According to the Alliance for Retired Americans, poverty increases with age. Almost one-quarter (23%) of all Americans over the age of 75 is on or below the poverty line. This is alarming; American retirement isn't supposed to be like this.

What can seniors do to prevent themselves from becoming like the lower 23%? Many experts believe that higher prices compounded with fewer and fewer options for seniors is partially to blame.

Besides inflation and limitations on services for seniors, there are four other major financial problems the elderly face:

- **Long-term care.** Whether it is assisted living or some type of long-term hospitalization, the cost is going to be high.
- **Prescription Drugs.** One of the many things becoming more expensive is the cost of medications. Medicare is hardly a foolproof plan, and seniors who are uninsured are forced to pay exorbitant costs.
- **Housing costs.** Financial setbacks millions of older Americans live in housing that either they cannot afford or does not meet their needs. The lack of affordable, reliable housing is believed to be one of the major reasons that seniors' budgets are being stretched to their limit.
- **Dwindling retirement funds.** There's never enough money. Whether it's from a lack of government assistance, costs from an unforeseen problem or just poor financial planning, seniors' retirement funds are often smaller than they need to be.

These are the reasons that seniors are finding it increasingly difficult to make ends meet. How can you navigate these obstacles? Of the four common problems listed above, three are impossible to ignore. Long-term care, prescription drugs and housing are all necessary. Everyone needs housing, and for many seniors, there is just no way around long-term care or prescription drugs.

But the fourth and final obstacle to a enjoyable retirement is entirely negotiable. As much as it seems otherwise, increasing your available funds is always an option. No matter what stage of pre-retirement or retirement you're in, there is always a way to stretch your dollar.

Creating a Budget

Before you begin stretching your dollars, you need to figure out just how far you need to stretch them. This means finding the most flexible dollars in your day to day spending. To find these dollars, you need to create a budget.

The first step to drawing up a budget for yourself is to determine what you actually need to survive as opposed to what you would simply like to have. Make a list of needs vs. wants. Needs include your utility bills, food, rent, etc. Wants are items like a new TV, impulse buys (think clothing) and expensive vacations.

Wants can be thrown out of the budget completely. If you're actually taking the time to make a budget, or even just thinking about it, do you really think you can afford that new flat screen TV?

Make your Budget Flexible

Unexpected expenses will turn up, unexpectedly. It's what they do. Leave room in your budget for car repairs and other emergency money.

Keep your Budget Simple

If you want to stick with it, you're going to need a budget that you can understand. There's no point in making a complicated budget. The easier it is to follow, the more likely you will be able to stick with it, and the more successful it will be.

Be Honest with Yourself

Don't underestimate your expenses in certain areas, and maybe more importantly, don't overestimate. If you try to cut back your spending in a certain area that you overestimated, you'll be trying to save money that you never had in the first place.

Keep Accurate Records

You're going to have to look for records of your expenses over the last few months to determine your expenses, so you'll probably soon realize just how lousy your recordkeeping is. After you outline a budget, make a promise to yourself to keep <u>every</u> receipt. Get a folder or box to keep them in.

You can't control your spending until you know what you are spending your money on.

Pay Yourself First

The entire purpose of creating a budget is to see which expenses can be cut or reduced, and to reallocate that money elsewhere. Set up a savings plan to put your extra money away for future expenses or emergencies.

Be sure to look at the EMD educational handbook, "Budgeting and Best Time to Buy" for details on how to actually create your budget, along with tips to time your buying to save money.

Economize Your Spending

If you have found money leaking out of your budget, patch up the hole. But sometimes this might not be enough. For instance, if you cut back on eating out and you still find that your food budget is dragging you down, you need to economize your grocery spending.

Some ways you can do this is by buying store brands, making a shopping list (and sticking to it!), stockpiling items when you find a good sale price, and avoiding prepared foods. The EMD Spend Smart study course is full of great ideas for saving money on groceries and many other expenses.

Here are some other basic tips to find ways to squeeze more money out of your fixed budget:

- **Economize.** Just like the grocery tips listed above, there are other intuitive ways to reduce your spending on utilities and other expenses. Did you know that filling the extra space in your freezer with plastic bottles filled with water can reduce your electric bill? Turn off the oven 30 minutes before dinner is cooked and let the trapped heat finish the cooking: this can save you as much as $43 per year.

  Once again, the EMD Spend Smart study course will give you plenty of ideas for reducing your spending in ways like these.

- **Keep track of your spending.** As mentioned in the section on budgeting, keeping an accurate record of your spending will give you a blueprint for saving money. Write everything down, no matter how small the expense. Can you save money by making small changes in the way that you shop?

