

Your FINANCIAL HEALTH

A digest of money management tactics for the family physician

Summer 2005

The Things You May Find...

Your Credit Report Can Make Interesting Reading

True story # 1: John checked his credit report before applying for a loan. He found a \$40,000 college loan with a spotty payment history. The problem: It wasn't his. It belonged to a total stranger who had a Social Security number *almost* identical to that of his daughter, for whom he had co-signed a loan two months earlier. He also found nearly a dozen other errors, from wrong past addresses to telephone numbers to optional spellings of his name.

True story # 2: Tom ordered his credit report. It was sent by mail – with all his personal information in one envelope – to the wrong person in a neighboring city. Fortunately, that person happened to be his son.

Without our permission or knowledge, credit bureaus collect sensitive financial and legal information about us every day. This data is shared with lenders, would-be employers, and others to make decisions regarding our credit worthiness and integrity.

"There is a tremendous amount of information that is captured, stored and merged about us," says Beth Givens, director of the Privacy Rights Clearinghouse (www.privacyrights.org), a nonprofit consumer information and advocacy organization.

That information is protected by a patchwork of regulations and rules. Institutions have a legal responsibility to manage information in a secure manner. They must protect it from illegitimate access, including hacking and unauthorized employee access.

There are loopholes, however. "Much of that information can be shared," Givens told AAFP Insurance Services. "Many people think we have more privacy protection than we actually do. They would be astounded to learn how much information can be shared."¹

Identity theft is one problem. Security is much more lax than you may think. (Imagine if Tom's credit report had been sent to a stranger with less-than-sterling scruples.) Plus, to get your report – or that of anyone else – all you need is a Social Security number, e-mail address, credit card (to purchase the report, though you are eligible for one free report a year, starting this year) and some very basic information about your own borrowing history.

Then there is the problem of simple errors. Someone, somewhere keys in a wrong number. You could spend months clearing up a mistake someone else made.

What to do:

1: Order your reports from each bureau. Here is where to contact them:

Equifax: 800-685-1111 www.equifax.com
Experian: 888-397-3742 www.experian.com
TransUnion: 800-916-8800 www.transunion.com
Innovis: 800-540-2505 www.innovis.com

Under the Fair Credit Reporting Act, you are eligible for a free credit report once a year, starting last December. This freebie is being phased in by region over 2005.



However, the credit bureau will attempt to sell you a number of other pieces of information, including your credit score.

If necessary, don't hesitate to spend the \$30 to \$40 for all three reports and scores from the big three bureaus. Equifax, Experian and TransUnion all work together, so you can order all reports from one site. Innovis must be contacted separately.

2: Study your reports carefully. Read them over several times. Look for errors, inactive but open credit card accounts (which need to be closed by contacting the issuer), and information about who has viewed your file recently. Keep in mind that there will likely be discrepancies between the different bureau reports, so go over each one.

3: Correct inaccuracies. Challenge errors immediately and doggedly. In some cases, you can dispute items online. The dispute process, however, can be complex, confusing and time consuming. Be patient but persistent. Follow up to make sure disputes and corrections have been addressed.

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¹ Author telephone interview 1/11/05

Don't Be Left Behind...

Most Americans on Track for a Comfortable Retirement



Most of us are doing something right! In spite of the doom-n-gloom predictions that many Americans will never be able to retire, most of us today feel we're doing an admirable job of socking away enough money to assure a cozy retirement. Still, the success of our plans requires regular review and preparation for a handful of possible what-if situations.

According to a 2004 study released by the Institute for Research on Poverty at the University of Wisconsin (Associated Press: 12/21/04), 80% of Americans say they are saving enough money for a comfortable retirement. Some are even saving more than they need.

That's good news, especially for family physicians, many of whom plan lifestyle changes when the time comes to hang up their stethoscopes. According to research published by the American Academy of Family Physicians, many doctors surveyed (38%) are looking forward to "pursuing other interests" at retirement, mostly spending more time with their families and traveling (*A Physician's Guide To The Art Of Successful Retirement*, AAFP, 2004).

This comes at the end of a long career often plagued by frustration over government involvement/interference in medicine and burnout from long hours and high stress – from concerns over malpractice threats to endless paperwork.

