Managing Your Money

Consumer Alert!

1-888-995-7856 ALLIANCE Credit Counseling

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"Master your money, don't let it master you."
-Anonymous

Unless you think it's a good idea to keep all your money under your mattress, you'll want to use the services of a credit union or bank to help you manage your money. This publication provides questions you can ask when choosing a financial services provider and introduces basic tools for money management.

Benefits

Establishing and using a system for managing your money can help you keep good records, live within your budget, pay your bills efficiently, and be prepared for emergencies. Your goal is to do this in a way that earns you the most interest with the least amount of fees, while keeping your money safe and easily accessible.

Tools

There are two main tools for basic money management: the checking account – a way of paying people – and the savings account – a safe way of earning interest on money you keep for emergencies and unexpected or irregular expenses.

A. Checking Account

Most financial institutions offer several different types of checking accounts. Your task is to find one that most suits your needs for the least cost. In order to do that, you'll have to first determine your needs. Here are some things to consider:

- How many checks do you expect to write per month?
- Do you prefer to write checks or use a debit card?
- What is the average monthly balance you expect to be able to maintain?
- Do you have internet access and are you comfortable paying bills and receiving statements online?

- Does your employer offer direct deposit?

Interested Or Not

Does the account pay interest? If so, how is it calculated and what is the rate as an Annual Percentage Yield (APY)? Checking accounts that pay interest do so at such a low rate that they usually don't justify the minimum balance requirements. Most people are better off with a low or no cost checking account and a separate savings account.

Minimum Catches

Are there any minimum balance requirements? If so, what are the conditions and amounts? (Ex. Minimum balance to open the account; minimum balance; minimum average balance). If you can't find a satisfactory account without minimum balance requirements, look for one with a low monthly flat fee.

Restriction Friction

Are there any restrictions on the number or amount of monthly transactions? (Ex. number of free checks or debit card transactions, maximum amount for ATM withdrawal). If you write a lot of checks or travel frequently, any related fees can add up quickly.

Less Fees Please

What are all the fees? (Ex. Monthly maintenance/service fee, Non-sufficient funds (NSF) fee, ATM fees, and many more). Carefully read the fee schedule to see how much you might pay depending on your habits.

Bounce Backs

Are you automatically enrolled in bounce/overdraft protection? If so, what are the charges for it? What are your alternatives and the costs? If you write a check and don't have the money in your account and the payment is rejected, you'll be charged a "not sufficient funds" (NSF) fee by your bank and by the establishment that received the check. Many checking accounts are automatically set up with some form of overdraft protection. This can spare you the merchant NSF charge, however, there are other problems: the overdraft amount is limited, you still must pay the NSF charge to your own financial institution, and they may charge a daily fee until it's paid. You're better off declining the overdraft protection if you have a savings account that can be set up to cover overdrafts. There's often no charge for this service.

Check Woes

Is there a charge for getting a substitute check? How long after you deposit a check are the funds available (hold time)? In 2004, federal law (*Check Clearing for the 21st Century Act* or Check 21) changed how banks process and clear your paper checks. Under Check 21, a financial institution can turn your check into an electronic image and destroy the original. Later, they can create a "substitute check" by printing the image along with the words, "This is a copy of your check. You can use it the same way you would use the original

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check." You can use a valid substitute check as proof of payment, but you have to request it. Another result of Check 21 is that checks clear much faster; you can't plan on a buffer of days between when you write a check and when the money comes out of your account. Bottom line: make sure the funds are in your account before you write the check.

Friendliness Factor

How does the staff treat you? What are the hours of operation? How convenient to your home/work are the locations of branches and ATMs? Do they offer online banking and electronic bill pay? If so, are there any fees? Stability in financial partnerships is a good thing. If you feel like a valued person instead of a number, you'll be more likely to stay with the same institution.

Record Keeping Tip -It's important to balance your check book and ensure that the monthly statement matches your records (this is called reconciling). For detailed instructions, see *MoneySmart* in the To Find Out More section below.

B. Savings Accounts

The purpose of a savings account is to provide greater return on money you have in excess of what's needed for your daily living expenses. Typically, you'll want to have a short-term savings account as well as a long-term savings account.

