B. Franklin

The Franklin Prosperity Report®

'A PENNY SAVED IS A PENNY EARNED'

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Earn More on Your Savings with These 5 Interest-Maximizing Strategies

It's a recurring pattern that financial advisers find frustrating: A client at or near retirement age has a nice chunk of money in cash, earning essentially zero percent interest. That's money that should be put to better use for eventual healthcare costs or other expenditures, or at least be better positioned for heirs.

Many baby boomer retirees, however, are hard-pressed to put that cash at risk. They understand all too well what can happen when stocks fall out of bed, as they last did in the 2008 financial crisis. Over a lifetime, the investor has exhausted his or her appetite for more risk, so the default investment is a checking or savings account that pays a tiny fraction of the inflation rate. Unfortunately, that means their cash is losing purchasing power at a steady clip as inflation takes its bite.

What's the best course of action? Ideally, you find a place for your shorter-term savings accounts that offer instant liquidity and a decent return. In reality, those forces work against each other, now more than ever. Yet there are better choices to be made than a mere savings or checking account. The editors of The Franklin Prosperity Report talked with advisers around the country to find creative answers to the cash conundrum.

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The First Step — Slow Your Spending

The first step for new retirees should be a total re-evaluation of spending habits ingrained during the working years. You won't have any cash to worry about investing if you spend it down as quickly as it arrives in your retirement account.

Overspending is a common problem among the newly retired. Rampant consumerism in the first few years — luxury travel, new cars, a real estate downsizing that turns instead into an upsizing — can decimate principal and severely limit your

ability to grow income to spend later on. Since you no longer have decades to recover from a market drop, a burst of big spending coupled with a downturn is a double whammy many new retirees come to regret.

Yes, you need a budget, and quick. "As basic as it sounds, don't delay from establishing goals and starting to make the hard choices now," says **Andrew Aran**, a chartered financial analyst and partner with Regency Wealth Management in Ramsey, N.J. "Take a fresh look at how you are spending your money. Which of these recurring items are wants versus needs? Commit to cutting them or eliminating them and save that amount. You can't afford to delay."

Once you have a three-month short-term emergency cash cushion squared away, let the savings continue to build up until you feel you are protected from a medium-term disaster, be it a shock to the markets, a health scare or unexpected home repairs. At least six months' worth of living expenses on hand is a good rule of thumb as a minimum amount, and then add to it as you can, up to 18 months' worth of living expenses at the maximum (more on that later).

Once you have that solid trove of dollars in place, here's how advisers say you should juggle your money for maximum liquidity and growth.

Idea No. 1: Farm it out to a risk-managed mutual fund.
Baby boomers nearing retirement can't wait for stocks to recover should they decline sharply. Meanwhile, low interest rates mean bond prices are at all-time highs, increasing the risk found in the once relatively low-risk fixed income category, says **Gina Mitchell**, president of the Stable Value Investment Association (SVIA) in Washington, D.C.

Of course, few investors want to stand by and watch their stocks fluctuate either. "Volatility continues to be an issue to investors in 2016 who need to protect their hard-earned money by considering safer investment options — especially in their retirement plans," she says.

The principal protection feature of stable value funds is especially important during times of volatility in the equity market, Mitchell says. They do this by investing in short- to intermediate-term bonds whose investment returns are then protected by guaranteed insurance contracts. That helps to stabilize fund returns and value over time, Mitchell explains.

"During the Great Recession, stable value was one of the few asset classes that delivered a positive return — approximately 4.8 percent — when bonds and most other asset classes were in negative terrain," she says.

While there are a number of fixed-income options, very few offer a combination of safety and a stable, reasonable return. Stable value funds, a low-risk investment option offering returns of around 2.52 percent (as of the second quarter of 2015), should not be overlooked

during times of market volatility, Mitchell notes.

"How can people retire on 0.1 percent annual return when the cost of living increased by 1.7 percent in 2015 — even if cash makes them feel safe in today's chaotic world? They can't, and it's one of the challenges people will confront as they review their retirement savings plans at tax time," she says.

While the stock market hit record highs during 2015, it is important to remember the number one rule of smart investing — diversify your portfolio. With constant change in the market, investors need to ensure they have a well-diversified portfolio to help manage and control risk, Mitchell says.

"Stable value funds are a great diversification vehicle because they have the lowest correlation to equities of any asset class," she says. "This allows investors to be in the equity market while diversifying and preserving capital to achieve their retirement and savings goals."

Idea No. 2: Get extra yield without adding too much risk.
If you don't need the cash on short notice, you can always reach for extra yield. The key is diversification among a variety of high-yield bonds in a managed product.

High-yield bonds are bonds that are uninsured, meaning if they default you're on the hook. Typically this means corporate bonds. They pay a higher interest rate because the risk is higher. Companies that must borrow but don't want to pay extra to insure their bonds simply agree to pay a higher rate to investors.

You can lower your risk by owning a portfolio of many high-yielders and by diversifying broadly. Some will default, but typically not many of them, while the income flow keeps investors engaged, despite the risks.

Martin Hurlburt is the co-founder of T.M. Wealth Management, a wealth managment firm with offices in Washington, D.C. and Springville, Utah.