The best part about retirement

for family physicians is freedom from tight schedules, the demands of family practice, and financial concerns.

The downside: Worries don't end. The key – to put it quite bluntly – is money. That's also the primary concern of would be retirees. In that same AAFP publication (which can be ordered online at www.aafp.org/catalog, item # 430), 54.9% of surveyed physicians say their biggest worry is not having adequate money in retirement. These concerns are valid. Retirement is a long leap into the unknown.

Here's the kicker: Yes, money does appear to buy happiness.

The fact is, according to a study sponsored by Putnam Investors, retirees with the highest income and assets tend to be happier than their less affluent contemporaries (*SmartMoney*, April 2005). Specifically, about half those retired with incomes of \$75,000 or more reported being "very satisfied" with retirement, while only a third of retirees with under \$50,000 of income described themselves that way.

What to do: Plan carefully.

That advice may sound simplistic – rather like W.C. Fields advice on how to cure insomnia: "Get lots of sleep!" – but it is the only way to boost the odds of realizing a secure retirement. Think of retirement planning as packing the parachute that will bring you from one lifestyle to another. You generally do not get a chance to jump twice. So, pack that retirement chute with great care.

Defer a little lifestyle today.

Should you spend \$5,000 on that great vacation this year or put the money aside for retirement? Either way, there is a sacrifice that must be made. Live well today...or live well in retirement. Ideally, a balance is possible. Live comfortably today...and plan for a comfortable retirement. (While that vacation will give you great memories, that \$5,000 stashed away at 7% interest will grow to \$19,350 over 20 years.)

Allocate a portion of today's income for tomorrow's lifestyle.

Set aside as much money as possible for retirement. Make maximum contributions to your 401(k) plan at work. Three reasons why this is one of the most successful ways to save: First, it comes right out of your paycheck, so you barely miss it. Second, your contributions lower your income taxes today. Third, there are often employer matching funds; so if you put in 6% of your income and your employer matches 3%, you're squirreling away 9% of your salary. Let's say that adds up to \$10,000 a year. Assuming a 7% return on that money and no future increases in income (which is highly unlikely), after socking away \$10,000 annually for 20 years, you will have \$438,650 waiting for you – a tidy little nest egg!

Reduce the what-could-go-wrong risk.

Two big dangers that could threaten your (and your spouse's) retirement are disability and premature death. If you become disabled, your career, your income and your retirement plans will be sidetracked, if not totally derailed. Protect yourself with adequate disability income insurance. If you die prematurely, your spouse's immediate and long-term financial security could be destroyed. Life insurance provides a safety net. How much life insurance do you need? One rule of thumb says to purchase an amount equal to between five and seven times your current income, and then keep it current as your income rises. So, if you earn \$120,000 a year, you will need between \$600,000 and \$840,000 of coverage.

These are financially unstable times.

Over the last five years, we've watched Wall Street first tank and then recover, Social Security continue limping along toward invalid status, with a less-than-rosy prognosis for the future, and an economy that talks tough but keeps tightening its belt.

That means, when it comes to your future security, you need to depend on one person: yourself. So, take charge. Plan carefully for your eventual retirement, starting today.

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Go to www.aafpins.com or call (800) 325-8166 for details about these policies – their features, costs, eligibility, renewability, limitations and exclusions. There is no obligation. No sales person will call.

You walk into the home furnishings store looking for a new mattress and box springs, the basic set advertised for \$639. You walk out with an order for their top-of-the-line, Dream Clouds Series and a credit card charge for \$965.



5. *Don't be shy about negotiating.* A professional salesperson expects it. That's also why it is recommended that you talk with the owner or manager, the one who has the say-so on special prices. If you've done your homework, you will know the going price. At the very least, ask the salesperson

Secrets of Dealing with Salespeople

You enter the auto showroom looking for a mini van to chauffeur the kids around. You drive away with a leather-seat SUV, a five-year extended warranty and a monthly payment that could leave you wondering how to afford gas for the beast.

Have you been had? No, you've been sold. It doesn't have to be that way, though. Imagine buying your next car, computer, television, dining room set or just about any other item and not only getting the product that is right for you, but also saving a big chunk of change. When it comes to a car, for example, if you know the ropes, you could pay thousands of dollars less than the person who doesn't know how to deal with a suave, persuasive salesperson.