- **The three R's.** Reduce, reuse and recycle. Cut back on as many utilities as you can. Reuse plastic bottles and other containers that you usually throw away. Why buy a new pitcher for iced tea when a plastic milk jug works just as well?

- **Take advantage of any and all discounts for which you are eligible.** Senior discounts are almost always available for things like hotel rooms, plane tickets, bus fare – even a cup of coffee in many restaurants. Groups like AARP can help you find discounts that you can use everyday.

- **Generic drugs.** They work just as well as the name brand drugs, the Food and Drug Administration guarantees it. Ask your pharmacist which name brand drugs you are currently taking can be substituted with generics.

- **Cut coupons; shop at outlet stores and warehouse clubs.** Find the coupons that actually save you money and use them. Avoid coupons that require you to buy a number of the same item in order to save a small amount of money. Take advantage of supermarkets' double coupon days.

- Outlet stores and thrift shops always have great deals on brand new or "gently used" clothing – you just have to look for them. Warehouse clubs like Sam's Club are worth the membership fee if you spend a lot on food each year. A good rule of thumb is that the membership fee should be less than 5% of your annual purchases. For example, if a club costs $30 to join, don't join unless you think that you will spend at least $600 a year with your membership.

- **Cut your utility costs.** Turn the lights and TV off when you're not in the room. Be conservative with the air conditioning. If you have a washing machine and/or a dishwasher, only run them when you have full loads. You'll notice a difference when your electric or water bill arrives.

And finally…

- **Stick to your budget!**

Setting Financial Goals

Once you find all of the expendables lingering in your budget, it's time to make a plan to figure out what to do with them. A good plan is designed as a series of attainable goals. Short-term goals can save you a little extra money in the short run, while more ambitious, longer-term goals will help you work towards a securer financial future.

You may want to start by mapping out goals that are fairly easily attained in the short-term. Don't try to set any goals that will require huge adjustments in your lifestyle. While it is admirable to be motivated, making drastic changes in your day to day living might prove difficult at first, and become just plain discouraging later.

However, regardless of whether the goals you set for yourself are short-term or long-term, there is a simple plan that you can follow to see your goal achieved. It is called the S.M.A.R.T. plan. Each letter in S.M.A.R.T. stands for one of the five simple steps that you can follow on the way to reaching your goal.

S. = Specific goal: Name your goal and how you are going to obtain it.
M. = Measurable: Set a deadline for when you would like to complete your goal.
A. = Achievable: Make your goal possible to achieve.
R. = Realistic: Set smaller goals in order to reach the overall goal.
T. = Total Commitment: Internalize your goal and make it a desirable goal.

Let's take a look at an example of a way to successfully use the S.M.A.R.T. plan to achieve a goal. One way to reduce your expenses is to pay off your credit card debt. Making only the minimum payment each month is probably the worst way to attack your credit card balance.

Let's assume that you only pay $50 towards your balance each month. If you have a balance of $1,000 and an APR of 18%, a monthly payment of $50 means that it will take two years to pay the balance off entirely, and you will pay $197.83 in interest alone. Doubling the monthly payment to $100 will obviously shorten the time needed to pay off the balance: 11 months. This will also save you $106.21 in interest payments. The amount saved in interest rises as credit card balances and APR rises. So if you have a credit card balance of $2000 or $3000, the amount of interest you save by making a larger monthly payment will be in the several hundreds of dollars.

So it's decided that increasing your monthly payment is a financially healthy thing to do. Now we just have to find the extra $50 each month to make the idea work. We can use the S.M.A.R.T. plan.

The first step is naming a **specific goal**. In this case, it is saving an extra $50 each month. The next step is ensuring that goal is **measurable**. Making the goal measurable means setting deadlines. In this case, a deadline is already established: the payment due date each month.

Once you have a deadline, take a look at your goal to see if it is actually **attainable**. If saving $50 each month already sounds impossible, shoot for an extra $25 a month. You're better off starting small and working your way up. Setting the bar too high almost guarantees failure, which will discourage you from trying to change your spending habits.

The next step, making your goal **realistic**, is a lot like the last step. When you get to this step, start thinking about how you are going to reach your goal. The easiest way to reach your goal is by setting smaller, intermediate goals to help you reach your overall objective. If your goal is to save an extra $50 in a month, set goals for saving five dollars each time you visit the grocery store. Eat in on one or two days that you normally go out to eat. This could save you $10 - $20 each time.

Breaking the big picture down into smaller, easier steps gives you a sense of accomplishment along the way. This will keep you from becoming dismayed as well as give you the feeling that you are making progress towards your goal.

