

nea *Member Benefits*

23 Financial Mistakes You Can't Afford to Make



A Message From NEA Members Insurance Trust®

Dear NEA Member,

One of our goals at NEA Member Benefits is to help members make smarter financial decisions. With that in mind, we've compiled this guide to common financial mistakes you'll want to avoid.

We included mistakes from a wide range of areas that affect you, including different types of mortgages, life insurance selection, retirement savings, high-interest debt, auto purchasing, and many more. We'll show you why they are mistakes, and give you clear examples and alternative solutions for the kinds of important financial decisions you face everyday.

NEA Members Insurance Trust is committed to providing our members across the country with financial products at competitive group rates. For example, at the back of this guide, you'll find information about one of our most popular programs, NEA Group Term Life Insurance (see Mistake #4 for why term life is a good value).

For more information about NEA Group Term Life, call us at **1-800-637-4636**. To apply, please visit our website at www.neamb.com.

Sincerely,

NEA Members Insurance Trust

To compile this guide, we extensively researched the work of recognized experts in the field of consumer finance. For a list of our sources, please see the last page.

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Mistake #1

Saving money instead of paying off high-interest debt.

If you have savings but are also paying off high-interest debt like an auto loan, use your savings to pay off the debt first. You'll save more in the long run. Here's why: You're paying a higher interest rate on these debts than you can earn on most investments. Of course, if your only savings is your emergency reserve (see mistake #3), paying off your debt first can be risky.

Learn from Francesca's mistake.

Francesca had a \$2,000 loan, but she also had more than \$2,000 in a savings account at her bank. She had to pay an annual interest rate of 16% on the loan, and the savings account paid her 2% on her \$2,000 worth of savings after taxes. After a year, she had paid \$320 in interest on the loan and earned only \$40 in interest from her savings account. That means she lost \$280! If she had paid off the loan instead, she wouldn't have earned any interest—but she would have saved herself \$280. Even if she had put the \$2,000 in a high interest investment, she couldn't have expected more than a 10% return (or \$200)—so paying off her debt would **still** have been the smarter choice.

Mistake #2

Carrying too much debt relative to your income.

A general rule for making sensible credit purchases is to keep them under 20% of your net income. That means that if you make \$25,000 a year after taxes, you should spend less than \$5,000 on purchases on credit—not including your mortgage. If you are just starting to use credit, try to keep the figure under 15% (that's \$3,750). Like with most new things, it takes time to learn to use credit wisely.

Mistake #3

Locking away all your savings.

Most financial experts recommend you have 3-6 months worth of living expenses put away in case of an emergency. It's important that this money be very liquid, which means that you can withdraw it without penalty at a moment's notice. You will also want to earn as much interest on it as you can without incurring risk, which makes a Money Market Account your best option. This fund should be established even before you start saving in a retirement account or for other goals, so that if something does happen you don't have to disturb your other investments.

Mistake #4

Spending more on a life insurance policy than you have to.

If you don't have a term life insurance policy, chances are you may be paying more money than necessary to protect your loved ones. With cash-value insurance, your premiums are more expensive partly because you pay not only for insurance protection, but also for the cash value. With term life insurance you can get the amount of protection you want at a lower premium and use the additional funds for items of your choice. No wonder many financial professionals agree that buying term life insurance is one of the most cost-effective ways to protect your family and invest for the future. Plus, with the buying power of 3.2 million NEA members on your side, you can save even more with economical members-only group rates.

For more info, see the last page of this guide.

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Mistake #5

Not having enough life insurance.

While there's no simple answer to the question of how much life insurance you need to protect your loved ones, a common rule of thumb is that you need 5-7 times your annual salary, depending on your number of dependents, lifestyle, and other sources of income. Having enough coverage can help make sure your loved ones don't have financial troubles at a difficult time.

Do your homework.

Cathy wanted to make sure that if anything happened to her, her two boys would be taken care of. Using the insurance calculator on neamb.com, she figured out how much insurance she would need to maintain their standard of living and have money left for the boys to go to college. She counted \$3,000 in monthly income from her husband Jason, who's also 35 and a teacher, and factored in extra childcare expenses. After completing her calculations, she found she needed \$200,000 of coverage. As a 35-year-old non-smoker, her special discounted NEA member rate was \$9.47 per month for \$200,000 of term life insurance. **To figure out how much insurance you need, try the insurance calculator on neamb.com.**

Mistake #6

Getting a balloon mortgage.

