

Are Tax-Refund Loans a Good Deal?

Does this sound familiar?

Either by accident or design,

you over-withheld your

federal income taxes for 2005.

More money was deducted from your

paycheck than you actually owe.

So, you're due for a refund. Good!

You can always use the money.

To speed things up, your

tax preparer or a retailer eager for

your business offers you a tax-refund

loan, more formally known as a

Refund Anticipation Loan.

Should you take the loan or wait for

your money to arrive? You decide.

Every year, millions of Americans

say yes to Refund Anticipation Loans

(RALs). The average amount is just over

\$2,100.¹ They pay a few fees, commit to

an interest rate and generally get their

money right away, or within a few days.

The loan is repaid when the refund

arrives. The average total cost of the loan

is about \$100, mostly in the form

of upfront fees.

The problem with RALs, says Chi Chi

Wu, staff attorney for the non-profit

advocacy group, National Consumer

Law Center (www.nclc.org), is that

"these are very expensive, very

short-term loans.

"The IRS can generally turn around a

refund in about eight to 14 days," Wu

told AAFP Insurance Services. "Between

fees, the rate charged and the short-term

nature of the loan, the annual interest

rate can be anywhere from 40 percent

to over 700 percent."²

The biggest problem is the fees. If a

preparer offers a loan of \$2,000 for \$115,

that may not sound like much, but the

loan may run for only a week or so.



That can be a high price to pay for such a short-term loan. Additionally, added Wu, there is some risk involved. "If the refund is held up for one reason or another, the taxpayer is on the hook. Remember, these are loans, and the taxpayer is liable for repayment."

These loans may have made more sense when refunds were mailed and could take months to process, but electronic filing has changed all that. Nonetheless, more than 12 million taxpayers paid over \$900 million in fees last year just to get their refunds a little faster.³

Here are some alternatives to RALs:

1. Adjust your tax withholding.

Your refund is not a windfall. It is a return of your own money – cold, hard cash that you have actually loaned to the U.S. government, and you did so at no charge.

Do the math. Let's say that you receive a refund from the U.S. government of approximately \$2,000 each year. You probably also receive several hundred dollars from your state. If the total averages \$2,500, that comes out to more than \$200 a month that you overpaid. That is also \$200 that you could allocate to immediate lifestyle enhancement or set aside to build (or protect) wealth for the future.

2. Open a savings account

or money market account and deposit that extra money each month. Some people say that over-withholding is the only way they can manage to save money for major purchases. So, they do it deliberately year after year. If that is the case, why not "trick" yourself by opening a separate account and, if your employer is willing, have that additional money automatically deposited each month? That way, the money is not only there when you want it, but it will also be earning interest for you. Or you can allocate the money to an employer-sponsored 401(k) or other long-term plan.

3. File electronically. Between that and having your refund deposited directly into your savings or checking account, any money you are due will be in your hands within a few days.

4. Be patient. If you would just as soon get a refund every year, file electronically and wait the one to two weeks for your refund to arrive. Have it direct-deposited into your savings or checking account.

Besides, you've done without this money all year. This little bit of patience – willingness to wait one to two weeks – will save you the cost of that refund loan.

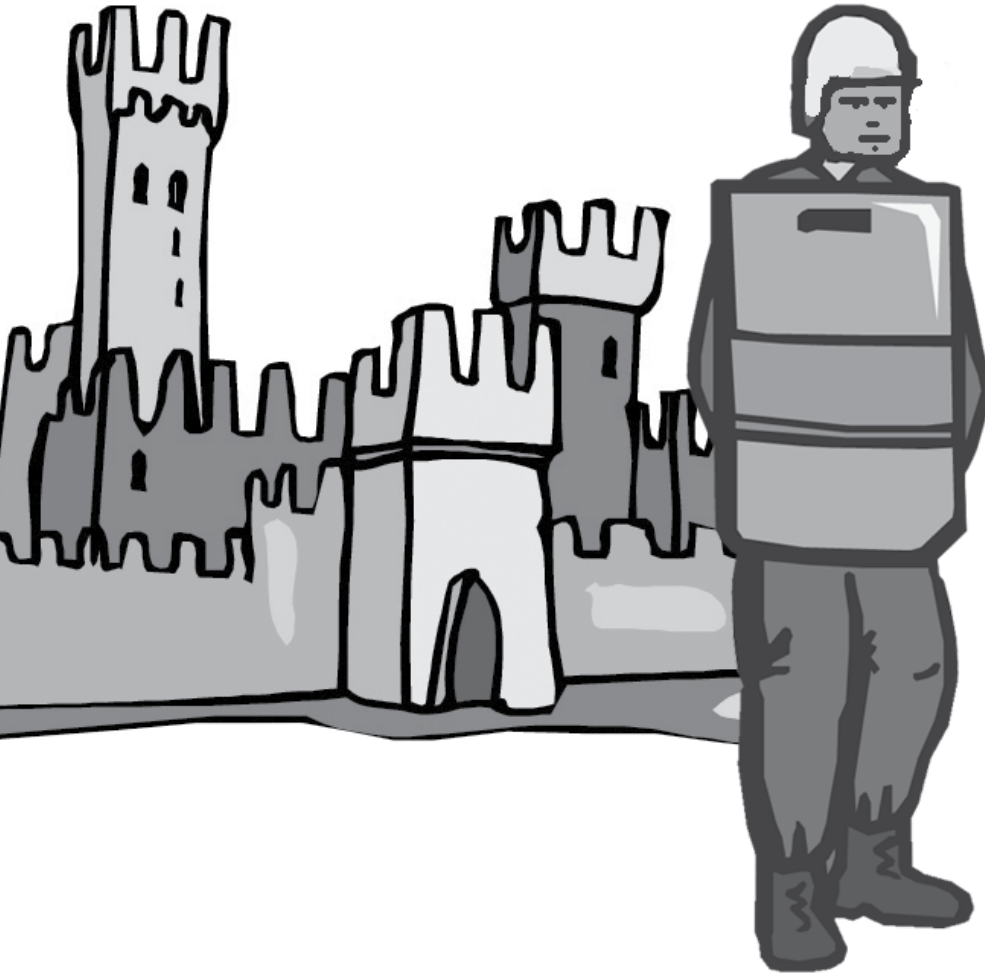
Sure, it may not seem like much, but a hundred dollars here, another hundred dollars there ... it really begins to add up. Besides, wouldn't you rather spend the money on something more fun or worthwhile than on unnecessary fees?

