

IDAHO'S Two Cent Tips

Improving the lives of Idahoans, two cents at a time!

February, 2011

University of Idaho
Extension

Idaho Financial Literacy Coalition

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Steps of Financial Freedom

- Set Goals
- Get education/
earn income
- Give
- Budget
- Plan for Emergencies
- Eliminate consumer
debt
- Invest for retirement
- Teach kids about
money
- Own a Home
- Plan your estate

Should I Use my IRA to Pay Off Debt?

Luke Erickson—erickson@uidaho.edu

I'll address this question as I normally answer good questions about personal finance - with two answers.

First Answer: "NO WAY, JOSE!" Do not use an IRA, Roth IRA, 401(K), 401(a), 457, 403(b), SEP, or any other retirement account to pay off debt. This is because debt is only a symptom of a larger problem, be it overspending, misuse of credit, a lack of adequate emergency savings, or an expensive relationship with the soon-to-be-reinstated Prince Naiobi of Nigeria who will share his millions in return for only \$3,000 of your money, to name only a few common examples.



Paying off debt gets rid of the symptom, but unless addressed directly, the actual problem will persist. This is akin taking Alka-Seltzer after eating your aunt Sue's (in) famous Texas-Casserole. Your stomach hurts, but the problem ain't your stomach, it's the casserole, ya'll. In other words, that debt will likely grow right back after "wiping the slate clean". Additionally, keep in mind that it is far too easy to promise ourselves to repay the IRA, but in the real world, there are too many "emergencies" and "sales" and Nigerian



Receive Idaho's Two Cent Tips every month by sending an email to erickson@uidaho.edu with the word "subscribe" on the subject line.

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Extension professionals work with the people of Idaho to address youth, community, family, environmental, natural resource and agricultural issues.

Idaho Financial Literacy Coalition



We want your suggestions

for future newsletter articles and FCS programs in Eastern Idaho.

We invite you to take our 2011 program survey at:

[http://
www.surveymonkey.co
m/s/7VRFJBV](http://www.surveymonkey.com/s/7VRFJBV)

Or take the paper survey at the end of this newsletter. We can't wait hear *your* two cents!



princes that tempt us to forgo these promises to ourselves. That's the behavior side of things.

Second Answer: "Technically," I say as I straighten my professorial bow-tie, "numerically speaking, you might occasionally come out ahead with this strategy."

Say for example, you have a large series of payday loans with 1000% APR, it might make mathematical sense to do whatever you can to pay off those debts. However, even when strictly talking numbers, you will most likely be better off leaving your IRA untouched, and finding alternate means of paying off this debt. Here's why:



If you are not yet 59 ½ or older you'll be penalized as well as taxed, AND you'll miss out on potential earnings. Below I've done an example using a fictitious auto loan with a remaining balance of \$15,000 at 7%. With a fixed payment of, let's say, \$375 for the duration of the loan, it would take 46 months and cost \$2,130.78 in interest, to pay this off under standard loan terms.

To pay off that \$15,000 balance you would actually need to cash out \$26,316 from your IRA. That's because after a 10% penalty, 8% state income tax and 25% federal income tax bracket (total of 43%), you would have 15,000 left to pay off your debt. "WOAH!" you say. "That costs \$11,316, to pay off \$15,000 early, I'm no genius like you, Professor Erickson but that's way more than just making normal payments!"



Indeed, my friend, AND we haven't considered loss of investment earnings yet. Even supposing that you have the

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initiative to take the 46 months of saved monthly payments from your paid off debt (\$375) and add them to your fixed contributions of say \$250 to your IRA (\$625 total), you would still lose somewhere around \$75,000 in earnings after 20 years!!

In other words, in this scenario, being very conservative, cashing out your IRA would cost you upwards of \$84,000 more than if you paid your debt off normally.

I've been accused of being a fiscal conservative, but I think you can see why I adamantly recommend against this strategy of debt reduction, it's takes a very large interest rate on your debt to even make sense mathematically.

Payday loans of 1,000% or more might fit the bill, for example, but even then, what is the likelihood that you're just putting a band-aid on a much bigger problem of money mismanagement?



Also consider that if you truly are drowning in debt, retirement investments are usually not subject to liquidation in a bankruptcy plan. This means that you could declare bankruptcy and keep your retirement assets without ever having to cash them out, thus securing at least some kind of retirement plan regardless of your current financial situation.

