



Money Matters

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quick tips for your financial future

What's the best way to tackle your debt?

Our last few issues have focused on saving and learning to live with a budget. But there are some other scary facts to consider: according to the Federal Reserve, the median U.S. household income is currently \$43,200 and the typical family's credit card balance is now almost 5% of their annual income. But 8.3% of households owe \$9,000 or more on their cards. To put that in perspective, an \$8,000 debt at a rate of 18% interest will take more than 25 years to repay and cost more than \$24,000, according to MSN Money.

There's no easy or fast answer if your debt is spiraling out of control—and you're not alone. About 43% of U.S. families spend more than they earn, according to a Federal Reserve Study. Changing just one habit won't be the answer, either. Starting with a budget and a debt repayment plan will help. There are two basic tactics to choose between when it comes to deciding which debts to pay first:

Plan one: Pay off high interest debt first

Take a look at the interest rates on your debt and rank them from highest to lowest. Attack your highest interest debt first. The highest interest rate may be on your largest or smallest debt...but the bottom line is that you are paying the most to owe that money. Make minimum payments on your other debt, and put any extra money toward your highest interest debt. When that debt is paid off, apply the same strategy to the next highest interest debt on your list.

Plan two: Eliminate your smallest debts first

Another option is to pay off your smallest bills first, regardless of interest rates. You're still taking a big hit on that high-interest debt, but sometimes knocking out the smallest debts can provide a sense of moving forward and can let you more easily focus on eliminating your higher interest debt. Focus on making minimum payments on your other debt, and put any extra money toward paying off this bill.

Snowball your debt payments

Regardless of which bills you pay off first, once you've paid off one debt, don't just sit back and revel in your extra cash. Take the minimum payment *and* the extra payment you were making on the first debt and add them to the minimum payment you've been paying on the second debt. Pay that amount on the second debt each month until it's paid off, then move on to the third debt. Continue to pay only the minimum payment on all debts except the one you're "snowballing." Repeat this process until all of your debts are paid off.



U.S. debt is spiraling out of control. Total U.S. consumer revolving debt reached \$904 billion in June 2007, up from \$879 billion at the end of 2006. How can you control yours?

IN THIS ISSUE

Do you live with the burden of too much debt? Learn how to dig yourself out.

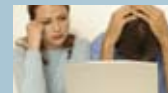
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Seven signs of too much debt

How much debt is too much debt?

It's nearly impossible to live in today's world without some kind of debt—not just credit cards, but a car loan, student loans, or a mortgage. But how do you know when you have too much debt?



Debt-to-income ratios

Most banks and financial professionals agree that you should keep your debt-to-income ratio at less than 36% of your gross income. This means that your total debt payments each month should be no more than 36% of your gross income.

If you want to get a snapshot of where you should be, there's a simple way to figure it out: take your monthly gross income (in this case we're using \$3,000 a month) and multiply it by 36%: $\$3000 \times .36 = \$1,080$.

In this example, your debt payments shouldn't exceed \$1,080 per month. These debt payments should include those for housing and other loans but not your living expenses like utilities and groceries.

What's your ratio?

The next step is to figure out where your personal debt-to-income ratio lies.

- Review your credit card statements. Add up what you usually pay each month, not necessarily just the minimum payment.
- Now add in your rent or mortgage, your car payments, and any other loan payments you are making.
- Divide that total by your monthly gross income. You'll be left with your debt-to-income ratio.

More detailed debt-to-income calculators are available on many financial planning web sites, or your financial planner may be able to help you with a calculation.



National Save for Retirement Week

National Save for Retirement Week is October 19-25

This week is an opportunity for you to reflect on your personal financial situation and really think about whether you'll meet your financial goals when you're ready to retire. It was created in 2006 by a congressional resolution to raise awareness of the importance of saving for an independent retirement.

How much will you need to retire?

According to the National Institute on Retirement Security, your income in retirement

(Social Security, pension and personal savings) should replace approximately 80% of your pre-retirement income. Is your retirement plan on track to meet that goal? Now is the time to set your long-term goals while you still have time to save.

Find out more

Want to read more about what you can do to ensure a secure retirement for yourself? Visit *IMRF Online* at www.imrf.org for articles and savings tips, or visit the official National Save for Retirement Week website at www.retirementweek.org.



Planning for Your Future workshops

Find out more about your IMRF benefits

You may not be close to retirement age, but it's never too soon to start thinking about retirement. Need something to help get you started? IMRF offers *Planning for Your Future* workshops throughout the state. While the workshops are recommended

How can you find out more?

Visit www.imrf.org and click the "Member Workshops" link for a detailed registration information. Or, you can call Donna Cesario, IMRF's

IMRF Q&A:

Can you borrow against your future?

Q: I'm having some significant financial problems, and high gas and food prices aren't helping. Is it possible to borrow from my IMRF account, or take a refund (or partial refund) while I'm still working for my IMRF employer? I could really use the money—it seems like I just can't afford to save for a future retirement when I'm having trouble making ends meet today.

A: While we can understand that it is tempting to borrow against your future retirement to ease financial worries today, **you cannot borrow from your IMRF member contributions**, nor can you use them as collateral for a loan. This is a provision in the Illinois Pension Code, which governs IMRF. There is no "hardship provision" available to IMRF members.

You also cannot take a refund (full or partial) of your IMRF contributions while you are working for an IMRF employer (even if you move to a position that does not qualify for IMRF participation). In addition, you cannot opt out of IMRF participation if you work in a position that qualifies for IMRF.

However, this same statute offers you protection against creditors as long as your contributions remain on deposit with IMRF. They cannot be garnished or seized.

Because IMRF is governed by state statute, any changes to the plan must be made through a bill passed by the General Assembly and signed into law by the governor. We are unable to make any exceptions.

Keep in mind that your contributions to IMRF are also providing you with a secure lifetime benefit in your future (once you are vested—that is, you have eight years of service credit) without you having to think about it. That's a pretty comforting future to look forward to.

Don't think you'll stay at IMRF long enough to earn a benefit? Neither did many of our approximately 87,000 members currently drawing a lifetime benefit. Don't sell it short!



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Ways to know you have too much debt

Not sure if you have too much debt? If these sound like you, it's time to get serious about controlling your debt.



- 1 You make minimum payments on your credit cards each month (or worse, can only afford the minimum).
- 2 You continue to charge more on your credit cards even as you try to pay them off.
- 3 You don't know how much debt you actually have. And maybe you're scared to find out.
- 4 You use cash advances from your credit cards to pay other bills, or charge daily expenses like groceries.
- 5 You bounce checks or overdraw your bank accounts, or rely heavily on your overdraft protection.
- 6 You have at least one credit card that is near, at, or over the credit limit.
- 7 You have been denied credit.

for someone within five years of retirement, there's plenty of information for anyone who wants to start thinking seriously about retirement planning. You can also ask your employer to host an IMRF benefits meeting—your employer can set one up by contacting its IMRF Field Representative.



Debt have you bogged down?

It's difficult to plan for your financial future when you're stuck in a cycle of debt. Learn how to find out if you have too much debt, and read about a few ways you can start down the road to debt repayment.

National Save for Retirement Week

National Save for Retirement Week is October 19-25. Read more inside about how to find tools to make sure your retirement plan is on track.

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