

Don't Get Caught in the Debt Settlement Trap

Having trouble paying your bills? You're not alone. Many people are struggling with their finances. You may be tempted by ads from companies offering to settle your debts for 50 cents on the dollar, but beware – it could be a trap that will leave you further in debt.

What you need to Know about Debt Settlement Services

Most debt settlement companies charge regardless of whether they ever settle your debts. You pay the fee whether your debts are settled or not.

Debt settlement services don't provide instant relief. Most debt settlement services require you to deposit a specific amount of money in a bank account each month until you have enough to make a reasonable settlement offer.

Debt settlement services can be very expensive. The charge is often based on a percentage of the total amount of debt that you want help with when you sign up for the service. A typical fee of 15 percent (some are even higher) on four credit card accounts totaling \$20,000 would be \$3,000. You would pay that amount regardless of how many of the accounts, if any, are actually settled.

Claims for success rates can be very misleading. Debt settlement companies advertise big savings but those claims often don't take into consideration the number of accounts that are never settled or the fees that customers pay.

Debt settlement programs don't stop debt collection. Banks and debt collectors don't have to cooperate with debt settlement companies and they can keep trying.

Know your rights. If you are considering debt settlement services, ask if state law requires them to be licensed or registered and limits the amount and timing of fees the Virginia Dept. of Agriculture & Consumer Services@ **Toll free in Virginia: 1.800.552.9963**



Why not open or add to a savings account in 2010. To find a bank or credit union near you offering low cost savings account visit the [Peninsula Saves](http://www.peninsulasaves.org) web site today!

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Spring into Financial Action

Even with the recession, you can make changes to improve your financial future by:

Start (or add to) an emergency fund. An [emergency fund is your protection](#) against unexpected expenses. Having an emergency savings fund may be the most important difference between those who manage to stay afloat and those who are sinking financially.

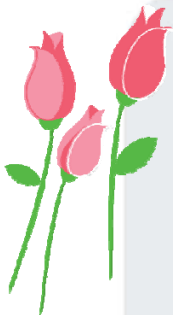
Track your spending. If you're looking for ways to cut back, your first course of action should be to know where your money is currently going. Knowing how you and your family spend money can help identify areas to reduce your spending.

Let go of bad habits and bank your savings. A simple behavior change, like [bringing your lunch to work rather than buying](#), can add up to big savings over time. Find one or two things in your life (i.e. cable television) to cut back on and bank the difference.

Go automatic! Treat savings like another bill by setting up automatic monthly transfers at your bank from your checking to savings account or having a portion of paycheck directly deposited into savings.

Save all or part of your tax refund. With [IRS Form 8888](#), you can choose to save all or part of your tax refund.

Take advantage of free money at work. Many employees turn down free money from their employer by not signing up for a [work-related retirement program such as a 401\(k\) plan](#).



Saving for College? Which plan is best?

In the college savings game, all strategies aren't created equal. Should you choose a 529 plan, a Coverdell education savings account, a UGMA/UTMA custodial account, or a Roth IRA? Or would you rather put your money in a mutual fund in your own name?

But which plan is best for me and my family? It turns out the answer depends on your financial profile. For many families, 529 College Savings Plans have become the most popular. 529 Plans include interest bearing accounts, mutual fund programs and prepaid tuition plans. You can open up a 529 Savings Plan at just about any bank or with Life Insurance Agents and Financial Advisors who also serve as Registered Representatives.

What about a Roth IRA? For some families, a Roth IRA can be a very effective way to save for college. Why's that? Because most of the money you save in a Roth IRA does not count against your family when it comes time to apply for financial aid. And, withdrawals from Roth IRAs are tax-favored when used for qualified college expenses like tuition, books, room and board.

The formulas used for determining whether your family should be expected to contribute to college costs before you receive any financial aid are simultaneously both simple and complex. The simple thing to remember is that as your family's income and assets go up, your expected family contribution (EFC) also goes up, thus reducing your chances for financial aid. The complex thing about the financial aid formulas is that your child's assets are treated differently than your assets.

So what's a family to do about selecting a College Savings Plan? You might consider consulting with a Financial Advisor who has College Funding expertise. Another quick way to learn about college savings is to visit the web site www.savingforcollege.com. Source: **Thomas H. MacDonnell ChFC, MBA, Registered Principal** tmac@ifgonline.net



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Have a Question? Ask an Expert!

Q. Can I make a contribution larger than \$13,000 a year to a 529 college savings education plan?

Although the IRS typically allows you to give no more than \$13,000 a year (2010 figure) to another person without a federal gift tax, you can contribute up to \$65,000 to a 529 plan in one year. A special tax law allows you to aggregate five years of the allowable \$13,000 annual gift-tax exclusion ($5 \times \$13,000 = \$65,000$) to jump-start a 529 plan. While you will not be able to make any further gifts to the 529 plan for five years, compounding will make your earnings grow faster than if you invested \$13,000 in each of the five years. Source: www.eXtension.org

Q. How can I own my home "free and clear" without a mortgage before retirement?

This is especially important if a drop in income after leaving full-time work is expected. Otherwise, housing costs will consume a large portion of post-retirement income, which can cause financial stress. To retire mortgage-free, develop a plan. One strategy is to refinance your mortgage with a shorter (e.g., 10-year or 15-year) loan while you are currently working so that the final payment ends when you're ready to retire. Another way to pay off your mortgage before retirement is to use a mortgage acceleration strategy such as pre-paying principal or making biweekly payments equal to making 13 monthly payments, instead of 12, per year. Source: www.eXtension.org