Even the government has gotten

this one right. It makes no sense to erase any opportunities for retirement, even if you are struggling right now.

Bank Accounts Are Changing: What You Need to Know

Marilyn Bischoff—
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New federal rules limit the fees banks and other financial institutions can charge on some services, so it's possible that the costs of *other* services could go up. FDIC (Federal

Deposit Insurance Corporation) consumer specialists expect that banks will be adding new fees or requirements on bank accounts—such as discontinuing or limiting free checking services. Because it's hard to predict how banks will change their fees and policies for checking and savings accounts, here are some basic strategies to keep costs down.

Protect against unexpected costs by monitoring communications from your bank. Whether you keep track of your account online or on paper, promptly check account statements for errors that can cost you money, fees you didn't realize you were running up, and account changes you forgot about or didn't notice in the mailings



from your bank. It’s also important to review your account statement as soon as you receive it to identify and dispute unauthorized transactions. Better yet, check your account activity online periodically instead of waiting for the statement to arrive in the mail. And consider signing up for electronic statements if your bank offers them. That way, you’ll get an email notifying you about your latest statement online, which can be a good reminder to promptly review your account.



Paying attention to account activity is also crucial if there are unauthorized transactions. If your debit or ATM card is lost or stolen, your liability for unauthorized charges is limited under federal law based on how quickly you report a problem. To get the most protection, you must notify your bank within two business days of learning that the card is missing. In addition to reviewing account statements, read other mail or email from your bank. These communications may contain notices of important account changes, including increases in fees or penalties. If you don’t read the notices of cost increases, you won’t be able to avoid them.

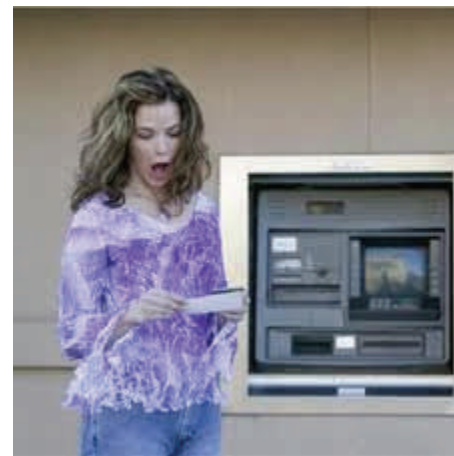
If overdrawing your account is an ongoing problem, look into alternatives to high-cost overdraft programs. The best and cheapest way to avoid overdrafts is to keep a good record of your transactions—all of your deposits and withdrawals,



including direct deposits, automatic transfers, ATM transactions and debit card purchases—and have enough funds in your account to cover your anticipated withdrawals.

To help keep track of your account, find out if your bank will send you an email or text message alerting you when a significant transaction posts to your account (such as a recurring automatic payment) or if your balance drops below a specific amount. This alert service, which is offered free at many banks, enables you to consider moving funds to your checking account from a savings account so you can avoid an overdraft. Learn about the potential costs, if any.

In recent years, banks have offered overdraft programs that—for a high fee—automatically approved debit card and ATM transactions when the balance dipped below zero. Although having an occasional overdraft covered can be beneficial, many of the auto-



omated programs make it easy to incur several overdrafts—even in a single day—and quickly rack up fees that can cost hundreds of dollars. Under new rules that went into effect July 1, 2010, banks must ask customers if they want to pay for overdraft coverage for debit card purchases and ATM withdrawals. If you “opt in” (agree) to this coverage, your bank can charge you a fee to process these transactions when they exceed your account balance. If you don’t opt in, expect that these debit card and ATM transactions

will be declined; you will, though, avoid paying an overdraft or insufficient funds fee.

These new limitations *only* apply to one-time debit card transactions and ATM withdrawals. Your bank may cover an overdraft that occurs by check or automatic payment (such as recurring payments for your mortgage, insurance premiums or health-club membership) *without* you opting in for overdraft coverage, and it is likely to charge you a fee for doing so. If the bank returns a check or automatic payment instead of covering it, you may encounter additional difficulties beyond the bank’s fee. For instance, the merchant that initially accepted the bounced check may charge a fee for the returned item and not accept checks from you in the future.