"When there is too much money sitting in cash, I often recommend a managed high-yield bond portfolio," advises **Martin Hurlburt**, co-founder of T.M. Wealth Management in Springville, Utah. "Although the value fluctuates and can be negative in the short run, there are several out there with 15 or even 20 year returns without a single losing year."

"One that I like is the BTS High Yield Bond program. Going back to 1997 it has not had a losing year," Hurlburt says.

Nevertheless, high yield is not a place to park money for the mortgage or emergency health spending. "You should still be cautious and make sure it's money you don't plan to use in the near term," he says.

Idea No. 3: Think like a corporation when it comes to cash.
Cash should be a very deliberate position, either because it's necessary

John Fowler is a certified financial planner at McElhenny Sheffield Capital Management in Dallas, Texas, a wealth management firm.

for emergencies or because there just isn't anything worth owning in the current market environment, says **John Fowler**, a certified financial planner in Dallas, Texas. "In the case of the former, I'll throw out a gentle reminder of the Reserve Primary Fund and Reserve Yield Plus Fund that broke the buck back in 2008, or the freezing of the commercial paper and municipal reset markets also in 2008 — which is to say don't take unnecessary risks with cash that could result in you not having access in the very instant or market condition you need it most."

While historically unusual, events such as the Reserve Primary Fund did happen and could happen again. Investors were eventually made mostly whole, but only after a lengthy court process. That's no place to be with short-term cash, as Fowler notes.

Instead, he advises that retirees approach their finances like a business would — by becoming your own corporate treasury. "How does this work? Let's assume you have at least a three-month emergency fund set aside somewhere else, but you find that you have excess cash. Take one-fifth of the money and buy a 12-month CD. In three months, you'll take another one-fifth of the original cash amount and buy another 12-month CD, and so on just like a corporation does with commercial paper," Fowler explains.

After one year you will only have one-fifth of your original position sitting in cash (that is, the just-in-case pool of money) while the rest is earning some form of interest, typically higher than a savings account. The rate on a one-year CD "isn't terribly exciting, but the good news is that if and when interest rates do go up you will be able to quickly roll into higher yielding CDs," Fowler says.

"If you are a do-it-yourselfer and the three-month cycle becomes too much work, you could always buy a two-year CD and roll every six months, but realize that you have reduced your liquidity pretty dramatically and, at least in the current rate environment, you aren't really getting paid to extend duration."

By splitting the money among several banks, you can stay FDIC insured and avoid the liquidity issues that many investors found themselves in during the throes of the 2008 financial crisis, Fowler says.

Idea No. 4: Go ahead and invest at least some of it.

Portfolios that invest a significant portion in mutual funds or ETFs that invest in three- to five-year Treasurys, but also contain a diversified equity component, can provide investors with annual returns in the range of 4.5 percent to 6.5 percent on a three-year basis, says **Bob Sloma** of Sigma Advantage Investments in Grand Rapids, Mich.

"By doing this, individuals can ensure that the portion of their wealth

Should You Join a Credit Union?

The maximum people should have in cash or highly liquid accounts, even if they are retired, is between 12 and 18 months' worth of expenses, says **Bob Sloma** of Sigma Advantage Investments in Grand Rapids, Mich. "Having too much money in cash exposes individuals to purchasing power risk, which is a reduction in purchasing power over time," he says. "Money market checking and savings accounts do not pay enough in interest to make up for inflation."

That's in part because banks are beholden to their shareholders and excess profits are paid to them in the form of dividends. The trick is to be the shareholder and get those dividends by joining a credit union, says Sloma.

Credit unions are owned by the members who hold deposits there. Excess profits are paid back to them via checking accounts earning higher interest rates. It is not uncommon to find credit unions offering checking accounts earning between 2 percent and 4 percent interest, Sloma points out.

Like certified financial planner John Fowler suggests in Idea No. 3, Sloma also counsels that savers use a ladder system — but he says you should do it at the credit union and using a slightly different approach. "Excess cash above short-term needs and emergencies can be invested by laddering certificates of deposit (CDs). You can ladder them by having six months' worth of expenses in a six-month CD, and 12 months' worth of expenses in CDs with a duration of one, two, and three years with a maximum of five years," Sloma says.

The current highest one-year CD rate is 1.12 percent, reports Bankrate.com, while a five-year CD pays 1.84 percent. "With between five to seven years of cash savings in secure, insured deposits, or if you are willing to take on a bit more risk to maintain purchasing power over the long-term, look to independent financial advisers or independent investment managers who offer conservative or moderately conservative portfolio options," Sloma says.

Credit union deposits are insured by the Federal Reserve under the National Credit Union Share Insurance Fund (NCUSIF) administered by the National Credit Union Administration, similar to the Federal Deposit Insurance Corporation (FDIC), he adds.

in cash is keeping up with inflation," he says. "These types of accounts also can be set up to enable the investor to write checks against the account and the adviser or manager can make cash available within three to five days' notice."

David Hryck, a partner at the Reed Smith law firm in New York City, advises clients on the financial aspects of structuring various investments for maximum profitability during different stages of their lives. He also suggests investing over holding cash by using inexpensive, broadly diversified exchange-traded funds (ETFs).