A balloon mortgage is one in which the remaining loan balance is fully due at a predetermined time—usually within five or seven years. It may seem like a fixed-rate loan, but it's not. Unlike a fixed-rate loan, you'll have to refinance your mortgage at the current interest rate when the balloon payment is due. Balloon mortgages tend to be popular with people who anticipate moving or refinancing before their five to seven years are up. But what if you lost your job or had a reduction in income? What if the property value drops, and the appraisal is too low to qualify you for a new loan in the amount you need? Or interest rates rose and you can't afford the higher rates on the new loan? Any of these scenarios could affect your ability to get a new loan to pay off the balloon payment when it's due—so keep this in mind before you select a balloon mortgage.

Mistake #7

Renting without renters' insurance.

Just because you rent rather than own doesn't mean you should be without insurance on your personal property. While you're not liable for damage to the building, you still have personal property you need to protect from theft, fire, etc. (Many renters' insurance policies protect your personal property even if it's not in your residence. For example, you could be covered if someone breaks into your car and steals something belonging to you.) You also need renters' insurance because you could be liable if someone is hurt in your apartment.

Mistake #8

Not including a replacement cost provision in a homeowners' or renters' insurance policy.

This provision will make sure that your possessions are covered for the actual cost of replacing them rather than their cash value. For example, if your 10-year-old living room set were destroyed in a fire, this coverage would pay for the cost of buying a new set rather than just reimbursing you for its actual worth, which may amount to very little.

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Mistake #9

Not taking into account points when figuring mortgage costs.

Points are fees you pay to your mortgage lender upon the closing of your loan. Points are actually percentages of your total loan amount, i.e., one point is equal to 1% of your loan amount. Usually, the more points you pay, the less you pay in interest rates. But you can't assume that paying points to get a lower interest rate will always pay off—it depends on how long you keep your loan.

Here's how it adds up.

Jim and Patricia needed an \$80,000 loan. They are given a choice between a 7.75% loan with one point and an 8% loan with no points. How long will it be until they start saving with the lower interest rate? For the one point loan, they would have to pay an extra \$800 (1% of their \$80,000 loan) up front, and their monthly payments would be \$573. On the no point loan, they would pay slightly more, \$587 a month. It would take them 4 years and nine months to make up for the extra \$800 they had to pay at the start to get the lower interest rate. So if Jim and Patricia keep the loan for less than 4 years and nine months, it's better to pay the higher interest rate. After that, the lower rate plus the point is a better deal. **To figure out your own loan payments, try using the loan calculator on neamb.com.**

Mistake #10

Taking out an adjustable-rate mortgage (ARM) without making sure you can afford the highest allowed payments.

The advantage of an adjustable-rate mortgage over a fixed-rate mortgage is that you will usually get a better rate at the outset. But don't count on this rate lasting forever: be prepared for the rates to change over the life of the loan, according to a changing economy and the subsequent rise and fall of interest rates. And pay special attention to the lifetime cap of the loan, which is the highest rate allowed over the entire term of the loan. Don't assume that interest rates won't rise to this highest allowed limit. It's an unpredictable possibility, so you want to make sure you will be able to afford your monthly payments at the highest potential amount.

Mistake #11

Borrowing money for "lifestyle" purchases (e.g., vacations, meals, clothing).

Borrowing should be for good long-term investments like education, a home, or starting a business. If you borrow for vacations, eating out, clothes, etc., you'll be spending your hard-earned money paying back the debt plus interest in the future—and have very little to show for it.

Mistake #12

Not saving for retirements at an early age.

One of the most serious mistakes you can make is to put off saving for retirement. The later you wait, the more you'll have to save down the road to make up for lost time. That's because you'll lose out on the power of compounding, which means earning interest not only on your original investment but also on the interest you've accumulated.

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Take a look at the numbers.

Alison starts saving at age 25, and she puts \$2,500 a year into her retirement account. At age 65 when she's ready for retirement, she has earned an average 8% interest and her account is worth \$1,057,718! Nick starts later, when he's 35. He's also earning 8%, but to have the same amount in his retirement account by the time he turns 65, he would have to save \$10,115 a year! So start early—and take advantage of retirement plans like 403(b)'s and/or IRAs that give you the benefit of tax-advantaged compounding.

