

# CLIENT TELL

## The Question You Might Ask Yourself: Why Do I Need to Save?

By James O'Neill, PhD

As American consumers in 2008, we are often guilty of seeking immediate gratification. Whether one uses cash or a credit card for impulsive purchases, we ultimately have to pay the piper. If we go through life living from paycheck-to-paycheck without building a reserve and gradually accumulate more and more debt, we are behaving much like the United States Government. There is a fundamental difference, however, in that we cannot legally print money or do not have the credit worthiness of the federal government.

Here are a few questions to consider:

### Why do you need short-term savings?

You need savings especially for unforeseeable events such as a car

breakdown, a leaky roof, unforeseen medical expenses, etc. As mortal beings we can't predict the future; thus we can't avoid the high interest rates when unfortunate fate hits us in the face.

### What are the best short-term savings options?

**Checking Accounts:** Are designed for transactions, not savings. Some banks may pay interest on your balance, but there are better options available.

**Savings Accounts:** Are insured by the FDIC; however, the interest earned is generally one to two percent, not enough to keep ahead of inflation.

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## HELP IN HARD TIMES

Escalating gas and utility prices definitely are taking a toll — leaving more people than ever living on the edge. If you know a friend, co-worker, or family member who needs help with their finances, please recommend that they contact us at 1-800-642-2227 or visit our website at [www.cccs-inc.org](http://www.cccs-inc.org).

As a CCCS client, you have a firsthand knowledge of the services we provide. You also recognize the value of living within a budget and understand the discipline and dedication that are required to become debt-free. Take the time to share your experience and perspective. These may truly help someone in need.

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FROM THE PRESIDENT  
Jim Godfrey

Many of the clients we currently see are having trouble meeting their mortgage payments. If you've listened to the news in the past few months, you know that's not surprising. The U. S. foreclosure rate increased 75 percent this past year. For most of us, losing a home is a personal tragedy. If you or some you know is in this predicament, please pass along these vital steps for resolving the situation:

**1. Back to Basics.** As you already know, the first step to gaining financial control is determining where you stand. Add up all your sources of income and write down all of your expenses. Then subtract your expenses from your income. The figure that's left will help you determine if additional money (Continued on Page 3)

## Client Tell

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## FROM THE TRENCHES

by Kathy Skidmore-Williams

As I write this, talk is swirling about a rebate the President is asking Congress to approve. If it's approved, most of us will be receiving a rebate ranging from \$600 to \$1,200 probably sometime in May. Now the question is: What to do with this windfall? The President is hoping we all spend it and give a boost to our down-in-the-doldrums economy. But I have some other suggestions.

One would be to save it, either putting it aside for a household emergency or investing it in a certificate of deposit or a mutual fund so it can earn interest over time. What a concept—*earning* interest instead of *paying* interest! You could also invest in yourself by paying for a course at a nearby community college to improve your job skills, enhancing your employability or to teach you something new altogether. Of course, the most obvious suggestion is to make an extra payment to CCCS, bringing you that much closer to getting out of debt. Maybe the payment could even knock off one debt altogether!

These may sound boring next to thoughts of iPods and flat-screen televisions. But by doing something fiscally responsible with our money, I think the payoff will come—and probably keep coming—long after the novelty of a new toy or extravagance has worn off.

Kathy Skidmore-Williams is CCCS's client reporter. She joined our program in October 2006.

## Do You Qualify for an EITC?

If you're employed, you may qualify to receive money from the federal earned income tax credit (EITC) program. This year, the maximum credit for those who don't have children is \$428. Those with one child may receive up to \$2,853; those with two or more may receive up to \$4,716. Here are some of the requirements for submitting a claim:

**First Steps:** You need to have job earnings and a valid Social Security number for yourself, spouse and all children that you're claiming for the credit. You can't have more than \$2,900 in investment income, and you can't file a "married filing separately" tax return.

**Income Limits:** If you're single with no kids, your adjusted gross income can't be more than \$12,590. For married joint filers, the limit is \$14,590. Claiming one child, your income must be less than \$33,241 if single and \$35,214 if filing jointly. Claiming two or more children, you can earn up to \$37,783 if single or \$39,783 if filing jointly.

To receive the credit, you have to file a tax return. The IRS web site ([www.irs.gov](http://www.irs.gov)) includes an EITC Assistant program in English and Spanish that can help you learn if you qualify for the credit. It also can help you figure out how much your credit will be based on the information you provide.

## Record Keeping TIPS

Complete and organized records make life easier at tax time. They also may help you avoid paying extra taxes or penalties if Uncle Sam decides to call. Here are a few tips for surviving April 15th and beyond:

**The Basics:** Begin by setting up a practical filing system, and once it's in place, use it. The longer you wait to record or file an item, the more likely you are to forget or lose it.

**What to Keep:** Throughout the year, keep and file away all records that document tax-related payments for items such as alimony, charitable contributions, mortgage interest, real estate taxes, or child care expenses. If you pay with cash, obtain a signed and dated receipt that includes the amount and a description.

**Providing Proof:** Your personal check register and cancelled checks can help you recall income or expenses that must be reported on your tax return, but used alone, they don't provide enough documentation to prove deductibility. Also keep invoices, receipts, sales slips, or other written evidence as further proof of what you've paid. If you have deductible expenses such as 401(k) contributions, medical insurance premiums, or union dues withheld from your paycheck, keep pay stubs as proof of payment.