Relatively new to the market, exchange-traded funds typically track a single index — the S&P 500 or the whole bond market, for instance — providing a fairly

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(Remember to use lowercase letters.)

predictable return and risk management through diversification.

"Instead of holding all money in cash, turn to an exchange-traded fund (ETF). They offer low costs and give you the opportunity to let your money grow within the stock market," says Hryck. "For long-term investing, an ETF is a great choice if you have cash on hand."

Do your ETF investing in a Roth or traditional IRA if possible (and you're not already at age 70 1/2, when the required minimum distributions kick in), says Hryck. "Both can offer different tax benefits, and by allocating your cash into a retirement fund, you are planning ahead. It's a nice way to possibly lower your income tax today while saving for retirement," he adds.

Idea No. 5: Consider the 'other IRA,' the health savings account. If you are not yet on Medicare, healthcare reform means that you will have to have insurance somewhere. If you buy it on the open market you are likely to be offered a high-deductible health plan paired with an optional — but highly recommended — health savings account (HSA).

Like a workplace flex account, money put into an HSA is pre-tax, meaning you avoid income taxes in the year you set it aside. Unlike a flex account, an HSA can roll over year to year and the total you can set aside is typically higher than offered in work plans.

"More and more people are using health savings accounts with their health insurance," says **Ed Snyder**, a certified financial planner in Carmel, Ind. "In 2016 you can contribute up to $3,350 for individuals or $6,750 for families. If age 55 or older, you can contribute an additional $1,000."

Ed Snyder, a certified financial planner, is the co-founder and president of Oaktree Financial Advisors Inc., located in Carmel, Indiana.

You deduct from your income taxes the amount of your contribution and the money grows tax-deferred in the HSA. It can be withdrawn tax-free for qualified medical expenses at any time, even years later. "If you don't use the money for medical expenses, you can spend it on a taxable basis for retirement or any other purpose after age 65. It basically turns into an IRA at age 65," Snyder says.

If in fact you don't need the extra money and don't plan to spend it, put it instead into a diversified portfolio of mutual funds, Snyder says. The reason why is taxes. There's a built-in tax benefit to investing excess cash.

"Your heirs will get a step-up in basis at your death," Snyder says. "That means that they don't pay tax on the gains on the investments from the time you bought them. Your heirs' cost is considered to be the value of the investments on the date of your death." ■

— By Greg Brown

Save Money on Your Online Trading Costs

When investing, trading fees can add up. The good news: Several reputable online brokerages offer low or no transaction fees. **Aja McClanahan**, a personal finance expert who writes at principlesofincrease.com, says competition is heating up, giving investors more options than ever. Among low-cost platforms, TradeKing and Robinhood are two online brokerages that both McClanahan and James Pollard, managing director of Personal Finance Genius (www.personalfinancegenius.com), say are worth researching.

TradeKing offers advanced trading capabilities like shorts, options, and margin, McClanahan says. "TradeKing also recently introduced its new robo-advisor program for people starting off with as little as $500."

Pollard says TradeKing.com, which charges $4.95 per trade, is good for beginners because it has great customer service, educational resources, real-time quotes, and an online trader community. TradeKing offers mutual funds, options, and exchange-traded funds (ETFs). Some negatives: There are fees for IRA transfers, no futures trading capability is offered, and you may be hit with a $50 inactivity fee if you don't trade within 12 months.

Robinhood.com offers free trades, but is better for experienced folks because there is no customer support. Pollard and McClanahan note Robinhood isn't meant for buy and hold trading. "Robinhood has a rather stripped down feature set allowing users to only buy or sell at market price, or make limit orders," McClanahan says.

On the plus side, it has a wide selection of stocks and other investment vehicles like ETFs and MLPs (master limited partnerships, which can be publicly traded). One negative — it isn't compatible with desktop computers; all trading is done through smartphone apps.

Loyal3.com, meanwhile, also does not charge transaction or management fees. Pollard says one of the best things is you can trade fractional shares starting as low as $10, so you can own stock in expensive companies like Google or Apple. Other positives for Loyal3 include the chance to invest in some IPOs (initial public offerings) and good customer service. On the downside, trades only go through at 2 p.m. each business day (so you can't control for getting the best price) and it takes a few days for money to post to your account, Pollard says. ■

— Gail Kalinoski

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Ease the Burden of Student Loan Debt

Student loan debt is climbing higher than ever before — the Class of 2015 graduated with an average of $35,000 owed. If you or a loved one attended graduate, medical, or law school, those numbers can escalate into the hundreds of thousands of dollars that need to be repaid.

As you've surely heard by now, you can't declare bankruptcy to get out of student loan debt, but there are ways to ease the burden.

"It's a great idea to look at refinancing, because interest rates are historically low," says **Cynthia Fick**, founder and president of Financial Life Planners in Phoenix and Scottsdale, Ariz., and the author of *The Sisterhood of Money: The Art of Creating Wealth from Your Heart*. "And at this stage of the game, you may have better credit, better income, and may be able to qualify for a much lower rate. It's definitely worth looking into."

Fick, who notes she has numerous clients dealing with their children's student debt and doctor and attorney clients facing loans of $300,000 and higher, advises those with particularly large debt obligations to seek help from financial planners as soon as they finish their education.

