

## Supercharged Investment Returns *by Steve Waas*

*In the Winter edition of the Pension Press, Steve Waas, HMEPS' Financial Counselor, discussed Roth 401K's. Steve, who is a Certified Financial Planner, is available for individual meetings with participants, and also will be discussing financial topics in our newsletters to help participants better understand these important issues. This time the topic is "Supercharged Investment Returns".*

You may have heard this before, but I am going to say it again: If you have credit card debt or other high interest rate loans, paying off that debt as quickly as possible may be the best investment you can make.

People often don't think this is the smart choice. Actually, people often avoid thinking about their credit card bills entirely. They may feel guilty about having the debt, and so they don't want to even think about it. Maybe you had a good reason to take on that debt, maybe not. It really doesn't matter at this point. What matters most is finding the best use of your money right now.

And chances are, the best choice is to pay off your credit card debt.

Think of it this way, if the interest rate on your debt is, say, 20 percent, then every additional dollar you use to pay it off is like making an investment that pays a 20 percent return!

The idea is to pay more than the minimum monthly payment. Usually, the minimum payment goes mainly to interest costs and barely makes a dent in the principal you owe. Keep in mind that the credit card's minimum payment schedule is practically designed to extract the most from your wallet as possible.

Not only are you earning a supercharged return when you accelerate your payments on this debt, but this return is truly risk free. It works whether the stock market goes up or down. It works regardless of what happens in the real estate market.

Of course, paying off a credit card debt is not an "investment" in the traditional sense. However, in a deeper sense – it is. A good investment involves setting aside money now so that you can enjoy a higher standard of living in the future. The same idea applies to the expensive credit card situation: by paying more than the minimum monthly payment now, you can reduce the total future payments you'll have to make – leaving you more money for other things.

If you don't have high interest rate debt, that's even better. However, there is a lesson in all of this for you, too. It demonstrates the importance of building and maintaining a significant "emergency reserve" of cash. This is savings you can always get at, without cost or penalty, and without risk of loss. If you don't have such a reserve, you put yourself at risk of having to borrow at high interest rates should some sort of emergency or other sudden need for cash arise. If that happens, some credit card company will be making "supercharged returns" at your expense. Don't let that happen.



Steve Waas  
Financial Counselor

*HMEPS provides free financial counseling at the HMEPS office. Call 713-595-0100 to make an appointment. You can also email Steve Waas at [swaas@hmeeps.org](mailto:swaas@hmeeps.org) to set up an appointment.*

## Foreclosure Rescue Scams

The Federal Trade Commission is warning consumers who are having trouble making their mortgage payments to be careful in dealing with "foreclosure rescue" firms. These firms often make wild promises regarding their ability to protect you from foreclosure. They are often nothing more than scams.

These scams can take many forms. A firm may ask you to pay a fee up front, and then tell you not to talk with the lender "We will take care of all the details," they say. "No need for a lawyer or credit counselor." Warning, these are definite red flags.

Or, a firm may tell you to make the mortgage payments directly to them, while they "negotiate" with the mortgage company. Again, another red flag!

In another twist, you may be encouraged to surrender the title to the house, with the promise that you can stay in the home as a renter and buy the house back later on better terms. There are countless ways unscrupulous people will try to separate you from your money.

If you're in trouble with your mortgage, try to get good information. Don't be pressured into signing up for programs that seem too good to be true. Start with the Federal Trade Commission's publication "Mortgage Payments Sending You Reeling? Here's What to Do." You can find it at [www.ftc.gov](http://www.ftc.gov).

While some people are carrying too much debt on their credit cards, others are trying to avoid using their credit cards and accumulating debt. For the most part, this is terrific. But in recent months there has been a sharp increase in fraud involving debit cards. It appears that a number of different techniques are being used by criminals. I hope more information will be forthcoming from authorities regarding how we can protect ourselves, but in the meantime this is what is important to know.

### ***Basic Facts***

Debit cards are generally covered under a different set of federal regulations than credit cards. The protection for consumers regarding debit cards is less friendly than that of credit cards. The most important point seems to be that you must be quicker to report errors and unauthorized transactions with debit cards.

Even if you successfully dispute a fraudulent withdrawal from your account, keep in mind that the money is still gone from your account while you make your case.

Criminals can use various machines to steal information from your debit card.

### ***What You Can Do***

If you use a debit card, it is critical that you monitor your account frequently. Once a month is not enough, especially if you engage in any of the risky activities listed below. Report unauthorized activity immediately.

- Avoid isolated ATM machines or other machines that are not continuously monitored by some form of security. Criminals have been known to install small pieces of equipment on such machines that can steal your personal information.
- When you swipe your debit card, you are sometimes given the choice “credit or debit.” Consider choosing “credit” – not “debit.” Your card will generally work the same way, however you will be asked for a signature instead of a PIN. This obviously limits the chances of your PIN being stolen, and also means that the transaction will probably be subject to the friendlier set of regulations covering credit cards.
- Avoid using your debit card in places where you can't see what the merchant is doing with the card. The truth is, we probably don't know all the ways criminals are stealing debit card information. Therefore, the most important thing for you to do is constantly monitor your account so that you are immediately aware of any fraudulent activity.

