

Money 2000

University of Wisconsin-Extension

Family Living Programs

and Beyond

Time to give U.S. Savings Bonds another look

With the recent interest rate increases, it may be time to take another look at U.S. Savings Bonds. The Treasury Department has introduced new products and services that make savings bonds an attractive alternative for your savings.

“Inflation indexed” **Series I savings bonds**, introduced in September 1998, are now earning a respectable 7.49 percent. This is a combination of two rates — a fixed rate and an inflation adjustment.

The **fixed rate** is based on market conditions and remains constant for the life of the bond. The fixed rate for all I bonds sold between May 1 and October 31, 2000, is 3.6 percent.

The **inflation adjustment** is based on the Consumer Price Index and is adjusted every six months based on rates set each May and November. The adjustment ensures that your money will earn more than the rate of inflation.

Unlike Series EE bonds that sell for half their face value, I bonds are sold at **face value** — a \$50 bond will cost \$50.

There are no fees or service charges when you buy or sell U.S. Savings Bonds. The greatest benefit comes from letting the interest grow, but you can redeem the bonds at any time after six months from purchase. If you redeem them within five years, you will pay an early redemption penalty equal to your last three months of earned interest.

Earnings from U.S. Savings Bonds are exempt from state and local income taxes. Federal taxes are deferred until the bonds are redeemed, up to 30 years. And if you use the bonds to pay for qualified education expenses, savings bonds purchased since January 1990 may be exempt from federal income taxes.

Modified adjusted gross incomes eligible for full interest exclusion when using savings bonds for qualified education purposes for 2000 (includes bonds' interest before exclusion):

- Single filers — \$54,100
- Married, filing jointly — \$81,100

For 2000, the interest exclusion benefits will phase out for joint filers with adjusted gross incomes between \$81,100 and \$111,100. For single filers, the phase-out is between \$54,100 and \$69,100.

To help you keep track of your savings bonds, the Treasury Department has a computer program called “Savings Bond Wizard.” This allows you to create an inventory of your bonds and calculate their current value. You can download this software free from the Treasury Department Web site:

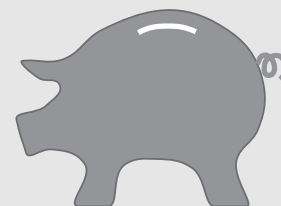
<http://www.savingsbonds.gov>

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For more
information on
U.S. Savings Bonds:
www.savingsbonds.gov

(800) 4US-BONDS



Understanding your investment profile

Each of us is different — and we have different needs when it comes to investing. Your investment decisions depend on:

- **Your risk tolerance:** To assess this, ask yourself what “worst case scenario” would cause you to change your investment strategy. How much of a drop in the value of a security can you stand? For example, could you handle a 5 percent, a 15 percent, or a 25 percent decline in one year?
- **Your return needs:** No investment does it all — provide high income, protect the principal, and offer high potential for growth. You must decide if you need current income, or if you are investing for long-term growth.
- **Your time horizon:** The amount of time you have directly affects your ability to reduce risk. A long horizon is critical for volatile investments such as stocks. Your time horizon is determined by when you invest and when you will need the money. For example, a growth mutual fund may be a good choice for an education fund when your child is a baby, but you may want to switch to fixed-rate certificates of deposit (CDs) as tuition bills get closer.
- **Your tax bracket:** The bottom line of investment returns is after taxes. Some investments are taxed at capital gains rates while others are taxed as ordinary income. Some investments escape state or federal taxes. Others, such as qualified retirement plans or traditional IRAs (individual retirement accounts), only defer taxes. Consider the tax consequences of various investment choices to see how that affects your return.

- **Your life stage:** Your investment needs will change over time. For example, your risk tolerance may change as you get older. Early in your career, you probably will invest your retirement savings for more aggressive growth. But once you retire, you might want at least some of your nest egg invested to produce income to supplement your retirement income.

An effective investment plan matches your profile of risk, return needs, time, tax situation, and life stage — maximizing return and minimizing risk.