Harrine Freeman, CEO/owner of H.E. Freeman Enterprises in Bethesda, Md., and author of *How to Get Out of Debt: Get an "A" Credit Rating for Free*, said the first step when considering refinancing or consolidating student loan debt is to "verify what types of loans you have, the loan servicer, the interest rates, and the total amount you owe."

If you have federal loans, that information can be obtained through www.studentaid.ed.gov or www.studentloans.gov. If you have private loans and can't find your paperwork, check your credit report from Equifax, Experian, and TransUnion or call your college to find out financial aid information they have on file. Freeman suggests checking your credit report anyway before considering refinancing to see if there are any errors or issues you need to clean up.

One of the main things to know is you can't refinance federal student

Ben's Good Cents

"All human situations have their inconveniences. We feel those of the present but neither see nor feel those of the future; and hence we often make troublesome changes without amendment, and frequently for the worse."

Before You Refinance

For those pursuing private loan refinancing, there are several things to be wary of, such as:

"If anybody requires some kind of upfront fee to refinance, consolidate, or eliminate your student loan debt, that should be your first red flag," cautions Cynthia Fick. "Be highly suspicious of that."

- Fick and Harrine Freeman say to steer clear of variable rates and go with a fixed rate to refinance. A variable rate may seem attractive now while interest rates are at historic lows, but you may be hit hard when interest rates rise and you are locked in to that variable rate.
- Freeman says avoid interest-only repayments, because you will owe more in interest over the life of the loan.
- Use a reputable lending institution that specializes in student loan debt like Citizens Bank (www.citizensbank.com), which offers programs like the ability to refinance a private loan from any bank. Those programs can save some customers an average of $145 a month or $17,400 over 10 years, according to a bank spokesperson.
- Stay away from lenders who use deceptive marketing or urgent phrases and are "vague about the programs, terms, fees, and other repayment options," Freeman warns.
- For parents, grandparents, or others close to students or former students, think carefully about agreeing to be a co-signer on any loans. A co-signer may be needed to get a refi or a lower rate, but keep in mind: "when you put your name on that dotted line, you are essentially responsible for that loan, almost as if you are the primary loan applicant," Freeman says.

loans through the government, but you can consolidate them through the federal Direct Consolidation Loans program. To qualify, you must have at least one Direct Loan or Federal Family Education Loan (FFEL) in the process of being repaid, deferred, or defaulted, according to the website studentloanhero.com, which provides advice on loan repayment options. A direct loan consolidation will combine multiple student loans into one. On the downside, it also could mean more interest payments and time to repay.

Fred Amrein, founding principal of Amrein Financial and College Affordability LLC in Wynnewood, Pa., author of *Financial Aid and Beyond: Secrets to College Affordability*, who has developed EFC PLUS, a financial software program that helps families analyze college costs and financing, suggests checking first if you qualify for loan forgiveness or any other original benefits on the federal loans before making changes. You may not want to lose those benefits, which can include forgiveness or income-driven repayment plans.

For instance, teachers who have been teaching full time in a low-income elementary or secondary school or educational service agency for five consecutive years may be eligible to have as much as $17,500 of federal loans forgiven. Those employed in certain public service jobs that have made 120 payments on Direct Loans also may be eligible for loan forgiveness. ■

— Gail Kalinoski

Should You Self-Insure? Why the Risks May Outweigh the Savings

Every year, insurance premiums likely take a little bigger bite out of your budget than the year before. For instance, a February 2015 study by the National Association of Insurance Commissioners (NAIC) found home insurance premiums rose 5.6 percent in 2012, after rising 7.7 percent in 2011.

Car insurance is costly, too. According to the Insurance Information Institute, annual car insurance costs are climbing — they averaged $860 in 2014, up from $836 in 2013, and $815 in 2012.

To cut costs, some drivers and homeowners are looking to self-insure instead of paying annual premiums to an insurance company, essentially shouldering a large portion of the financial responsibility of covering their own property in the event of a loss.

"Self-insuring means assuming risks from both a property and a liability perspective," explains **Ken Davidson**, principal, Eagle Independent Insurance Agency in Dallas, Texas.

While it can save money in the short term, Davidson says the decision to self-insure could be financially devastating if you don't understand all the ramifications and risks.

To an extent, everyone self-insures a little bit. "Nearly every home or auto policy has a deductible component, which means you have some financial responsibility in the event of a claim," says **Kristofer R. Kirchen**, CIC, AAI, ARM, president, Advanced Insurance Managers, LLC in Tampa, Fla.

But beyond that, can you save on premiums by cutting corners on insurance policies, or forgoing them altogether in some instances? For advice, we turned to experts in the insurance field.

Assessing the Risk

In its simplest and most risky form, self-insuring means not purchasing any insurance policy to protect a home or automobile.

Kirchen says this is only an option if you do not have a loan on the vehicle or property. In nearly all instances, outright self-insuring is not an option if you have a mortgage or loan on a home or vehicle. Lenders require insurance be purchased to protect their investment.

Beyond that, even if you own a car free and clear, you'll still need coverage of some sort. Nearly all 50 states require drivers demonstrate financial responsibility to pay for damage if involved in an accident

that harms another person — this is the liability portion of an auto insurance policy.