The key is to find and know how to work with a professional salesperson. Salespeople are trained to get the sale. Ideally, the really good ones – the true professionals – work hard to match your needs with the product that is right for you. You get a good deal and they get the sale. If all goes well, they know you will come back to them next time. That's called "relationship selling."

These are the salespeople you want. They ask questions, listen to what you say, and help you buy what you need.

Then there are the ones just looking for the quick sale. They see you as a commission check. And if they know you are a doctor, their eyes light up. They will do everything possible to shake every last dollar out of your wallet and sell you whatever they can, without regard for what you need. Steer clear of these folks.

Here's what you can do:

1. *Know what you want.* That means do your homework. The ignorant and uninformed always pay more. The professional salesperson will ask questions. However, if you don't know what you want, there is only so much the salesperson can do to help.

2. *Pick the "right" salesperson.* Don't be charmed by a friendly smile. The first rule of selling is to create rapport. Any savvy peddler will look for something to put you at ease and build trust. Instead, look for knowledge, experience, and good listening skills in the salesperson with whom you choose to work. Talk to the one who asks good questions (not just, "How much money do you have to spend?") about your needs and then listens to your answers.

3. *Be vigilant.* Keep on track for what you want, not what the salesperson wants to sell you.

4. *Shop around.* The best way to get the best price is to visit two or three competitors. Competition keeps sellers on their toes and gives you the best opportunity to get what you want for the price you want to pay. (A good salesperson knows, understands and respects this.) Some people make a window-shopping run. They visit two or three stores or dealers, ask a lot of questions, even take notes. They ask about the best price, in writing. Finally, they get the business card of a salesperson with whom they feel comfortable. However, they do NOT make the purchase. This is a scouting trip. The buying trip takes place no less than 24 hours later.

if he or she can give you a better deal. Or, without being unreasonable, say, "Here's the price I'm willing to pay."

6. *Look for hidden costs and fees.* Don't wait until the salesperson is writing up the order to learn about delivery charges, finance fees and terms. When buying a car, for instance, once the deal is set in principle, some people let down their guards. That's when the finance person may attempt to sell add-ons such as extended warranties (which, by the way, are also negotiable).

7. *Don't make snap decisions.* A good salesperson knows that if you leave the store showroom, the sale may be lost. He or she will always urge you to buy now. If you're not 100% certain about the deal, take 24 hours to mull it over, or to do more research. Sign nothing until you are satisfied with all terms. Also, do not feel loyalty to a pleasant salesperson. This is business.

8. *Get everything in writing.* Verbal promises mean nothing. The delivery people may know nothing about what the salesperson tells you. So, carefully review the order before you sign it to make sure all terms and charges are as agreed.

Remember, professional salespeople are just doing their jobs. They work hard for their money. But so do you. A true sales professional will work hard to provide you with the product that is right for you at a fair price. The one who does that is looking for long-term, repeat business, and is a true professional. The result is a win-win deal for both of you.

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“Credit Report”

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4: Check your reports again each year. Reports are updated regularly. Uncorrected errors can damage your credit and your ability to borrow money in the future. Some experts recommend checking your ratings and credit scores before making a major purchase, such as buying a home or car.

5: Reduce the risk of financial loss from identity theft. One option is to enroll in your Academy-sponsored ID Theft Assist program. This service is available to members to help reduce the financial cost and personal trauma when their identities are stolen. For more information, go to <http://www.aafp.org/idtheftassist.xml>.

The credit bureaus' right to amass our life's most personal information and then share those records with other people and businesses may be the greatest risk to our privacy. However, unless and until

laws change, it is all currently legal. The onus is on us to oversee that data and make sure it is accurate.

The bottom line: Use every means available to protect and correct your personal information. Check out your credit reports. They can make fascinating reading.

Financial Footnotes



If you get a big tax refund year after year, you're paying too much out of each paycheck. Don't use withholding as a savings plan and treat your refund as a bonus. It's your money. Stop lending it to Uncle Sam. Adjust your withholding (or estimated quarterly payments).

Put that “extra” cash in your paycheck to good use: retirement, a college fund, insurance.

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