2000

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