In lieu of proof of insurance, states like Florida that allow self-insuring require motorists to furnish a certificate of self-insurance to the Department of Motor Vehicles in the amount of $30,000 per vehicle, up to a maximum of $120,000.

In addition, a power of attorney will be required to be provided to the DMV to be held in the event of an accident, at which time it will be executed by the state upon a judgment issued against the person self-insuring for damages incurred as the result of an accident.

Other states allow motorists to post a surety bond in the minimum amount of coverage required by the state, while others require drivers to deposit between $30,000 and $65,000 in a state agency (often the comptroller's office) to provide financial relief to others who may be injured in an accident. This money would typically not be used to offset the cost of damage to the driver's vehicle.

"Alternately, a person may self-insure if they have sufficient net worth per the state's requirements," Kirchen explains. "This often requires having at least $40,000 for the first vehicle and $20,000 for each additional vehicle in assets that are free and clear and do not have mortgages, liens, etc., against them or that the person maintains sufficient net worth to pay for potential losses, as determined annually by the DMV."

Kirchen cautions that just because you set aside a hefty chunk of money to cover, for instance, damages and medical costs someone else incurs in the event of an accident, or to replace a roof damaged in a hailstorm, self-insurers still could be facing huge out-of-pocket expenses they're unprepared for.

"The biggest potential cost that goes overlooked when self-insuring is the cost of defense," Kirchen says. "In an insurance policy, defense costs are included and there is no limit. There are times the cost of defense might exceed the damages awarded and can easily run into the tens and hundreds of thousands of dollars."

There's also the possibility the amount you earmark for liability may not cover the damage and costs associated with an accident. To take an extreme example, a self-insured driver may hit a successful young neurosurgeon with a spouse and children and, as a result, his operating hand

Ben's Good Cents

"A countryman between two lawyers is like a fish between two cats."

is permanently disfigured. That loss of his earnings will likely exceed what someone can afford to pay out-of-pocket.

"That is why I generally tell people to purchase as much liability insurance as they can afford," Kirchen says. "If they want to self-insure physical damage to a car that is paid in full, and can absorb that financial loss if that car was totaled, that is fine. But no one should go without liability coverage."

The same goes for a house. "You may have money set aside to repair or replace a roof following a hailstorm," Kirchen says. "But what if another peril strikes before you have rebuilt that self-insurance nest egg? You might not be prepared to replace a house full of electronics and jewelry if you're burglarized six months or even two years later."

Have a Policy? You Still Might Be Self-Insuring

While those who don't purchase an insurance policy are aware they're assuming financial liability in the event of an accident or peril, Davidson says many homeowners and motorists may unknowingly be self-insuring, too.

Even if you purchase an automobile insurance policy that meets your state's required minimum insurance limits, you might not have enough coverage in the event you're in an accident with another automobile that is of a moderate to high value and if there are multiple injuries, severe injuries, or fatalities.

"In essence, someone who purchases the state minimum limits is partly 'self-insuring' because they are assuming the financial responsibility for any claim payouts to the other party above what their insurance policy limits will pay," Davidson says.

Carrying low liability limits on a homeowners policy is another form of self-insuring. For instance, if you have $100,000 in liability coverage on your homeowners policy and someone falls down the stairs at your house, or drowns in your pool, and the injured party's medical bills and/or amount to settle is $500,000, an insurance policy will only pay $100,000.

"A homeowner is on the hook for the other $400,000," Davidson points out. "If a homeowner has the financial ability to pay claims amounts like this, or smaller, then they can assume the risk of self-insuring and roll the dice."

That doesn't mean self-insuring is all bad. Kirchen cautions it's just not something to enter into lightly. "Before opting for the self-insure route, it makes sense to get two or three quotes from different insurance carriers with different deductibles and limits to determine what makes the most financial sense," he says. ■

— Gina Roberts-Grey

Beat the Collection Agency: Know Your Rights When Disputing Debts

As you sift through the day's mail, you find the usual coupon packets, catalogs, and bills. But as you open one of the envelopes, you discover a strongly worded letter from a collection agency insisting you have an unpaid debt that needs immediate attention.

Having never paid a bill late, you begin to investigate how this unprecedented situation happened and feel vindicated when you discover it's a mistake on their end. But how do you rectify this credit injustice?

"Individuals have the right to dispute a debt that they believe is not valid," says B**ruce McClary**, government relations and public policy manager for National Foundation for Credit Counseling member agency ClearPoint Credit Counseling Solutions. "Because you have to make your dispute within 30 days of being contacted by the debt collector, it is very important that you read your mail and answer the phone calls without delay."

Know the Rules of Engagement: While it is possible to dispute a debt by phone, McClary says the best methods are the ones that leave a paper trail — such as sending a letter by way of certified mail.

While the collector investigates your claim and prepares their response, they are not allowed to communicate with you to collect the disputed debt.

"They have 30 days to respond to your dispute," McClary says. "If they respond with evidence that the debt is your responsibility, their communication should include records confirming the debt and that it was assigned to the collection agency by the original creditor. If the collector does not verify the debt within 30 days, it cannot legally continue collecting or reporting the debt to the credit reporting agencies."