And remember, even the larger goal here (increasing your monthly payment) is just a part of an even larger goal (paying your credit card balance off), which is in turn, a smaller part of the overall goal (becoming debt free, and therefore financially free). But try not to get so distracted by the big picture. Instead, focus on the progress you need to make today. Being adamant, giving your plan your **total commitment**, is the best way to see it carried out effectively and efficiently.

Senior Citizens and Credit

Applying for credit: The Equal Credit Opportunity Act guarantees a person's right to have his creditworthiness determined regardless of age, sex, racial background, material status or ethnicity. Your credit report is the only thing a creditor can base its decision on whether or not to extend you credit.

The Equal Credit Opportunity Act also guarantees that the creditor cannot close or alter the existing conditions of a joint account when one cardholder's spouse dies. The creditor must ask the widow or widower to reapply as an individual.

When applying for credit, be sure to list all of your income when asked. This includes, but is not limited to, alimony, child support, retirement funds, social security, any other type of government assistance, support from children or any other money that you receive regularly.

Read all of the fine print when applying for credit. Look for details such as the APR, grace periods, additional fees or charges that you may incur, details about cash advances, minimum finance charges, and annual fees.

Credit Card Terms:

APR: This stands for Annual Percentage Rate. This is the interest rate that the credit card company is going to apply to your balance each year. So, if you have a credit card with a 20% APR, this means that over a year, you will owe the credit card company everything that you spent, plus one-fifth of your entire balance.

Annual Fee: A yearly charge that you must pay the credit card company for the privilege of using their card. Not all cards have annual fees, stay away from the ones that do.

Balance: The total amount of money owed to the credit card company by you. This is all of your charges, plus interest, plus any other fees you have agreed to pay.

Cash Advance: Some credit cards allow you to use your card at an ATM with a PIN (personal identification number) to take out cash. There is a hefty percentage premium for this service in addition to the interest you are already paying. You can't use your card for cash advances without a PIN. So, if your credit card company asks you if you want a PIN for cash advances, tell them no. If they send you one automatically, destroy it.

Credit Limit: This is the maximum outstanding amount that you can charge on your credit card at any time.

Grace Period: A time between the statement date and the payment due date when no finance charge accrues, provided no previous balance exists. If you pay off your balance completely before each grace period ends, you won't pay any interest.

Late Fee: A charge for not paying the minimum payment on time. Late fees differ from card to card, but they are usually around $30, no matter how small your balance is.

Minimum Payment Due: The smallest amount of money you need to pay the credit card company to stay current and avoid late fees. If you only make the minimum payments each month towards a large balance, you will make those payments for years and years before the balance is cleared.

Over-limit Fee: This is a fee for exceeding the maximum balance on your card. Your credit limit doesn't just refer to charges, it includes late fees, cash advance charges, interest accrued, and ironically, over-limit fees. Example: If you have a balance of $676 on a card with a limit of $700, and you are charged $30 for missing a payment, you now owe $706. You're over your credit limit, so the credit card company charges you an additional $40. Now you owe $746, and the interest is still running. If you don't make a large enough payment next month to get the balance below $700, expect to get slapped with another over-limit fee.

Your credit report: A credit report contains information in detail about your credit history. How much you owe, how much more you can borrow, which accounts are current and which accounts are delinquent: all of this and much more is in there. All of this information is provided to lenders when you apply for a loan.

Along with the credit report itself, lenders can also purchase a credit score based on the information in the report. The most commonly used score is a number produced from software developed by Fair, Isaac and Company. This is called a FICO score.

Your FICO score is determined by entering various types of information into an equation, which generates a three-digit number. The actual formula is kept secret and protected by the Federal Trade Commission. In order for your credit report to contain the very minimum amount of information required to generate a credit score, you must have at least one account open, for six months or longer. Also, the report must contain at least one account that has been updated in the past six months.

Although different credit reporting agencies have different names for the FICO score, the main three agencies, Equifax, Experian and Trans Union, all use the same method as Fair, Isaac and Company. The higher your score, the lower the risk you are to a lender. Keep in mind there is no cutoff score for all lenders. Although many lenders use FICO scores to help them make lending decisions, each lender uses its own plan for making credit decisions, which may include additional information.

Here's how the general public rates:

Above 780	20%
745 – 780	20%
690 – 745	20%
620 – 690	20%
Below 620	20%

A high score is considered to be in the mid-700's or higher. If your score is well below that (as low as 500), you will probably still be able to find a 30-year mortgage or home equity loan, just expect a high APR. Also, the types of loans you can take out are much more limited.