A **short-term** savings account is to provide immediate access to the funds in case of an emergency or an unexpected expense. Following the advice of most financial advisors, your first goal should be to accumulate an emergency fund containing the equivalent of at least 3 to 6 months living expenses.

A **long-term** savings account is to increase your rate of return without compromising safety and while still having some liquidity (speed and ease of taking out cash). To get a higher rate, you have to tie up the funds for a longer time. Ultimately, as you accumulate savings, you'll also want to begin a program of investing for long-term goals such as education and retirement.

Types

Most financial institutions offer several different types of savings accounts with varying interest rates and conditions on withdrawals. For example:

- **Regular savings account** - low, variable interest rate with least restrictions on withdrawals.
- **Money market deposit accounts** - higher, variable interest rate but a larger minimum deposit is required.
- **Money market mutual funds** - higher, variable interest rate, offered by mutual fund companies and brokerages, not FDIC insured but still considered safe investments.
- **Certificates of Deposit (CDs)** - fixed interest rate but access to funds is limited for a period of time.

Key questions are: What is the interest rate as an APY? How is it calculated and how often (compounding)? What are the service fees? Are there minimum balance requirements? What are the limits on deposits and withdrawals?

For tips and motivation on savings, read our publication *Be A Saver*.

Electronic Banking

Electronic banking refers to transactions that are made using computers or phones and without interpersonal human contact. A good checking and savings account will provide you with the various services listed below. For good record keeping, remember to record all electronic transactions in your check register.

ATM. An automated teller machine is a computer terminal that can handle certain transactions such as deposits and cash withdrawals. To use the ATM, you are given a plastic card and a personal identification number (PIN). If you use an ATM that is not part of your bank's network, you will typically pay a fee to your bank and one to the establishment that owns the machine. The charge for withdrawing cash is a flat fee so remember that taking smaller amounts more frequently ends up costing more. To avoid ATM fees, you can plan ahead and use your bank's ATMs. Also, if you make a purchase with a debit card, many businesses (grocery store, pharmacy, department store) will allow you to get cash back at the register.

Debit (check) Card. A debit card looks like a credit card but acts like a check – no credit is extended, you're paying with funds already in your checking account. You authorize the transaction by entering a PIN or by signing a receipt. Check the terms: a few banks charge you a transaction fee if you enter your PIN instead of signing. You'll also want to check the fine print to determine your liability in the event of fraudulent transactions; you might have less protection than is offered with a credit card.

Smart (stored-value) Cards. Some financial institutions offer cards that have the ability to electronically store a monetary amount that you load into it. As you make purchases, the available amount decreases, and later, you can reload the card. This feature can help control spending habits.

Online Access

Most financial institutions have a website that allows you to access your accounts via the internet. You can do many things with anytime-anywhere convenience such as: get current account information, transfer funds, and pay bills (there may be a charge for online bill payments).

Safety Tip -The *Electronic Funds Transfer Act* requires that you be informed of your rights and responsibilities in a written disclosure statement and that you receive a periodic statement for the account. It's also important to notify the card issuer within two business days of loss or theft. After that your liability rises.

Providers

There are four traditional types of money management providers: banks, savings and loan associations, mutual savings banks, and credit unions. Accounts are typically insured up to $100,000. Most people find a credit union or bank to meet their needs. **Credit unions**, however, are not-for-profit organizations and subsequently represent a better value (pay higher rates, charge lower rates and fees). Additionally, because they are not as big, you may feel they are more responsive to your needs.

Internet-based Banking

There are now many internet-based accounts such as: Netbank.com, Etradebank.com, Centura.com, and many more. If you're looking for the lowest fees and highest paying rates, you'll want to explore this option. For example, at the time this article was written, ING Direct was offering an FDIC insured "Electric Orange" account with no minimums, no monthly fees, unlimited free bill pay and 4% APY. The account is linked to a traditional checking account so you don't even have to change your financial institution.

A good source for comparing checking and savings accounts is Bankrate.com.

To Find Out More

- *Personal Finance* (Garman & Forgue, Houghton Mifflin Company)
- *MoneySmart* (FDIC): link available at: www.knowdebt.org/education.php.
- *The Spending Plan* (Alliance); *Be A Saver* (Alliance): www.knowdebt.org/education.php.