If you often overdraw your checking account and you’d rather pay a fee than have a purchase declined, consider avoiding your bank’s overdraft coverage. Ask about less-expensive options instead.

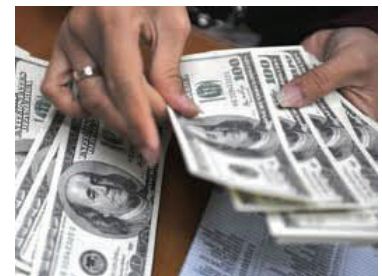
Among the possibilities:

- Link your checking account to a savings account so that, for a small fee, money would automatically be moved to cover overdrafts.
- Pre-arrange for an overdraft line of credit, which is an automatic loan triggered by a shortfall in your checking account. This loan will generally be less expensive than overdraft coverage, especially if you incur several overdrafts and pay a separate fee each time, but look into the costs for both options.
- If you’re facing a short-term cash crunch, ask your bank and a couple of others if they offer an affordable small-dollar loan to cover your expenses.

If you struggle with overdrafts despite your best efforts to avoid them, and if you do not plan to participate in one of these lower-cost options, compare what your bank and other banks or credit unions may charge for covering overdrafts. FDIC officials note that some banks are discontinuing certain fee-based overdraft coverage that carries high costs, and others are lowering the fees charged for consumers who opt into overdraft programs. So do your research, shop around, then make the best decision to suit your needs and your wallet.

Minimize fees at the ATM. Most banks don’t charge their customers to use the bank’s ATMs. Get cash at your bank or one of your bank’s machines. When you need cash and you’re not near your bank or one of its ATMs, know your options. Avoid paying two fees—one to your bank, the other to another bank for using its ATM.

One possibility is to use your debit card when making a purchase and ask for cash back. This is also a good option if your bank charges a fee for exceeding a certain number of ATM transactions in a month. However, first confirm with your bank that getting cash back on a debit card transaction is free. And be sure to record the purchase as well as the cash withdrawal, so you don’t overdraw your account.



Source: Federal Deposit Insurance Corporation, Summer 2010. FDIC Consumer News, <http://www.fdic.gov/consumers/consumer/news/cnsum10/index.html>.

Making Every Dollar Count in 2011

Lyle Hansen—lhansen@uidaho.edu

Are you in control of your money? Or, does your money control you? We all have good intentions when it comes to spending our money but unfortunately it doesn't always go as planned.

When this happens, it is important to learn from what went wrong and work to do better. I find that it is helpful to al-



ways learn about personal finance. I recently attended a presentation about a great free personal finance learning tool that is available. ***The Making Every Dollar Count program*** developed by Extension Educators from the University of California Cooperative Extension helps you learn how to make your money work for you. This eight lesson program is available in both English and Spanish and includes:

1. Setting goals
2. Making Choices
3. Stretch Your Dollars
4. Budgeting Basics
5. Paying Bills on Time
6. When You Can't Pay Cash
7. Saving money on Food
8. Food Advertising

This self-study program allows you to learn and complete the lessons at your own pace. The lessons take about 30 minutes each and include downloadable worksheets, interactive games, a quiz, and a printable certificate of completion after you have passed the quiz. There is also an option you can click on that will read the lesson

aloud to you in either English or Spanish. This program has been created for adults, but would also be applicable to high school students. The website is user friendly and has a clean and simple design. All you have to do to get started is follow the link <http://makeeverydollarcoun.ucr.edu/english/index.htm> and click on the first time visitor button. It will take you through a short tutorial on how to use and navigate the lessons. This is a great free resource that a person can individually learn more about personal finance and can share information with family, friends, and others. I encourage you to spend a few hours and complete all eight lessons. Completing these lessons will give you the tools you need to help you gain control over your money and improve your economic well-being and quality of living.

Introducing Personal Finance Presentations

Lyle Hansen—lhansen@uidaho.edu

I recently completed my first personal finance presentation using Adobe Connect. The presentation covers five resources that you can use to learn more about personal finance. I would like to encourage you to view the presentation and let me know what you think. This is hopefully the first of many presentations that I will be recording. Please let me know what topics you would like me to cover in the future. You can view the presentation at http://www.extension.uidaho.edu/jerome/personal_finance_recorded_presen.htm.