¹ "Tax Stats at a Glance," Internal Revenue Service, October 6, 2005 (www.irs.gov)

² 12/21/05 author interview

³ "Income Tax Refund Loans: Taxpayer Rip-off," Deborah Fowles, about.com, a New York Times Company, 2005 (www.financialplan.about.com)

Home Equity Protection



Your home is your castle. More than just providing shelter and security, your home represents your family's lifestyle and standard of living. If you are like most people, your home is more than likely your greatest single asset.

It's also probably your greatest expense. In most households, the largest bill each month is the mortgage payment. Then, for many families, the next check they write each month goes to pay down a home equity loan. It's that combination that puts some people at risk.

Mortgages and home equity loans are valuable tools that can help you achieve your financial objectives. They can be used not just to fund the purchase of your home, but also to help meet college tuition bills, finance home improvements and offset the effects of emergencies.

However, it is important not to forget that your home is the collateral for the loan. The premise is that, as long as everyone remains alive and well, the debt will be paid off as planned.

The risk: If you should die or become disabled, would your family be able to continue meeting loan payments? If not, what are their options? Your spouse may have to take a second job. Contributions are stopped to college funds, and perhaps the funds themselves are tapped to meet immediate expenses. After all other options are explored, your family may simply have to sell the home and move to less expensive housing.

What to do:

Start by being aware of the "do's" and "don'ts" of home equity loans.

Do consider a home equity loan when:

- You would ordinarily borrow money (e.g. for home improvements, major repairs, college funding or financing a new car).
- You expect to remain in your current home for at least several more years.
- You have a plan – and the means – to pay yourself back. A home equity loan should be used to help you achieve major objectives ... not bail you out of trouble.

Don't tap into your home equity if you have trouble managing credit ... are in a financial bind ... are thinking about using the equity in your home to fund a vacation or other luxury, no matter how well-deserved.

Plus, don't ignore the insurance need

... the need to protect yourself and your family with adequate life and disability insurance. Should one of you die or become disabled, that's where your insurance coverage comes into play ... providing your family with needed cash to either pay off the debt or continue making payments.

Recommendation: Review your insurance package today. If you own a home with a mortgage and/or home equity loan, you owe it to yourself and your family to protect your investment. And when considering the right disability and life insurance coverage for your needs, take a close look at your Academy's insurance program ... with coverage that has been designed exclusively for Academy members and their families.

Your Academy sponsors quality disability and 10-year level term life insurance at competitive rates. Go to www.aafpins.com or call (800) 325-8166 for information about the policy's features, costs, eligibility, renewability, limitations and exclusions. There is no obligation, and no sales person will call.

The Pros and Cons of Selling Your Own Home

“For Sale By Owner.” If you’re selling your home this year, you’ve at least thought about doing it “FSBO.” At first glance, especially in a seller’s market, selling your own home, rather than listing it with a real estate agent, looks like an easy way to save thousands of dollars. It can be; but be careful. You could end up wasting a lot of time, throwing your family life into a tailspin ... and losing much of the profits you were hoping to realize.

There’s one reason homeowners try to do it themselves: Money – to save the real estate commission. When you figure that could add up to \$20,000 to \$28,000 on a \$400,000 home, it makes sense to try selling it yourself.

