University of Nebraska Lincoln

Nebraska Cooperative Extension HE Form 541
Participant Manual

Credit Cards: Friend or Foe?

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Once known for their thrift, older Americans are piling on debt, even to the point of filing for bankruptcy in record numbers and jeopardizing retirement dreams. Many live on little more than Social Security. A sluggish stock market and painfully low interest rates pinch returns on their CDs, bank accounts and stock investments. Tapped out, many in this new generation of seniors turn to credit cards to finance medical bills, expensive prescription drugs and comfortable lifestyles.

A lost or stolen credit card or, even worse, having one's identity stolen can also lead to financial woes. Thieves can amass a large debt in your name, ruining your credit rating and leaving you a huge debt to pay and years of legal work to recreate your financial identity and standing. The emotional strain caused by these challenges can be overwhelming as well.

Older Americans often compound their debt problems. Many are embarrassed or too proud to seek help when financial problems arise. It's a matter of pride, privacy, confusion or they are unaware of programs and services that are available to help them.

"Credit Cards: Friend or Foe?" is designed to help participants develop techniques to: limit credit card debt, limit fees paid to credit card companies and protect their identity.

Emily Lee, 54, says she and husband Gerald, 57, ran up about $63,000 in credit card bills. Now they are seeking help from a credit counseling agency. "We'll get by, but we'll both have to work until we are dried-up raisins."

That isn't the way most people would like to envision their golden years, but bankruptcy experts say that debt problems are only likely to become worse as the population ages. Unlike their parents, Americans retiring now are comfortable with credit cards and debt. They are more likely to use plastic to make up for declining income from savings and investments.

As a result, household debt for those 65 and older is skyrocketing—up 164 percent on average in eight years, to $20,302 in 2000, reports SRI Consulting Business Intelligence. That compares with a 92 percent increase for those younger than 65.

Most older Americans with debt problems are not spendthrifts, though. Medical emergencies, major home repair or loans to children and grandchildren often are what push them over the edge.

"Older people tend to live within their income until some crisis happens." Because many seniors own a home and have good credit records, they have a higher capacity for debt than younger people. That means that debt can quickly mushroom.

Tips for Selecting and Using Credit Cards

- Shop for a credit card just as you would shop for any major purchase, comparing all of the offers. Signing up for a credit card while in a checkout line in order to receive the benefits

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being offered can be costly. Make sure you read the entire application and understand all the details in the contract or application. Check to see if there is an annual fee charged—now or in the future.

- Carefully study offers made by the credit card company so that you understand the Annual Percentage Rate (APR) being charged. Does the introductory APR offer apply to all purchases or just balance transfers? How long are the low-rate offers in effect? What is the APR after introductory rate expires?

- Read carefully to determine what constitutes a late payment and the penalties charged. Be advised that most credit card payments are not considered paid until the company receives and credits the payment to your account. It is recommended that you mail at least the minimum payment to the company seven to 10 days before it is due. If paying electronically, the recommendation is to make the transfer at least two to three days before the due date to ensure your account is credited and no late fees are incurred.

- Review the details related to cash advances offered by the prospective credit card company. Many companies charge a percent of the cash advanced with a minimum charge (that is printed in fine print). Also, many companies charge interest on cash advances from the time of the transaction to when payment is credited to your account.

Tips for Seniors in Debt

Recent studies show that older Americans have a heavier debt load than in the past. This is mainly due to the rise in health care costs, the decline of pensions and an overall drop in retirement income. Also, retirees are spending money helping out their children, many times to their own detriment. Sometimes they take equity out of their homes, leaving them responsible for a mortgage when they otherwise would own their home free and clear. Finally, many senior citizens find themselves victim to a fraud, scam or identity theft.

- Don't be afraid to seek guidance. Talk to your banker or financial adviser. Talk to your children as well. Put aside any needless guilt or shame — they will want to help you. Also consider using a certified credit counselor for objective advice.

- Become financially savvy. If a spouse previously took care of finances, it does not relieve you of being responsible now. Knowledge is power.

- Make a monthly budget and determine if you can meet your monthly obligations.

- Prioritize your monthly bills — secured debt comes first. When income is limited, always pay your mortgage first, your car second, and don't let your health insurance lapse. Necessities are priority. Unsecured debts such as credit cards can be negotiated.

- Know who your creditors are. The more that you know about whom you owe, the less likely you will become the victim of a scam.

- Don't let collectors push you into a bad decision. If you do not handle collectors well, screen calls with your answering machine. Learn your rights under the Fair Credit Collection Practices Act (http://www.ftc.gov).

- Consider getting a part time job, or a second job if you are still employed. If you haven't retired, consider pushing back your retirement a few years until you get caught up with bills.

- Cut expenses to a minimum. Don't just eliminate the extras—be a smart consumer. Since medications can be expensive, consider generics and buying them online to reduce costs.

- Move to smaller housing, such as a smaller home, an apartment or a low-income housing unit or refinance your mortgage at a lower rate. Ideally, retire without a mortgage.

- Do not open additional credit lines or use "convenience checks" to pay off debts. This simply shifts your obligations from one creditor to another.

- Do not cash out home equity lightly — if expenses are already tight, this could put your home at risk. A different option is a reverse mortgage, which could provide substantial income and ensure you keep a place to live. One drawback is you will not be passing on the property to heirs — the bank may get it instead (depends on home's selling price).

