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interest. This is a good strategy if you plan to pay off the equity debt in the same period of time the consumer debt would have been paid off. **Trap #1:** People tend to roll their equity debt into their long-term home debt and end up paying on that consumer purchase for years, long after the car or appliance has been carried off to the recycle yard. **Trap #2:** Interest on equity debt is not deductible for Alternative Minimum Tax (AMT) purposes. Thus, if you are being taxed by the AMT, your benefit from the equity debt interest deduction will be reduced or eliminated.

Savior: If used wisely, a home equity loan can provide you with a fresh start. If you are heavily burdened with consumer debt and have sufficient equity in your home, consolidate your debts into a new home loan and substantially reduce your monthly outlay. With the extra monthly cash from the reduced debt, begin saving for future cash purchases, children’s education and retirement. **Trap:** After restructuring your debt, you continue to run up additional consumer debt and could potentially overextend yourself again. The cycle repeats itself and leaves you with no equity in your home and a heavy mortgage debt at retirement or “under water” if the loan balance exceeds the market value when you decide to sell.

Saving For the Future

After you’ve taken stock of your inflow and outgo and instituted measures to reduce debts, the next step is to begin developing a savings plan. Here again, consistency is the key. For instance, look at what happens when you put away \$25 a week at an annual compounded interest rate of only 5 percent:

Term	Ending Balance
10 years	\$16,768
20 years	44,081
30 years	88,571

In addition to regular savings, if you participate in a retirement plan, either through an employer or your own self-employed plan, begin using it to the fullest. Contribute as much as you can! After all, most pension plans allow you to build savings and defer paying taxes on income until you begin making withdrawals. It’s hard to find a better deal than this anywhere.

Review Your Strategy and Adjust for Changes

Remember, you need to continually review the savings strategy you establish in light of your overall goals – someday you will retire, in 20 years the children will be going to college, eventually you may want a bigger house, etc. Your strategy shouldn’t simply take into account those KNOWNs; your plan must create a cushion to handle the UNKNOWNs as well.

Change is a certainty, and because of this, no plan for meeting financial objectives can remain static. As you go along, you’ll no doubt have to do a little “adjusting” here and there. Events like marriage, divorce, birth, death, retirement, job relocation, etc., can all complicate and force reevaluation of your original plan. Because of all the technicalities involved, you’ll probably want some outside help. It’s advisable to consult professional tax, legal and financial advisors before embarking on or changing your course of action.



The tax advice included in this brochure is an overview of some complex tax rules and is not intended as a thorough in-depth analysis of the tax issues discussed. Do not act on the information included in this brochure without first determining how these issues apply to your particular set of circumstances and if there are any special tax laws or regulations that might apply to your situation.

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Saving Money to Insure Your Future

The Smiths are college graduates with two healthy children, good jobs, a home worth about \$160,000 and two relatively new cars. To the casual observer, they’re doing well. Yet anyone taking a close-up look would find a few flaws in their situation, especially when it comes to their finances.

You see, the Smiths have:

- **Virtually no savings;**
- **Retirement plans available through employers but with contributions at a bare minimum;**
- **A portfolio of several hundred shares of stock bought as a result of a tip from a friend - the investment has gone sour; and**
- **Large debts on their home, cars and credit cards.**

Obviously, Mr. and Mrs. Smith could benefit from a course in financial fitness. Their greatest need is to take a long, objective look at their financial picture AND make some rather radical adjustments!

Unfortunately, the hypothetical Smiths aren’t a lot different from many Americans today. Statistics indicate that a large number are saving about 4 percent of their disposable household income, far less than citizens in other countries. For example, Australians and Germans save about 10 percent.* In addition, American workers (similar to the Smiths) aren’t taking full advantage of their employer’s retirement plans, most making pension contributions of only about \$2,900 each year.

Perhaps most ominous, however, is the amount of personal debt Americans have been incurring. Household debt (including mortgages, credit cards, auto loans and student loans) increased \$2 billion from the fourth quarter of 2014

to \$11.85 trillion as of June 30, 2015, according to the NY Federal Reserve web site.

