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Preparing for a Financially Sound 2014

It's January. Time for new beginnings and resolutions. Advantage CCS is challenging you to put financial stability at the top of your resolutions list and set financial goals for 2014. Here are a few suggestions for getting started:

- **Make a budget and follow it:** Use the Agency's Online Budget Advisor (www.onlinebudgetadvisor.com) and figure out a budget you can live with. Be honest about your expenses and use the resources provided in the Action Plan as a road map for cutting back and managing your money differently and better.

- **Track your expenses:** Your budget is only good if the expenses you input are accurate. If your expenses aren't accurate, your budget won't be either. Know how much money you're spending each month and what you're spending it on. It's in these expenses where you may find ways to cut back or use money differently.

- **Build an emergency fund:** An emergency fund is a critical piece to financial stability. Setting aside something each month in case of an emergency provides protection for when the unexpected happens. It may not be a lot, but make a habit of saving something for emergencies. Look at the expenses you tracked. Are there any adjustments you can make to increase your savings?

Put financial stability at the top of your resolution list and make a commitment to set financial goals for 2014. Advantage CCS commits to providing insight, tips and suggestions each month to help you reach your goals. Happy New Year!



Q: I started to shop around my car insurance and I'm surprised insurance companies are requesting permission to access my credit report. Why is this done and how does this affect my insurance rate?

A: The insurance industry is checking credit scores to make a determination on how a consumer will pay their insurance premiums. The insurance industry believes consumers with low credit scores are more likely to file insurance claims and more likely to miss payments. Ninety-five percent of insurance companies are using credit scores as one factor to determine rates.

Consumers with low credit scores cannot be denied insurance and in three states (California, Hawaii and Massachusetts) the credit score cannot be used as a factor to determine insurance rates. Insurance agencies do tend to charge higher rates to consumers with poor credit. According to the Consumer Federation of America, rates can be an average of 127% higher for a consumer with a poor credit history.

The easiest way to improve your credit report and increase your credit score is to pay your bills and pay them on time. Timely bill payment makes up 35% of your credit score. It has the greatest influence on whether or not your score is high or low.

If you have difficulty making on time payments, consider establishing automatic payments to make sure your bills are paid in a timely fashion. If you're struggling to meet all of your financial obligations, consider an agency counseling session. It will help you get a better handle on your monthly cash flow and see if there's any room for improvement.

Tips

It's time to start thinking about preparing your taxes and sometimes deductions are overlooked because people think the amounts are too inconsequential to claim on their return – but little items can add up to a lot over the course of a year.

- As of January 2013, the state sales tax deduction was restored retroactively for 2012 and 2013. You can claim either the higher of your state income tax paid or state sales tax paid.
- Out of pocket charitable contribution costs are often missed because people don't realize all of the items you can deduct above and beyond cash or non cash contributions. Such items as ingredients for casseroles made for a non-profit or the miles you drove for a charity (14 cents per mile) plus any parking fees or tolls.
- Student loan interest paid by someone other than you for your student loan can be deducted on your return if you are not a dependent on anyone else's return.
- There is a credit for energy-saving home improvements. The maximum lifetimes credit is \$500, of which \$200 can be for windows. This credit takes into account 10% of the cost of the energy-saving home improvement up to that \$500 maximum.

What are Prepaid Debit Cards?

According to the Center for Financial Services Innovation, prepaid cards were used in 1.3 billion transactions in 2012 totaling \$77 billion. The Consumer Financial Protection Bureau (CFPB) predicts that \$167 billion will be loaded on to prepaid debit cards by the end of the year. This is a 42% increase from 2010. Why are prepaid cards gaining in popularity and is there a benefit to using them?

Prepaid cards have been seen as an alternative method to using traditional banks. Consumers can have pay checks or tax refund checks directly deposited on to the card. Prepaid cards are used like a debit card, except you preload the money onto the card. Depending on what card you have, money can be loaded onto the card at retail locations.

Consumers who are hesitant to use a checking account or who have a marred banking history tend to gravitate toward prepaid cards. However, the CFPB cautions consumers regarding the use of such cards.

Prepaid cards are not federally regulated, so issuers are not required to disclose the fees associated with their use. The money held on the card is not insured by any agency like the FDIC and in most cases there are no protections if the card is lost or misused by someone else.

While in some cases consumers use a prepaid card to avoid banking fees, prepaid cards have fees attached to them. Most cards do charge an activation fee and a fee per transaction. In addition, there is a monthly service fee and some charge fees for reloading the card or using an ATM machine. It's important to consider the annual cost of the fees compared to the costs associated with a checking account.

Consumers using the prepaid cards as a way to avoid opening a checking account should consider

the benefits of a banking relationship before accessing a prepaid card. Maintaining a checking account better teaches consumers how to manage money. Consumers who have past banking issues, should inquire about a second chance checking account to see if it is an alternative to using a prepaid card.

Some consumers believe using a prepaid card helps improve their credit or establish credit. However, this is not the case. Prepaid cards do not report any type of usage to the credit bureaus whereas typical credit cards do report usage, which helps build or establish a positive credit history.

Consumers looking to rebuild or establish credit may want to consider using a secured credit card. Secured credit cards are available through banks or credit unions and work the same as a traditional credit card. The card is attached to a deposit in a savings account. However, as long as you pay the bill each month, the bank will not use the savings account deposit. Payment activity on secured cards is usually reported to the credit bureaus monthly, which helps improve a consumer's credit rating.

Consumers looking to establish a banking relationship may also want to consider opening an account at a credit union. Fees differ dramatically from banks and credit unions tend to offer more second chance accounts.

If using a prepaid card or considering a prepaid card, educate yourself on the fees associated with it and the terms for its use. Explore other alternatives like a bank account or an account with a credit union. Read the fine print on all materials to make sure you're getting the best deal for your wallet and your financial future.

Resources

www.onlinebudgetadvisor.com

www.consumerfed.org

www.annualcreditreport.com

www.cfsinnovation.com

www.mymoneycheckup.org

The Advantage Challenge

Advantage CCS challenges you to ...set a financial goal for 2014. Look at the article on the front page and select one from there or come up with your own. Write down what you want to accomplish and start to think about the steps it will take to achieve your goal. Use the Agency's online tools to help you get there. We would love to hear what you're working towards and how we can help. Email hmurray@advantageccs.org.

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