- Consider tapping your life insurance. It may be necessary to cash out value now rather than saving for beneficiaries later.

- A last option includes bankruptcy and not paying your bills. When you die, if you have assets, your creditors will be paid from your estate. If you have no other assets, unsecured debts will not be passed on to your children, unless they are co-signed or co-owners on the debts. If you jointly own assets with someone else, that asset may be taken to repay any debts.

Tips for Protecting Identity

Try to maintain the greatest possible level of security over your private information.

- Do not give out identifying numbers or financial information on the phone unless you initiate the call and know the person or organization being called. Never underestimate the persuasive skills of crooks; they can fool the smartest consumers.

- Store in a secured place copies of all identity, including fronts and backs of credit cards carried in your wallet. This way you will be able to report lost or stolen items. Make sure to report missing items immediately.

- Report all missing credit cards and/or identification as soon as you realize you do not have them. Make reports to a) credit card company, b) three major credit bureaus, and c) local law enforcement. For more information see NebFact NF04-538, *Protect Your Credit and Identity*.

- Shred or tear into small pieces all mailed credit applications or other solicitations, bank records or any other discarded documents that may provide information that can be used to identify you.

- Know the due dates for your bills and statements. If a regular bill or statement fails to reach you within a week of the usual time, contact the company to find out why. Thieves often divert mail to themselves to avoid alerting victims.

- To limit the number of pre-approved credit card offers, call 1-888-OPTOUT (1-888-567-8688). The three major credit bureaus use the same number.

- To take your name off direct mail, telephone solicitations and e-mail lists, write:

  Direct Mail Preference Service
  P.O. Box 9008
  Farmingdale, NY 11735-9008
  Include your name and address, and state that you do not wish to receive mail solicitations.

  Direct Telephone Preference Service
  P.O. Box 9014
  Farmingdale, NY 11735-9014
  Include your name, address and telephone number, and state that you do not wish to receive telephone solicitations.

  To remove your name from e-mail lists visit http://www.e-mps.org.

These actions will not stop all solicitations but should help. Contacts made before July of each year are the most effective because holiday advertising is being prepared by then, but requests made at anytime should cut down on your mail.

- Periodically request a copy of your credit report. The report will let you know who has asked for information about you recently, which can give you an early warning of trouble. To request a copy of your credit report for a very small charge (no charge if you have recently been denied credit), call:

  Equifax: 1-800-686-1111;
  Trans-Union: 1-800-061-8800 or
  Experian: 1-888-EXPERIAN (1-888-397-3742).

- Do not put your Social Security number on your driver's license or print it on your checks, and do not carry your Social Security card in your wallet, as it makes it easier for people to steal your identity.

- Store new and cancelled checks in a safe place, report lost/stolen checks to your bank immediately, and carefully review every statement.

Guard Against the Gambling Trap

Older citizens are targeted by the gaming industry without even knowing it. As a population, seniors have two things that make them particularly attractive to casinos, keno parlors, and bingo halls:

1. Time on their hands.
2. Accumulated wealth.

Casinos recruit seniors by offering a "safe" environment for social activity, low-cost quality food, entertainment, and in some cases, transportation.

To protect yourself from the risk of becoming a compulsive gambler, set personal guidelines that will help you keep gambling activity truly a form of entertainment. Here are some things to consider:

- No one should feel pressured to gamble. Many people gamble socially, with friends, as a complement to other activities.

- Set limits to play, both time and amount of money you are willing to lose. Be aware that you will lose more often than you will win. Money spent on gambling should be considered a cost of entertainment. Money to provide for basic needs such as food, clothing, medications and shelter should not be used for gambling, nor should you rely on gambling to cover the costs of basic needs.

- Borrowing money from any source, including credit card cash advances, pawning personal belongings or writing bad checks with the intention of repaying with gambling winnings is risky behavior.

- You should not gamble when feeling lonely, depressed, angry, or when you are under a great deal of stress. Bright lights, crowds of people, and the constant exciting sounds in a casino can have a hypnotic quality about them. They fill an empty spot in the lives of some seniors.

- Drinking alcohol or using drugs while gambling is risky because a person's judgment can interfere with his or her ability to control gambling or stick to the limits set beforehand.

- Gambling losses can accumulate very quickly. Savings or retirement accounts can be drained in short amounts of time. Credit card limits can be reached sooner than you think, with repayment periods lasting years and years.

Conclusion

Who would ever guess that our country's senior citizens are slowly drowning in debt? The "greatest generation" is know for its thrift, but 53.8 percent of senior households carry some debt. And half of those households are over $20,000 in debt. Practice what you have learned today on managing your financial affairs, credit cards and protecting your identity. Do not become one of the statistics.

Resources

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"Credit Prevention - Some Steps You Can Take," Legal Counsel for the Elderly, (http://www.uaelderlaw.org/id/C.html).

Schroeder, Debra and Rebecca Versch, "Protect Your Credit and Identity," NebFacts, University of Nebraska Cooperative Extension, NF02-538.

"Tips for Seniors in Debt," Consumer Credit Counseling Service, (http://www.cccsatl.org/index.asp?_method=view&sc+125&cn+1734).