However, the pitfalls are many. Here are some potential problems:

*** You’ll give up your family’s privacy.** Expect calls day and night. Drive-by Sunday house hunters will drop by unannounced and request a walk-through ... right in the middle of dinner or after you’ve just put the kids to bed. Then these complete strangers will poke through everything – closets, cupboards, even your personal property.

*** You’ll attract bargain hunters,** people who want to put that real estate commission savings in *their* pockets. Worse, many will ask for concessions, suggest all kinds of creative financing options and special deals ... few of which may be to your benefit. On the other hand, many traditional buyers will be

intimidated by the idea of working with the owner. So, you may end up dealing with potential buyers who are more savvy than you ... and they’re looking to cash in on a potential opportunity.

*** There may be a question of safety.** That sign in your front yard is an invitation to all types of strangers. Example: A sincere looking “couple” comes to your door; while he’s dragging you around the house asking questions, she’s pocketing the jewelry in the bedroom.

*** The paper work can kill you,** especially when you get into terms, conditions and actual contracts. Plus, who will walk you through title work, surveys, state and federal regulations?

*** There will be expenses.** Between placing ads and hiring an attorney to handle the legalities, your actual profit may not be as large as you had hoped.

*** There is a potential liability.** If you fail to meet certain disclosure requirements regarding defects, permits and other legal issues, you could be putting yourself in line for a lawsuit.

*** Consider the value of your time** and inconvenience. You could invest many hours of your time showing your home, negotiating the deal and putting together the close.

What can you do to protect yourself and your family if you decide to try selling your own home? Here are a few suggestions:

1. Figure a realistic price. Real estate agents agree that many owners have an inflated opinion of their home’s worth. Price it so it moves quickly, generally within a month. Scan the classifieds and check your local Registry of Deeds. Don’t listen to your neighbors; they know less than you do about the value of your home.

2. Keep emotion out of it. This goes beyond pricing. Remember, the buyer wants a fair deal ... couldn’t care less that this is the house in which all your children were born. Be businesslike.

3. Meet with a real estate attorney and listen to his or her advice. You’ll need this person’s expertise to put together the offer-and-acceptance agreement. Do not attempt to do this yourself.

4. Specify “By Appointment Only” in your print and online ad and your yard sign. This will help screen out all but the genuinely interested. (You may also want to consider voice mail or an answering machine to further screen inquiries.)

5. Consider computer bulletin boards in addition to newspaper ads and yard signs. They’re a good way to get out the word.

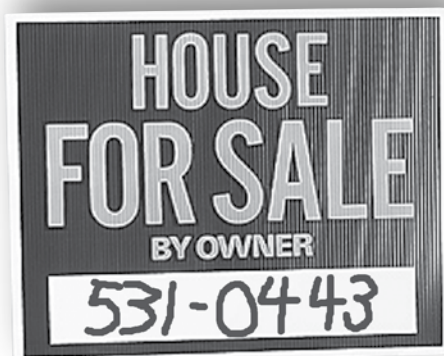
6. Bone up on state and federal disclosure laws dealing with real estate. Some are quite specific regarding what you must tell prospective buyers. Failure to comply could lead to legal entanglements that could drag on for years.

Should you go For-Sale-By-Owner? If houses are moving briskly in your area, you may want to give FSBO a try. There is the potential for significant savings, provided you have done your homework and are willing to invest the time to reap the rewards. Still, keep in mind that there are many risks of selling your own home.

Moving Tips –

Here are a few things to consider when planning to move to a new home:

1. Don’t forget to request the return of your utility deposits.
2. Check your homeowner’s policy to make sure your property is covered while being moved.
3. Check with your accountant to see what moving expenses may be deductible.
4. If hiring movers, request at least two estimates. Make sure they do a walk-through rather than just ask about number of rooms. Also make sure they’re properly licensed.
5. Realize that the more you do yourself (such as packing up your own valuables), the lower the cost. For more suggestions to help plan your move, visit www.bekinsmoving.com.
6. Protect your new asset by updating your life, disability and homeowner’s insurance coverage.



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Representing Your Insurance Needs for 55 Years

A Message from J. Thomas Koch, RHU
President, AAFP Insurance Services

Since 1951, the Family Physician Insurance Program (today known as AAFP Insurance Services) has been helping members meet their specialized protection needs with products and service that are very often unavailable elsewhere.

That is because, as a group, doctors pose unique challenges for insurance companies. On one hand, you tend to earn above-average incomes and live health conscious lifestyles. On the other, you work in what is often a high-stress environment. As a result, insurance company underwriters don't know quite what to do with you.

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We've been doing this for 55 years. And we're just getting started.

Oh, and by the way, watch your mail for our celebratory 55th anniversary offer. We negotiated it just for you!

—Tom Koch

Your FINANCIAL HEALTH

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