Please email me with any questions or suggestions at lhansen@uidaho.edu.

Interests Survey for Family Consumer Science Programs in Southeastern Idaho - 2011

Please rate each issue/topic based on the interest and needs of your household.

(To take this survey online please visit <http://www.surveymonkey.com/s/7VRFJBV>)

Check your interest level			Topic/Issue	Check the method you prefer to receive the information				
High interest	Medium interest	No interest		Class	Newsletter, newspaper	Brochure, pamphlet	Web, video, audio, etc.	
Nutrition, Diet and Health								
			Healthy food selection when eating out					
			Healthy, quick, and economical meals					
			Healthy habits for children (childhood obesity prevention)					
			Nutrition for chronic diseases					
			Exercise and nutrition for health					
			Dietary guidelines/general nutrition					
			Other:					
Financial Management								
			Financial Goal Setting <i>(bucket lists, communication, charity, behavior)</i>					
			Preparing financially for emergencies <i>(insurance, savings, ID theft)</i>					
			Budgeting <i>(increase income, decrease expenses, needs and wants)</i>					
			Youth financial programs <i>(college savings, elementary, jr. & high sch. programs)</i>					
			Understanding credit <i>(credit scores, debt elimination, high cost loans)</i>					
			Retirement preparation <i>(investing, Soc. Security, Medicare, pensions)</i>					
			Homeownership <i>(affordability, mortgages, paperwork, reverse mortgages)</i>					
			Estate planning <i>(Wills, trusts, probate, plans for farmers and fam. businesses)</i>					
			Other:					
Food Safety								
			Safe home canning procedures					
			Food storage, shelf life and food pantry pests					
			Sustainable food systems and interest in using local foods					
			Using a food thermometer/safe cooking temperatures					
			Developing a specialty food business					
			Emergency preparedness and food safety					
			Disease prevention and hand washing					
			Basic food safety tips					
			Other:					

Please list additional topics that would be helpful to you and your family. _____

OVER>>

University of Idaho Madison County Extension
PO Box 580
Rexburg ID 83440

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Please list the county where you live: _____

Check the answer that best describes you.

Q1. Gender Male___ Female___

Q2. Age

Less than 29 years___
30-39 years___
40-49 years___
50-59 years___
60-69 years___
70 years & older___

Q3. Race

1. African-American___
2. Asian___
3. Caucasian___
4. American Indian/Alaskan Native ___
5. Pacific Islander___
6. Other___

Q4. Ethnicity

Hispanic or Latino___
Non-Hispanic or non-Latino___

Thank you for completing this survey. 😊

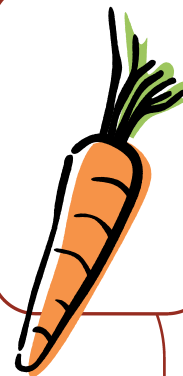
Thank you for the donation of a stamp to help us serve you better. Please fold, tape and mail to the address above.

OR if you prefer to take this survey via the web, please visit <http://www.surveymonkey.com/s/7VRFJBV>.

FOOD PRESERVATION WORKSHOP — MARCH 2011

University of Idaho
Extension

Lorie Dye and Luke Erickson 208 356-3191



The University of Idaho Extension is offering a five-week course on the basics of food preservation. Classes will be held Tuesday mornings, 9:00 am—noon, during March, 2011, at the Meadows Subdivision Clubhouse—corner of 7th South and Countryside Rd., Rexburg, ID.

Class topics include:

- March 01, Canning Basics
- March 08, High-acid Foods
- March 15, High-acid Foods
- March 22, Freezing and Drying

Participating Educators:

- Audrey Liddil, Bannock County
- Char Byington, Bannock County
- Sharlene Woffinden, Bear Lake County
- Marnie Spencer, Bingham County
- Laura Sant, Franklin County

Registration deadline: February 23, 2011. Contact the Madison County office at 134 E. Main St. (PO Box 580), Rexburg, Idaho 83440, (208) 356-3191 to reserve your spot!

Cost: \$60 for all classes, \$15 for one class

To enrich education through diversity the University of Idaho is an equal opportunity/affirmative action employer.

Reasonable accommodations will be made for persons with disabilities and special needs who contact Luke Erickson or Lorie Dye by February 23, 2011, 208-356-3191.