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What to do with your economic stimulus check

Starting May 2008, Americans will begin receiving checks as part of the "economic stimulus" package passed by Congress. While the amount you receive will vary depending on a number of factors, the money is a great chance to secure your family's finances.

Pay off debt

Recent polls indicate that this is what most Americans plan on doing. A recent National Retail Federation (NRF) survey showed that nearly 30 percent of respondents planned on paying off debt, while a CNN/Opinion Research Corp., poll found that 41 percent of respondents would do the same.

While there are ways to prioritize all your debt effectively, your stimulus check probably won't be enough to pay off all of your bills. Regardless, the key is to start making sense

of your debt now, taking into consideration your own financial status, goals, needs, and other factors. With that in mind, consider the following debt payment options.

Pay off – or pay down – high interest credit cards

The reason most financial experts suggest paying off credit cards first is because they cost so much over the long run. Using the financial calculators at pioneermilitarylending.com, you can see the long-term costs:

» If you had \$1,000 of credit card debt at 17 percent interest, and only made the minimum payment of four percent of the balance, it would take you 84 payments (seven years) to pay off. During that time, you will have paid nearly \$500 in interest.

» If you had \$2,500 of credit card debt at 17 percent interest, and only made the minimum payment, it would take you 119 months (nearly 10 years) and cost you almost \$1,300 in interest.

» If you owed \$5,000 at 17 percent interest, and only made the minimum payment, it would take you 145 months (12 years) to pay in full and cost you an additional \$2,665 dollars in interest.

Sending a few hundred extra dollars to a bill of a few thousand dollars may not seem like it will make much of an impact, but you would be surprised at how much it can matter.

For example, if you had a credit card with \$1,500 and an interest rate of 15 percent, it would cost you \$619 in interest if you just

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Are you over your head in credit card debt?

By Tom Holcom, President of Pioneer Services, a Division of MidCountry Bank

This article, *Are you over your head in credit card debt*, originally appeared in *Military Money* magazine.

Using credit or charge cards to pay for purchases is a fact of life in today's economy. Credit cards are convenient and easy to use – so much so that, according to a 2006 Federal Reserve report, the average American household owes more than \$2,200 in credit card debt.

But when something is too easy, people sometimes abuse it. Knowing when you're over your head in credit card debt and when to seek help are key steps in your quest for financial freedom.

Credit card solicitations appear in your mailbox, and they look tempting. But

then you are charged unexpected fees or discover that your interest rate is not what you anticipated.

First is the legal reality: When you signed up for the card, you were warned in advance. While the letters may have been small or the details buried in pages of disclosures, the

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credit card company did inform you that it could raise the interest rate, shorten the grace period or unilaterally change the relationship.

Second, you can avoid all those solicitations by calling 1-888-5OPTOUT or going online to optoutprescreen.com. While these actions will not completely stop all credit card offers, it can significantly reduce them.

What You Should Look For

Investigate these details before obtaining a credit card:

Variable Rate or APR: The initial rate offered may increase after an introductory period or when the card company increases the “base rate.”

Grace periods: The original disclosure, or periodic updated disclosure, defines the number of days before interest is charged on a new purchase. This helps you know when to pay your bill to avoid extra interest and fees.

Late payments: Beyond basic fees such as those for late or returned payments, the card company can automatically raise your interest rate if you miss or are late on two payments. There is also “universal default” when a late payment on one account leads to an increased interest rate on another account.

Credit limit: If your credit limit is \$2,000 and you charge enough ... to raise the total balance to \$2,020, you can expect an [over limit] fee of \$10, \$20 or more.

What To Do If You're In Too Deep

If you find yourself in over your head, take steps to gain control of your credit card debt:

Prioritize your payments. The most effective way to pay off your debt depends on your family's finances and goals.

» If you want to **save the most money over time**, prioritize your cards by the total amount paid throughout the lifetime of the obligation, including interest, dollar amount and annual fees.

» If you want to **lower monthly bills**, prioritize them starting with the card with the highest monthly payment.

» If you want to **pay the least amount of interest**, start with the card with the highest rate.

Create a budget. Once you prioritize your debt payments, make a budget and – most important – *stick to it*. It is vital that you know where every dollar is going and are able to control excess spending.

Find extra money. After you create a budget that lists all your income and debts, you may be surprised at how much extra money you can find. Cutting out that daily latte or fast-food lunch can add up quickly. Apply that extra money to paying off your cards.

Use the “snowball” technique. For example, say you have one payment of \$50 a month and another at \$75. Once you pay the \$50 bill in full, you roll that \$50 into paying off the second bill. Once that second bill is paid off, take that \$125 and put it toward another debt. And so on and so on.

Pick up the phone. Call your credit card company *before* you start having payment problems. It shows you care about paying your debt responsibly, can buy you some time and can even lead to a mutual solution.

Selecting the right credit card is important. Shop around, read the fine print and avoid excess fees. If you need serious help, consult a financial advisor at your military installation or in your community.