It is a good idea to monitor your credit report to ensure they remove the account. If it remains, you can provide the credit-reporting agency with your records of communication with the debt collector in order to have the account removed from your report.

Understand the Statute of Limitations: In the event that the collection agency provides sufficient proof that the debt is yours, but you believe this is an old account that you are no longer obligated to pay, McClary advises you check to see if the account is beyond the statute of limitations.

"These time-barred debts are commonly referred to as zombie debt," he says. "The debt collector may still be able to call and write to try to get you to pay, but they cannot take legal action against you to recover the money."

The statute of limitation varies from state to state, and also can vary depending on the type of debt you owe, so it is important to know how the statute applies to consumers in your state of residence.

Keep a Paper Trail: Whatever you do, be sure to have records that back up your claim. The more proof you have on your side, the easier it is to resolve the matter.

"Your records should include information supporting your dispute, as well as a log of all communication related to the collection of the debt," McClary says. "You should be familiar with your rights under the Fair Debt Collection Practices Act (FDCPA) and the Fair Credit Reporting Act (FCRA). Understanding how these apply to your situation will give you a distinct advantage over those who are not aware of their rights."

This includes always being aware of the timeline for action, marking your calendar with key dates and deadlines in relation to your dispute.

Be On Alert for Hidden Meanings in Collector Communications: McClary says debt collectors are prohibited from telling you that they will take specific legal action against you in order to recover the debt, but they often use words that imply that message. Pay attention to words and phrases like "escalate" or "refer for further action." If a collector uses those terms, ask for clarification.

Keep Your Cool: While you may be frustrated as you communicate with the collection agency, it is important that you avoid reacting in a way that could be interpreted as being hostile or uncooperative.

"Even if the debt collector is giving you every reason to lash out in anger, don't take the bait," McClary warns. "If you believe their actions to be outside of the FDCPA, advise them that you are aware of your rights and indicate your intent to report their actions. If there is a clear violation, you should follow through with your expressed intent to report it."

Debt collectors that violate your rights under the FDCPA cannot be held accountable unless they are reported to the Consumer Financial Protection Bureau (CFPB).

Monitor Your Win: Even if you successfully remove a disputed debt from your credit file, McClary says that it is still possible that the account could reappear sometime later. Therefore, he says it's vital that you continue to regularly monitor your credit in order to act quickly to respond to errors that could have a negative impact on your credit score.

7 Ways to Create Your Own Discount

We preach savings here in The Franklin Prosperity Report, but we know the reality too — sometimes, you just want to splurge and buy something you've had your eye on. While that's fine, what's not acceptable is paying more than you really need to for that item.

For advice on getting a better deal, we turned to **Michelle Madhok**, founder and CEO of SheFinds Media and the publisher of SheFinds.com, a website that helps millions of women shop the web for the latest fashions and styles.

"It just takes a small amount of time to score a deal," Madhok says. "There are bargains that can be had online that can't be had offline because you can stack your savings."

Here are a few of Madhok's tried-and-true price-slashing tricks, which she has used to score Prada boots for just $50, among other deals:

✓ **Earn cash back on purchases.** Take advantage of websites like Ebates.com, which allow you to earn up to 20 percent cash back on online purchases on top of retailer discounts.

✓ **Shop discounters.** Sites like Overstock.com and 6pm.com are great places to nab a deal on brand-name items from past seasons, store closeouts, or refurbished electronics.

✓ **Grab a promotional code.** Find promo codes to use when checking out from your online shopping cart at RetailMeNot.com. Before you buy anything, do an online search of the name of the shopping site with the words "coupon code" or "promotion code."

✓ **Visit deal-specific sites.** Sites like Shefinds.com/tag/sales-and-deals and Woot.com offer a huge discount on limited quantity one-day deals.

✓ **Buy discounted gift cards.** At Giftcardgranny.com or Raise.com, you can nab reduced-rate gift cards for the stores you plan to shop at.

✓ **Sign up for price alerts.** Use sites like Pricepinx.com, which notify you when a specific item or your favorite brand is marked down. Or use Pinterest to create a board of items you want to buy — Pinterest will email you when the price drops.

✓ **Ask for an after-the-fact markdown.** If the item you bought goes on sale within the week or the month, some stores will pay you back the difference. Also, a few retailers offer a price guarantee more than 100 percent, meaning if you find the item cheaper anywhere else, prove it to the retailer and they'll beat that price. Be sure to save your receipts. ■

— Jill Schildhouse

Michelle Madhok is the founder and CEO of SheFinds Media and the publisher of SheFinds.com, a fashion, beauty and lifestyle site that reviews products and shares the latest deals from across the web.

Your Home

Consider the Downsides Before Downsizing

"It's just what people our age do," you say to yourself as you wrestle with the idea of downsizing. It's hard to justify a large home once your kids have moved away and started families of their own — the upkeep, the expense, the rooms that go largely unused.

Yet, as you think about all the furniture, keepsakes, and artwork you'll no longer have room for without that spare bedroom or extra garage space, you start to wonder if downsizing is really the answer. And in some cases, it may not be.

Etoile R. Heavey is a licensed real estate professional with Sotheby's International Realty in New York City. Her focus is on the borough of Manhattan.