** According to statistics from the Organization for Economic Cooperation and Development*

Improve Your Own Financial Future

The Smith scenario and previously cited statistics paint a gloomy picture, but there are steps you and your family can take to prevent similar results. Achievement of financial security comes from adjusting your current financial picture in light of future goals. Far from being easy, the whole process requires a good amount of self-sacrifice and more than a few trade-offs along the way.

Check your spending habits

The only way to objectively view your finances is to set down on paper what you’re currently spending. No one enjoys this job, but it’s necessary if you’re serious about a plan to ensure financial well-being.

Keep a log of what you spend your money on for a while (account for every cent, including all cash, check and credit purchases). Write down everything from house payments to dinners out, grocery purchases, haircuts, parking fees, entertainment expenses, doctor visits, etc. Try to list each item by category – e.g., amounts spent on movies out, Internet downloads, and cable TV could all be listed under a category called Entertainment Costs.

At the end of the period, total each expense category and get ready for a huge surprise - you’ll probably find that those “little” extra miscellaneous items have made a sizable dent in your pocketbook. After you examine the totals carefully, you’ll begin to see a trend. It’s then that you need to ask yourself, “Where can I cut down?”

Once you have a feel for the expense side of the ledger, concentrate on your income - salaries, pensions and annuities, interest, dividends, etc.

Total everything you received for a given period (e.g., a month, a quarter, or a year) and subtract from it the grand total of all your expenditures for that same period. If your answer is positive, you’ve done all right - there’s a profit. If your answer is negative, you could be faced with a problem.

Debt Could Be the Culprit

One reason many people can’t seem to get ahead financially is that they have a lot of debt - mortgages, student loans, credit cards, etc. And it’s difficult to reduce debt unless spending habits change. Probably the best place to start cutting back is with the credit cards. Most people have a huge pile of them (the average is nine for most Americans).

Credit card spending is expensive. Assume, for example, that the balance on your Megabank card is \$1,000 on which you’re charged an annual interest rate of 20 percent. If you pay the minimum \$20 per month on your account, your total yearly payments will be \$240 (\$20 x 12). Yet by the end of one year, you will have only reduced your debt balance by \$44, as shown in the following chart:

Month	Interest	Principal	Balance
1	\$16.67	\$3.33	\$996.67
2	16.61	3.39	993.28
3	16.55	3.45	989.83
4	16.50	3.50	986.33
5	16.44	3.56	982.77
6	16.38	3.62	979.15
7	16.32	3.68	975.47
8	16.26	3.74	971.72
9	16.20	3.80	967.92
10	16.13	3.87	964.05
11	16.07	3.93	960.12
12	16.00	4.00	956.12

And what if you have eight other credit cards with balances similar to the Megabank card? You see how easy it is for debt to escalate?

To get and keep the upper hand on all that plastic, you may need to:

- 1. Quit making purchases by credit card. If the cash isn’t available, don’t make the purchase.**
- 2. Carry only one card for emergencies and get rid of those with the highest balances.**
- 3. Begin the search for a credit card with a low interest rate - there are some available, but it may take a little detective work to find them. Also try to avoid cards with annual fees.**
- 4. See if you can consolidate your credit card debt into the card carrying the lowest interest rate.**
- 5. Start making the largest payment you can each month to pay off the debt. Once you’ve established an amount, keep at it EVERY month. You will be able to get it paid off faster than you think if you work at it consistently!**

Home Equity – Savior or Trap?

Your home equity is a tempting source for money. Just keep in mind that you will never own the home if you continuously tap into that equity. Your reasons for using the equity may be legitimate, but were they necessary and paid back in a timely manner?

Using home equity loans is an often touted means of avoiding higher interest rates on consumer loans for automobiles, major appliances, etc. It also provides a way to convert nondeductible consumer interest to deductible interest, since the interest on home equity debt (up to \$100,000) is deductible as home mortgage