Mistake #13

Withholding too much for taxes from your paycheck.

If you consistently receive a big refund from the IRS, you're probably having too much money withheld from your paycheck. While you might like getting that refund check, essentially you're providing the government with an interest-free loan. Instead, you can increase your number of exemptions (withholding allowances) and put that extra money in an investment account—so **you** earn the interest on it instead of Uncle Sam.

Mistake #14

Going for a fast tax refund.

If your tax preparer offers you the chance to get your tax refund right away, be sure to ask what it will cost you. What they are often proposing is what's called a refund anticipation loan, where they lend you the money almost immediately, before your actual refund comes through. But they do it for a percentage fee, which is basically a very high interest rate. If you file electronically and have your refund deposited directly, the IRS can get it to you in as little as two weeks. If you do need the money before that, even a cash advance on your credit card is probably cheaper.

Mistake #15

Investing in products that carry excessively high expenses.

Depending on the type of investment you choose, you will be responsible for certain fees and expenses, such as sales loads, or insurance charges. Information about investment charges is available in the product prospectus or the investment contract itself. Both should be read carefully before investing. It's wise to shop and compare to make certain the fees you are paying are reasonable, to understand what you are paying for, and to take advantage of all the benefits the investment provides.

Mistake #16

Not exploring all the savings and retirement plans available to you either through your employer or independently.

There are many retirement programs available today that can benefit every wage earner, especially on a pre-tax basis. Depending on your circumstances, you may be eligible for any number of tax-deferred retirement programs. These may fall into several categories from group to individual plans, or defined contribution plans. It is important to investigate all your opportunities to determine what options best suit your specific retirement needs. Seek the help of a financial advisor, if necessary, to find out what plans might be right for you.

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Mistake #17

Not diversifying your investments portfolio.

Spreading the risk in your portfolio will leave you less vulnerable to potential losses from market and economic downturns. For example, if your entire investment portfolio is in bonds and interest rates rise, all your investments will lose value. Or, if you are highly invested in one volatile field like high technology stocks, market swings can really affect the value of your investment. A properly diversified portfolio should help you survive any economic trend.

Mistake #18

Purchasing cancer insurance coverage.

Many insurance companies prey on your fear of cancer by encouraging you to buy coverage specifically for this dreaded disease. If you already have medical coverage, a cancer-only policy may be redundant and unnecessary. Consider a more broadly-based critical illness insurance.

Mistake #19

Taking a hardship withdrawal from your 403(b).

While you can usually withdraw money from your 403(b) for severe financial hardships like medical bills, tuition, and the purchase of a primary residence, remember that you'll owe taxes on all the money you withdraw at your current tax rate. Plus, you may have to pay a 10% withdrawal penalty if you're under 59 1/2. Fortunately, there's a better alternative: You can **borrow** from your retirement account, then pay yourself back through payroll deductions. The interest you pay also goes into your account.

Mistake #20

Going into significant debt for a car.

If at all possible, pay cash for a car. Maybe that means you won't be able to get the exact car you wanted, but remember that a car is not an investment. It depreciates in value from the moment you drive it off the lot. Consider buying a used car. Not only is the price lower, but you could pay less for insurance. Just be sure to have a mechanic you trust check it out first. If you do take out a car loan, make sure you shop carefully for the best deal.

What's the bottom line?

Look at the difference your interest rate makes on a car loan of \$15,000 with a 60 month pay period.

7.25% Loan - Monthly Payment \$299
60 months = \$17,940

5.50% Loan - Monthly Payment \$287
60 months = \$17,220

Difference = \$720 Shop around, it pays!

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Mistake #21

Not having a will, no matter your age.

If you have children, you must have a will, unless you want the courts to decide who will take care of your children. Even if you don't have children, you need a will to determine how your estate will be managed and distributed.

Mistake #22

Assuming you'll get a tax benefit from your mortgage interest payments.

Keep this in mind when buying a home and considering how much you can afford. Buyers often expect to be able to save on their tax payments because they can deduct their interest payments on their mortgage, which is generally true, especially at the beginning when interest makes up the bulk of your monthly payment. But, depending on the size of your mortgage, it may not always be worthwhile to itemize your deductions on your tax returns. That's because you automatically qualify for a standard deduction of \$5,450 (\$10,900 for married couples filing jointly) on your income taxes. Your itemized deductions—even including your mortgage interest payments—may not beat that, especially if you have a very small mortgage.