"Before downsizing there are several considerations, some financial and others emotional, one should think about," says New York based Realtor **Etoile R. Heavey** of Sotheby's International Realty. "And I speak from experience, as I just downsized in the same neighborhood within the last two years and still find it hard." Those considerations are:

1. Your tolerance for change. For many, especially for those who are single, there can be a great deal of trauma associated with a move. "Uprooting and going to something unfamiliar can be very difficult," Heavey says. "There is something to be said about aging in a place where you are surrounded by neighbors, or staff, that are familiar to you." Even switching stores, restaurants, salons, and pharmacies requires an adjustment as you learn your way around a new neighborhood. For retirees who aren't comfortable in foreign environments, fear could set in and a certain amount of mobility may be lost.

2. Tax implications. In many cities, downsizing is not as easy when smaller homes remain expensive and there are numerous tax consequences. Some to keep in mind:

- **Capital gains taxes.** "While most would like to realize the financial benefits of their equity, one should keep in mind capital gains taxes — long term (more than one year) or short term — must be paid upon gain realized from the sale and the rate, depending on income, is 15 percent to 20 percent," Heavey says. "For many owners in New York City, for example, where prices over the last 25 years have seen enormous gains, this is critical." Of course, each case varies due to length of ownership, yearly income, whether you're single or married, any capital improvements made — these all go into determining the amount of the capital gain and what percent would be paid.

- **Medicare tax.** As a result of the Affordable Care Act of 2010, there's a

new 3.8 percent investment "surtax" to fund Medicare expansion, which a seller may need to factor into their net gain realized from the sale.

3. Monthly fees. The fees one pays to the co-op or condo board on a monthly basis must also be considered when thinking of selling a larger home for a smaller one.

"These fees vary throughout major cities and many factors go into determining these monthly costs," says Heavey. "An older co-op might have lower taxes than a newer building. Also some very well-established and maintained co-ops have benefited from wise stewardship over the years and the (property as a whole) may even be mortgage-free. There are many reasons that one building's monthly expenses could be lower than another building."

4. Caregivers and guests. One day, you may need an extra set of hands to help out. "Another important consideration when thinking about downsizing is to consider if a caregiver might be needed in the future and how will your new smaller space accommodate this," Heavey says. "If you are keen on avoiding a nursing home or assisted living, will there be room for that to be an option? Sometimes this reason alone is enough to keep owners in their larger home."

Additionally, there may not be room for family and friends to come and stay with you in your smaller accommodations. "Unless an owner needs to tap into the equity in their home, sometimes it's more expensive on a monthly cash outflow basis to move to a new place even if it's smaller," Heavey says. "I suggest speaking with your accountant or attorney regarding taxes associated with the sale and/or purchase of any real estate before making any decisions." ■

— Jill Schildhouse

Selling? Negotiate These 3 Listing Agreement Clauses

Realtors will tell you that listing agreements are "standard" — don't believe it. Here are three things you can negotiate:

1. Length: Chief among terms to look at is how long the listing agreement will be in effect, says Seattle real estate professional **Julie Clark**. "Sellers should be able to hire a new selling or leasing agent, if needed," Clark says. "I think three to six months is an appropriate period, since the listing agreement can always be renewed with the same person."

2. Marketing updates: Reporting and updates that specify how the marketing efforts are going are not a feature of most standard listing forms, Clark says. "To avoid frustration and confusion, it's smart for sellers to outline how often they want to receive marketing reports and status updates from the agent or broker."

3. Commission rate: Commissions, Clark says, are always 100 percent negotiable, and sellers can incentivize their agents or brokers by offering a higher percentage commission if the property sells for more than expected. ■

Special Update: Maximize Your Social Security Now — Because the Rules Are Changing

"Unintended loopholes." That's how The Bipartisan Budget Act of 2015 characterizes a few valuable Social Security maximization strategies previously reported on in this publication. The new law, passed by Congress on Oct. 30 and signed by the president Nov. 2, contains a quiet change to Social Security's rules that alters what Americans can get from the program.

And it's a big deal, because changes to Social Security are not very common at all, according to **Matthew Allen**, co-founder and CEO of Social Security Advisors, a firm that provides personalized Social Security claiming recommendations. "The last major change was back in 2000, with the Senior Citizens Freedom to Work Act. Prior to that was in 1983. So there were 17 years and now 15 years between major changes like this."

If you haven't considered your options, do so right now — or risk leaving thousands of dollars on the table. Here, we answer the top questions:

1. "What's changing, and does it affect me?"
There are three main changes:

- Suspending your Social Security benefits stops benefits to your spouse and children paid on your earnings record. You may know that the longer you wait to claim Social Security, the more lucrative your monthly benefit amount will be. Social Security calculates this through "delayed retirement credits" that you earn for each month you delay. In 2000, Congress gave citizens the option to suspend Social Security payments after they'd started and go back to earning delayed retirement credits. Because it had no effect on benefits paid to spouses, some couples saw the opportunity to smartly coordinate benefits to get a higher overall payout. One spouse would file and immediately suspend benefits and the other would claim spousal benefits only. This option is soon going away.