Credit Scores and the Military

A number of factors can negatively affect credit and lead to a misleadingly low credit score. Frequent moves or TDY can result in shorter durations at a single location and lead to multiple credit relationships in many cities. Relocation also may lead to a poor credit history as bills get lost in the shuffle of moving. In addition, some retailers and small loan companies in military communities do not report to a credit bureau, so your positive history may go unnoticed.

The truth is, no matter what models or scores are used, military families with the best money management habits will maintain a better chance of obtaining credit and at a lower cost. Follow these suggestions [to achieve or maintain a high credit score]:

Eliminate delinquent payments. Pay bills on time and as agreed, and avoid bankruptcy.

Avoid frequent credit applications. While there are a few exceptions, multiple inquiries by creditors about your credit rating can lower your score.

Reduce credit card balances. Scores are lowered if you've borrowed the maximum amount, so pay more than the minimum to pay them off faster.

Choose the right company. Avoid borrowing from companies that do not report your history to credit bureaus.

Review your credit reports annually. Keep close tabs and correct all errors.

Simplify bill paying. An unexpected deployment or extended training can make it easy to forget to pay a bill, so use electronic payment systems when possible.



A Division of MidCountry Bank

VIP's mission is to provide information to audiences who share the vision of improving operational readiness through education and services that enhance the quality of life and financial independence for military families.

For more than 20 years, Pioneer Services has been a leader in military lending. They offer the protection and security of a personal loan with the speed and flexibility service members need. Through a network of offices and on the Internet, Pioneer Services offers loans, financial education programs, and supports military families and communities through a variety of partnerships, programs, and sponsorships.

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Managing Editor
Amy J. Rosendahl

Copy Editor
Mark Dye

Designed By
Mark Palmer

Published By
Pioneer Services, a Division of MidCountry Bank
4700 Belleview, Suite 300
Kansas City, MO 64112
Ph: 800-314-8581; Fax: 816-561-9333

For more financial education visit pioneerservices.com. For loan information visit pioneermilitarylending.com.

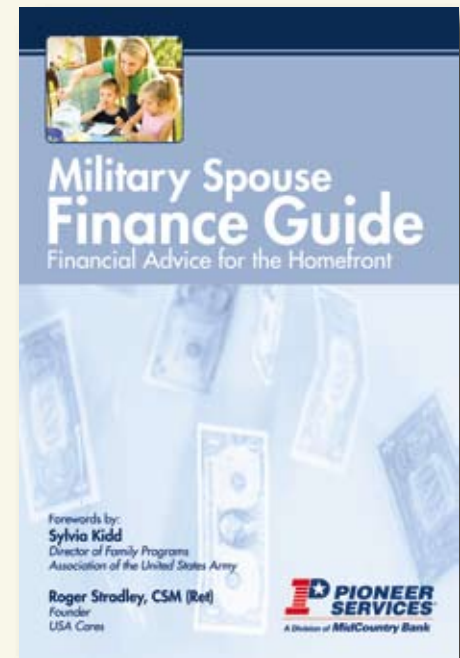
Money saving tips and tricks for your next vacation

Vacations are supposed to be a time to go away with the family somewhere special, see the sights, relax a bit, have fun and create wonderful memories. But too often the cost and stress can make you want a vacation to recover from your vacation.

The following are some tips that can save both your money and your sanity.

- » **Go in the off season:** You can save significant money by vacationing during off-peak times. For example, you can go to a national park in the spring when the weather is still nice, but when prices are cheaper.
- » **Skip the hotel:** Bed and breakfasts often offer discounts to remain at capacity, while hostels can be a great choice for those who just need a place to sleep without the amenities (and many now offer private rooms for couples and families). Camping out is also an alternative, and you may be able to rent an RV for less money than a hotel.
- » **Stay close to home:** There are numerous places to visit close to home, and getting there costs less and takes less time. You can even vacation without leaving town; day-trips can offer a great way to see local sites like museums, zoos and galleries, and all without blowing your budget.
- » **Take and/or make your own food:** If you're driving to your destination, pack a cooler or two with sandwiches, drinks, and snack foods, and then stop at roadside parks for meals. If you're staying in a hotel with a kitchenette (or even just a fridge and microwave), you can save a bundle by making your own meals.
- » **Search smart:** Searching for cheap airfare can be difficult; one site that has a great deal today may not have it tomorrow. Sites like kayak.com provide one-stop searching by doing the search work and giving you hundreds of results, all within a minute or two.
- » **Research ahead of time:** Check for free attractions and events available near your destination ahead of time, and look for online coupons for attractions, restaurants, hotels, etc. Just print them before you go and have them ready when you get there.
- » **Skip the rental:** Check to see what type of public transportation is available at your vacation spot instead of renting a car. If you must rent a car, check places like rentawreck.com, where the cars may not look brand new, but run well and cost less.
- » **Remember military discounts:** From major franchises to small mom-and-pop places, a majority offer some sort of discount or perks to service members and their families. So don't forget to bring your military ID and check for discounts everywhere you spend money.
- » **Package discounts:** You can get a deal by buying a package vacation with airfare, hotel, car rental, and even attraction tickets in one purchase. Check online or with a travel agent to see what's available for where you're headed.