**How Long?** Legally, you only have to keep tax records for three years from the date you file the related tax return. But keep your actual returns, W-2's, 1099's, etc., indefinitely so that you or your heirs can show proof of your earnings for Social Security or other purposes.

## FROM THE PRESIDENT'S DESK

(continued)

is needed to make your next mortgage payment. You also may need this information to complete the next step.

### 2. Call Your Mortgage Lender.

Describe your situation to your mortgage holder. Faced with this situation, it's amazing how many people do not contact their mortgage lenders. Lenders are often willing to help, because foreclosure is not in their best interest. Whatever you negotiate, stay in your home. If you abandon it, you may not qualify for assistance.

**3. Seek Reputable Help.** Here at CCCS, we can help you reassess your situation and options. If needed, we also will refer you to a HUD-approved housing counselor. Your home is your most important financial asset. We will do everything we can to help you protect it!

## The Question You Might Ask Yourself: Why Do I Need to Save?

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**Money Market Deposit Accounts:** Are offered by some banks and sometimes require a minimum balance.

**Certificates of Deposits (CDs):** Are debt instruments with a specific maturity, ranging from three months to sixty months. These are safe, insured and depending on the length of maturity, may pay more than money markets.

The savings options discussed are the first step in developing a savings pattern for yourself individually or for the family. Once you have established a savings reserve, you may decide to consider longer-range options in government bills or notes, municipal bonds, corporate bonds or stocks.

One important concept to remember is the power of compounding. Assume you save \$1000 and place it in an account that receives 10% interest. After five years your original deposit of \$1000 will grow to \$1,611 – an increase of 61%. This demonstrates the power of saving and compounding.

Dr. James O'Neill is the Director of the University of Delaware's Center for Economic Education and Entrepreneurship, a professor of economics and the President of the Delaware Council on Economic Education.

## 2008 STIMULUS PAYMENT UPDATE

The economic stimulus package Kathy discussed in her article has now been signed into law, and the Treasury will begin sending out payments in May. Most Americans who qualify will not have to do anything other than file their 2007 individual tax return to obtain a payment this year. The IRS will determine eligibility, calculate the amount, and issue the payment. Payments will be direct deposited for those who select that option on their 2007 tax return.

**Basic Eligibility:** Your payment will be calculated based upon your 2007 tax return. In most cases, it will equal the amount of tax liability on the return, with maximum payments of \$600 for individuals (\$1,200 for those married couples filing a joint return) and minimum payments of \$300 (\$600 for those filing jointly). Even people with little or not tax liability may qualify for the minimum payment if their tax return reflects \$3,000 or more of qualifying income. Parents and legal guardians who are eligible for the payment also will receive \$300 for each qualifying child. To receive a payment, you have to file a 2007 tax return.

**Limitations:** To be eligible for a stimulus payment, you must have a valid Social Security Number. Payment amounts will be reduced 5 percent of the amount of income in excess of \$75,000 for individuals and \$150,000 for married couples filing jointly. Those who have less than \$3,000 of qualifying income are not eligible to receive a payment. To qualify, children must be eligible under the Child Tax Credit and have valid Social Security Numbers.

**Using Payments:** One of the best ways to use your stimulus payment is apply it to your DMP. This strategy will help you reduce your debt and decrease the interest you're scheduled to pay on the accounts you owe, ultimately leaving you with greater peace of mind and financial security than any item you might buy.

### Ask a Counselor

**Q:** One of my creditors just raised the interest rate on my DMP account. How could this happen? Sometimes I'm a little late, but I always make payments monthly.

**A:** When you enrolled in your debt management plan, you signed an agreement to make your payment by a specific date each month. When you make payments after that date, it may place your concessions in jeopardy or cause creditors to record your payments in the next billing cycle. To avoid this problem, always pay on time and in full, and call us immediately at **1-800-571-2227** any time you know you will be late.

### Parting Thoughts

**Tax Preparation Resources:** Visit the IRS website ([www.irs.gov](http://www.irs.gov)) for information, tax forms, and free online tax preparation service contacts. You also can call their toll-free line at **1-800-829-1040** with questions on your personal tax return. If you need TTY/TDD help, call **1-800-829-4059**. The Baltimore CASH Campaign offers free federal and state tax preparation services and help determining EITC qualification to Marylanders with incomes under \$40,000. To locate the office nearest you, call **410-685-0525**. Non MD residents can get assistance through the Volunteer Income Tax Assistance (VITA) program. Call **1-800-906-9887**.

**Which DMP Payment Option Is Best for You?** There are three ways to make monthly payments to your debt management plan (DMP): Pay online, use ACH EASY PAY, or purchase and write out a money order. Online payment is easy and lets you decide when to have the payment withdrawn from your account. ACH EASY PAY is convenient, because it takes care of things automatically for you. Money orders must be mailed in or dropped off by your payment due date. Whichever option you choose, please send us copies of your creditor statements each quarter. We need these in order to update your account. For questions about your DMP account, please contact **Branch Operations** at **1-800-571-2227**.

**Money Order Methods:** Please print all information so that it's readable. Write **CCCS of MD & DE** in the "Pay to Order Of" blank, list your address and phone number below your signature and your client number in the corner of the money order. Sign the money order and enclose the top portion of your statement. File the receipt away for future reference.

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