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Financial Faux Pas

LOSING STRATEGIES THAT COST YOU MONEY

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Given all the recent news about failing banks and the escalating credit crunch, perhaps you're thinking you should just stuff all your money under the mattress and cut up all your credit cards. Well, before you do anything too rash, take a deep breath, put down those scissors and think about why you might want to do exactly the opposite. Here are a few financial faux pas you would do well to avoid:

Keeping all of your money in the bank. The banks charge you fees to deposit your money and then pay you next to nothing in interest while they are lending it at whatever rate they can get, and when you want to take some out, they charge you again! What a great deal - for the bank, not you. Having a big balance impresses no one, not even the bank teller. All it does is allow your money to rot. After all, what they are giving you in terms of interest is well below the inflation rate. Even worse, you have to pay taxes on that interest. The net results are pathetic. Do yourself a favor and move that excess cash to a money-market account that is not connected with your bank. Doing so should more than double what you are getting now.

Improper use or abuse of credit cards. The best way to use credit cards is to pay off the balance every month so you don't have to pay any interest charges. However, there are times when that may be difficult, resulting in a balance. To keep your interest rates down, you should call your credit card company and tell them to lower your rate. Fifty-six percent of people who call get their rates lowered. So what's your excuse? By the way, credit cards can be a great way to finance a major purchase if you have a low rate. The terms are more flexible than any financing program.

Paying off your mortgage early. Mortgage money is the cheapest money you will ever buy. A 6 percent mortgage after taxes costs you less than 4 percent. That is a lot cheaper than any other money you are "buying." Keep that in mind. You'll be better off taking that extra money from your bank and putting it to work for you someplace else. Homes don't always hold their value or appreciate. You should be aware of that unfortunate fact if you have followed the real-estate market for the past few years.

No cash/emergency fund. We are a cash-poor society. Many feel that the closest ATM machine is their cash fund. However, it isn't. There are opportunities you can take advantage of if you have the cash. As I said previously, keep your cash in a money-market account that is not through your local bank. A good starting point is to build it to $10,000. Ultimately, it would be great to have a cash fund that could cover two months of personal expenses. If you have your own office (which most of you do), a cash fund to cover at least one month's overhead is also good.

Improper use of deductibles on insurance plans. Why have coverage you will never use? You are not going to turn in a claim for a small loss, since you are concerned that your insurance company will either raise your rates or drop you, so why not increase your deductibles? It can save you a bundle in premiums, too.

Not reviewing all your loans: Many times, loans can be consolidated or refinanced, allowing you to improve your cash flow and possibly even get a lower rate of interest. It could save you a lot of money.

Not waiting to tap into retirement funds. Let's assume you start withdrawing $4,000 per month starting at age 65. Those dollars are taxable at a combined rate of 40 percent, which leaves a net of just $2,400. If you wait an additional five-and-a-half years, you can double the cash flow from your plan. That could produce close to $8,000 per month. After taxes, that is $4,800, which is double the net from your retirement plan at age 65. You can fund those five-and-a-half years with other assets. Where do these other assets come from? Keep reading.

Not considering nonqualified retirement plans: These types of plans use an insurance plan that is "overfunded," which produces quite a nice cash fund that can be used at any time. In addition, the cash comes out without any tax liabilities. It is worth taking a good long look to see how this type of plan can benefit you. In fact, it can work much better than a qualified retirement plan.

That's it. Financial faux pas that I see people make day after day. Are you guilty of doing one or more of the above? Now you have no excuses. Remember, it's your hard-earned money - take care of it so it can take care of you.

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