Pioneer Services rolls out Military Spouse Finance Guide



Military spouses often find themselves in charge of the family finances when the service member is deployed. And since the Department of Defense has stated that financial issues are one of the largest issues facing military families, it's vital that spouses have the tools and knowledge they need in order to prevent financial problems on the homefront.

Military Spouse Finance Guide: Financial Advice for the Homefront is a new book by Pioneer Services written just for military spouses looking to gain more control over their money. It covers topics such as budgeting, what to look for when borrowing money, how to teach kids about money, identity theft, and more.

With forwards from Sylvia Kidd, director of Family Programs for the Association of the United States Army, and Command Sergeant Major Roger Stradley, U.S. Army (ret.), founder of USA Cares, the book is written in a straight-forward style that makes sometimes difficult concepts easy to understand. In addition, much of the information can be used once the family transitions to the civilian sector.

Pioneer Services will release the book in May in conjunction with Military Appreciation Month and Military Spouse Appreciation Day (May 9).

To get a copy of the book for the military spouse in your life, visit militaryfinanceguide.com, or you can order it from amazon.com and barnesandnoble.com.



What to do with your economic stimulus check

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paid the minimum payments. But if you sent \$600 extra and reduced your balance to \$900, you would spend just \$347 in interest over the life of the debt. By sending the extra money, you put \$272 back into your pocket.

Pay off smaller debts

If you have several smaller bills – a few hundred dollars here, \$50 there – that are nagging your budget each month, use the stimulus money to pay them off. How to do so will depend on the size of your refund:

- » If you're only receiving a \$300 check, then start at the smallest bill and work your way up.
- » If you're receiving a higher amount (anywhere from \$600 to \$1,200, plus another \$300 per eligible child), then start with the larger one and work your way down to the smallest.

Either way, the goal is to eliminate the nickel and dime bills eating away your monthly income.

Put it in savings

This is what many Americans will do with their stimulus checks – to use the two polls cited earlier, anywhere from 20 to nearly 35 percent of people said they will put it into their savings accounts. Since having an emergency savings account is crucial to your financial success, this is a great time to start one if you haven't already.

Most experts agree that a \$500 balance should be the minimum, while two to four months salary is ideal. But even if your stimulus check doesn't reach either of these thresholds, putting \$300 in an easily accessible savings account is a great start. Begin with whatever amount you are getting, and then look at your budget to find extra money to add to that account over the next several months.

Again, even if you're only getting the minimum of \$300, putting that money aside now can save

you from having to put a car repair on a credit card, potentially saving you thousands of dollars in interest. And if you add to it a bit each month, you can reach \$500 in savings in no time, and get to two months salary faster than you think.

Other options and considerations

- » **Tax return must be filed:** In the past, if you did not have \$3,000 in taxable income, you would not have needed to file a tax return. But if you want to get a stimulus check, you will need to fill out form 1040A. If you utilized the filing extension offered to military families instead of filing by April 15, you will receive your stimulus check after the normal distribution schedule ends on July 11. (Specific details on how military families can receive a stimulus check can be found in the Learning Center at pioneermilitarylending.com.)
- » **Add it to your retirement account:** You can add it to your 401(k), 403(b), Thrift Savings Plan (TSP), or to an individual retirement account. The typical annual contribution limits still apply

depending on the type of account, but this could be a good chance to add more to your retirement.

- » **Save for a big purchase:** Is your car ready to be replaced? Looking at new furniture in the near future? Put the money aside to offset the cost of the purchase, use as a down payment, or just help with the costs.
- » **Watch for scams:** The IRS recently warned of email and phone scammers offering "advance payments" for your stimulus check, only to steal the person's identity. These are all false, since the IRS does not offer any such plan, and does not send unsolicited emails about tax account matters to individuals, businesses, or anyone else for any reason. If you receive an email or call about any IRS matter that seems odd, contact them immediately, or send the email to phishing@irs.gov.
- » **Do some preventative maintenance:** If there are smaller things you've wanted to get done but have put off (getting a few needed but non-critical car repairs, for example) now is a good time to get at least a few of them done. Doing so can save you money since putting them off could wind up costing more money down the road.

While these suggestions may seem to go against what the stimulus checks are intended to do – create spending, rather than savings and reducing debt – securing your family's financial future will, in fact, be an important factor in the nation's economic success. This is because reduced debt and increased savings creates economic stability for the long haul, rather than just in a short spurt.

So while spending a bit of the money on yourself (perhaps \$70 for a nice dinner with your spouse, or \$20 on a DVD) probably won't ruin your finances, taking care of your longer-term needs and future financial security have been proven to work time and again, no matter the economic conditions.



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Kids Piggy Bank Savings Program | Lending | Military Spouse Finance Guide: Financial Advice for the Homefront book
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We also offer the following services through our new financial education partner, Essential Knowledge:

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