Mistake #23

Using a lottery as an investment plan.

Your chances of winning the lottery are about the same as being struck by lightning. Play it for fun if you like, but don't stake your financial future on winning it. Better yet, put the money you spend on lottery tickets into a real investment—and earn money from it.

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How You Can Avoid Mistake #4

Get the NEA Group Term Life Plan An insurance plan exclusively for NEA members

You've just read how term life insurance may give you more coverage for your premium dollars than cash-value insurance (see Mistake #4: Spending more on a life insurance policy than you have to). Now take a moment to take advantage of an economical term life product: the NEA Group Term Life Plan, issued by The Prudential Insurance Company of America, exclusively for NEA members.

Thanks to the group buying power of 3.2 million NEA members, NEA Group Term Life is available at competitive NEA group rates that compare favorably to other term life insurance plans on the market. (Take a look at the chart on the following page for members-only rates.) Along with these rates, you'll enjoy a variety of other important features, including:

1. Coverage until age 70, at which point your benefits and premium will be reduced
2. Coverage level options—up to \$500,000
3. Spouse* and/or unmarried dependent child(ren) coverage**
4. Optional disability benefits for an additional charge
5. Special non-smoker rates

Best of all, there are no multiple forms to fill out, and no medical exams required—you only need to answer a few health questions on the enrollment form (issuance of this policy may depend on the answers to these health questions). If you're not completely satisfied with this product, you can withdraw within the **30-day free review period**. To apply, visit our website at www.neamb.com.

*Includes domestic partner or registered domestic partner.

**Children (age 14 days to 21 years) up to age 25 if unmarried and fully dependent on your support.

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NEA Group Term Life Monthly Rates

Member Rates			Spouse Rates		
AGE	\$200,000	\$100,000	AGE	\$200,000	\$100,000
25-29	\$11.01	\$5.61	25-29	\$10.45	\$5.22
30-34	\$13.75	\$6.98	30-34	\$12.07	\$6.08
35-39	\$18.80	\$9.47	35-39	\$16.53	\$8.22
40-44	\$29.08	\$14.69	40-44	\$25.52	\$12.76
45-49	\$49.12	\$24.62	45-49	\$43.25	\$21.58
50-54	\$83.37	\$41.84	50-54	\$72.28	\$36.14
55-59	\$138.09	\$69.16	55-59	\$117.58	\$58.75
60-64	\$226.99	\$113.60	60-64	\$188.23	\$94.12
65-69	\$361.44	\$180.83	65-69	\$303.59	\$151.75
70-74*	\$279.06	\$139.64	70-74*	\$237.73	\$118.87
75-79*	\$83.46	\$41.84	75-79*	\$71.94	\$35.97
80-84*	\$124.14	\$62.22	80-84*	\$107.65	\$53.87
85+*	\$335.23	\$167.73	85+*	\$283.81	\$141.90

Please verify your rate on the chart above. The rates reflected above are for non-smokers. Rates are effective 11/1/2009. Member rates are based on the age of the member, and spouse rates are based on the age of the spouse at each payment date. Payments and/or coverage will change as you enter a higher age category. Also, rates may change if plan experience requires a change for all insureds.

*At age 70 your benefit reduces to half the initial amount, and at age 75 the benefit reduces to 10% of the initial amount.

For additional information about the NEA Group Term Life Plan, please call your NEA Members Insurance Trust Representative toll-free at

1-800-637-4636

(Hearing impaired members may call 1-800-445-1269)

Monday through Friday, 8 a.m. to 8 p.m. (or Saturday, 9 a.m. to 1 p.m.) ET

www.neamb.com

NEA Members Insurance Trust®

The NEA Group Term Life Insurance Plan is issued by The Prudential Insurance Company of America, 751 Broad Street, Newark, NJ 07102. The Booklet-Certificate contains all details including any policy exclusions, limitations and restrictions, which may apply. Contract Series: 83500. CA COA #1179 NAIC #68241.

Receipt of accelerated death benefits may affect eligibility for public assistance programs and may be taxable. There is no administrative fee to accelerate death benefits. The accelerated amount is not discounted.

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Sources:

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