Your score takes into account:

- Payment information on many types of accounts.
- Public record and collection items – reports of events such as bankruptcies, foreclosures, suits, wage attachments, liens and judgments.
- Details on late or missed payments and public record and collection items (specifically, how late they were, how much was owed, how recently they occurred and how many there were).
- How many accounts show no late payments.
- The amount owed on all accounts and on different types of accounts.
- How many accounts have balances.
- How much of the total credit line is being used on credit cards and other revolving credit accounts.
- How much of installment loan accounts is still owed compared to the original loan amounts.
- How long your credit accounts have been established.
- How long it has been since you used certain accounts.
- How many recent requests for credit you have made.
- What kinds of credit accounts you have.

Your FICO score <u>does not</u> take into account:

- By law, your race, color, religion, natural origin, sex or marital status.
- By law, any information concerning welfare or public assistance.
- Your age.
- Your salary, occupation, title, employer or employment history.
- Where you live.
- Any interest rate being charged on a particular account.
- Any items reported as child/family support obligations or rental agreements.

- Any information not found in your credit report or any information that has not been proven to be predictive of future credit performance.

Some lenders will use information such as your salary and other employment information in conjunction with your FICO score when determining your creditworthiness. It is against the law, however, to use any information concerning your race, religion, gender, nationality, marital status or any information about any public assistance you may be receiving.

Frequently Asked Questions about Credit Reports

How can I get a copy of my credit report?

There are three main credit reporting agencies in the U.S. They are Equifax, Experian and TransUnion. Contact one, or better yet all three to see a copy of your report. Different agencies may have different information.

Double check the contact information below at each agency's website, as credit agencies tend to change addresses and phone numbers often.

Experian National Consumer Assistance Center
P.O. Box 2104
Allen, TX 75013-2104
1-888-EXPERIAN
www.experian.com

TransUnion Corporation
P.O. Box 2000 Chester, PA 19022
1-800-888-4213
www.transunion.com

Equifax Credit Information Service
P.O. Box 740241
Atlanta, GA 30374
1-800-685-1111
www.equifax.com

How much does a credit report cost?

The cost of obtaining a credit report will vary from state to state. If you live in Colorado, Maryland, Vermont, New Jersey or Massachusetts, your first report is free. If you live in Georgia, your first and second reports are free of charge. Residents of all other states will pay a small fee between $2.00 and $9.00.

Also, if you have been denied credit within the past 30 days, you are entitled to receive a free copy of your credit report.

When should I request a copy of my report?

You should review the information contained in your report before any major purchases, such as a car or a mortgage. You should also request a copy of your report if you have reason to believe that you have been a victim of credit fraud.

What should I do if I find an error on my credit report?

First, make sure that you understand all of the information in the report and are interpreting it accurately. Once you are sure that it is a mistake, write to the credit bureau to dispute the information. The credit bureau then has 30 days to respond. If they do not respond within 30 days, send another letter. If two months goes by without any response at all, contact the Federal Trade Commission (www.ftc.gov) to file a formal complaint.

You should contact all three credit bureaus to make sure that the mistake hasn't been repeated. If it has, you will have to deal with each credit agency separately.
If the credit bureaus insist that the disputed items belongs on your report and you know that they don't, you may add a statement to your report explaining your side of the story.

Effectively Dealing with Debt in your Senior Years

Credit card companies have long seen people in their senior years as the one of the smallest risks for consumer credit. People over the age of 50 are more likely to pay off monthly credit card balances in their entirety. However, even the most diligent of bill-payers won't make the monthly payment when it is simply not possible.

Many seniors are finding themselves in this very situation, as 450,000 of them filed for bankruptcy in 2002, according to the Consumer Bankruptcy Project. This number is way up from the 180,000 people over age 50 that filed for bankruptcy in 1991. The last decade saw a huge explosion of debt in every class of senior citizen. In the 1990's the median total amount of money owed by older people nearly doubled in every income bracket and doubled in the rest.

Why is the nation's wealthiest age group, with the highest rate of home ownership, finding it more and more difficult to get out of debt?

Experts say the number one causes of money problems for older Americans are job loss and medical expenses. Behind these on the list are other burdens today's seniors must contend with, including less retirement income, financial support for children or grandchildren, the death of a spouse, or divorce.

America's senior citizens are more frequently turning to legitimate credit negotiation and credit management companies that can help to relieve their debt, or at least make it more manageable in the meantime.

If you have tried everything in your power to save enough money to reduce your credit card and other unsecured debts, and have still run into problems lowering the balances, you may need to decide if a bona fide credit management program would benefit you and your family.