For more information on evaluating your investment objectives and selecting appropriate investment vehicles, check out *Investment Basics* B3683. This publication is available from your county UW-Extension office for \$3.50, or the Web at:

<http://cf.uwex.edu/ces/pubs/pdf/B3683.PDF>

Talking about money

Talking about money matters isn't romantic, but it's hard to avoid in relationships. Improving communication and trust can help resolve sensitive money issues and prevent arguments.

- **Schedule a time to discuss and plan.** Treat the appointment seriously and stick to money business.
- **Work together and strive for a win-win solution.**
- **Discuss debt, expenses, spending — and your feelings.**
- **Listen to each other.** Explain how you feel. First seek to understand, then seek to be understood.
- **Ask questions to clarify your partner's point of view.** Don't assume you know.



Web sites — If you do not have Internet access, try your local library. Many libraries are connected to the World Wide Web.

Who's got your number?

Social Security numbers are increasingly used as identification. Though they are important for record keeping, they can also be an entryway into fraud and invasion of privacy. It is therefore important to keep your Social Security number as private as possible.

Here are two general guidelines.

1. It is appropriate to provide Social Security numbers for these uses:

- Income tax records
- Medical records
- Credit bureau reports
- College records
- Loan applications

2. You can and may want to refuse to provide Social Security numbers in these situations:

- Written on personal checks
- Given over the phone to callers offering credit cards
- Club memberships
- Identification for store purchases and refunds
- Address labels

When in doubt, ask why your Social Security number is needed. **Remember:** You don't need to give someone your number just because they ask for it.



“Investing for Your Future” on-line class now available

To help Americans make the transition from “savers” to “investors,” the national Cooperative Extension Service is now offering a free home study course on the Internet. This comprehensive 11-unit course, “Investing for Your Future,” features information to help you evaluate investment decisions and “action steps” to achieve your financial goals.

Designed for the beginning investor, course units cover basic topics such as setting goals, finding money to invest, and investment principles and products. You can compare types of investments including stocks, fixed-income securities, and mutual funds. Other units focus on tax advantages and investments you can purchase for \$1,000 or less. The course concludes with investor resources, selecting professional financial advisors, and avoiding investment fraud.

A unique part of this course is the opportunity for you to email your investment questions to personal finance

experts at the U.S. Securities and Exchange Commission and more than a dozen universities.

Learn more about Investing for Your Future at the Web site:

<http://www.investing.rutgers.edu>

On-line users are asked to complete an electronic registration form and are eligible to receive a certificate of completion.

Resources

Internet access is available at many public libraries or other public places in your community. For locations, contact your county UW-Extension office.

Money 2000 & Beyond, UW-Extension Cooperative Extension:

<http://www.uwex.edu/ces/money2000>

Money 2000 and Beyond publications are available from your county UW-Extension office, or call toll-free: (877) WIS-PUBS

Visit “Investing for Your Future,” a new on-line investor home study course: www.investing.rutgers.edu



Payday loans are very costly short-term loans. Figured on an annual basis, the interest rates range from 400% to 1,000%.

Payday loans: Costly cash

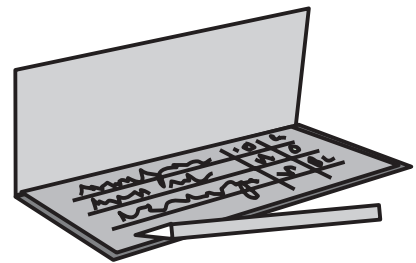
You're short of cash and payday is a few days away. Time for a payday loan? Not so fast!

The payday loan industry has exploded in Wisconsin, with more than 200 outlets now providing these short-term loans. Last year, they handled a record 850,000 loans totaling nearly \$200 million — a 170 percent increase in just two years.

Payday lenders give cash to someone with a job and a checking or savings account. You simply write a postdated check to the lender, who hands over the cash minus the interest. For example, to borrow \$300, you write a check for \$360 and date it two weeks from now. In two

weeks, the lender cashes your check and pockets the \$60 profit.

Wisconsin no longer has a limit on consumer interest rates. On an annual basis, the effective interest rate on these short-term loans ranges from 400 to 1,000 percent, making payday loans a very expensive way to borrow money.



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