Deadline: April 29, 2016

- You can no longer file a "restricted application" for just spousal benefits. This is the other half of the strategy above. Under the new rules, filing for retirement or spousal benefits is deemed to be an application for all your eligible benefits; you can't just claim spousal benefits like in the past. It was already this way for anyone filing before full retirement age, and now those rules will be extended to everyone — except, notably, survivors. Survivors can still file a restricted application for survivor benefits while letting their own retirement benefits grow.

Effective: For anyone born in 1954 or later

- When you unsuspend Social Security benefits, under the new rules you can no longer get a retroactive lump sum from the months you missed. If you will reach full retirement age before the deadline, or you are already there, you should consider filing to preserve this option before the window closes. After the deadline, retroactive benefits are still possible but much more limited: up to six months of back benefits, counting back to your full retirement age.

Deadline: April 29, 2016

2. "I already started executing one of these strategies. What about me?"
If you are already receiving benefits, you are grandfathered under the old rules, Allen says.

However, things are a little tricky for couples who've partially implemented the strategies. "Basically you only have half the equation," he says.

For instance, if one has filed and suspended, but the other has not yet filed a restricted application (because he or she hasn't reached FRA), they may or may not be able to see their plan through. "It's important for them to take a fresh look at this and make sure timelines are accurate in light of this new legislation," he says.

3. "Are there still strategies to use once the new rules go into effect?"
"The short answer is yes," Allen says. Although the restricted application option is going to be phased out over the next four years (as those born before 1954 reach full retirement age), it's still a valuable tool, he says, but a little less valuable now. "Social Security planning is still a critical component of either an individual's or a couple's portfolio," Allen notes. "There are still going to be optimal times to claim a spousal benefit or increase the eventual survivor benefit."

4. "I've heard it might be difficult for Social Security to enact this so fast. Will there be an extension?"
It's possible, but Allen says not to count on it. "The Social Security Administration isn't known for moving quickly," he says, "but I wouldn't bank on that if I were thinking about filing."

5. "This seems complicated, with multiple sets of rules at play. Can I get help?"
Yes. Allen's Social Security Advisors is helping clients reevaluate their plans, as well as perform the actual filing for benefits. Learn more at franklinsocialsecurity.com. There are also DIY calculators available online, including the Social Security Administration's site, www.ssa.gov/planners/benefitcalculators.html. ■

— Reporting by Kathryn Stewart

1 SocialSecurityAdvisors.com/changes: Social Security Advisors has created this dedicated webpage about the new rules, which includes a webinar.

Dr. Franklin's Mailbag

Know Your Retirement Investing Options: The Collective Trust Fund

In my 401(k) options, there is something called "collective trust funds." What exactly are they?
— Bryan T., Los Angeles

"Collective trust funds are institutionally designed investment vehicles that are restricted to eligible retirement plan sponsors," says **John W. Anke**, CIMA, of Schneider Downs Wealth Management Advisors, L.P., in Pittsburgh, Pa. "Eligibility requirements limit participation to employer sponsored retirement plans (such as a 401(k)). A retail investor isn't eligible due to the tax-exempt status (of) the collective trust fund."

Like a mutual fund, collective trust funds assemble assets from a number of sources. Often, a trust is created around a certain investment strategy to enable access to plan sponsors seeking to use that strategy, Anke explains. Expenses may be lower relative to a mutual fund — unlike a mutual fund that embeds the investment management fee, a collective fund fee is negotiated between the plan sponsor and the sponsoring bank or trust company. The trust structure does means less transparency — they have fewer reporting requirements, and daily performance updates aren't available via financial websites. You're left to rely on the plan fiduciary for periodic reporting.

Send your questions for our experts to saving@franklintips.com or to Franklin Mailbag, P.O. Box 20989, West Palm Beach, FL 33416.

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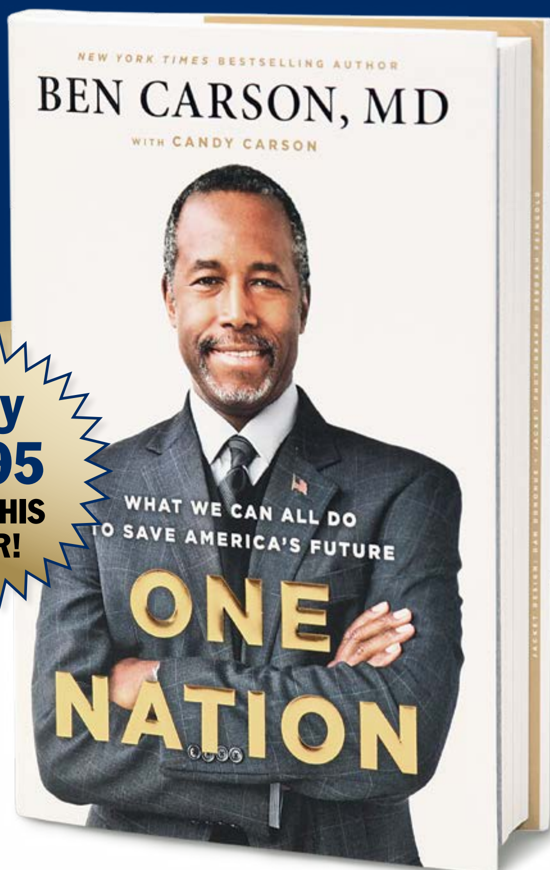

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