



*B. Franklin*

# The Franklin Prosperity Report

‘A PENNY SAVED IS A PENNY EARNED’

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## Travel the World For Less! How to Gain the Most Perks and Benefits From Your Frequent-Flier Miles

What’s a frequent-flier mile worth?

The answer to that question has real-world implications for anyone who travels, and in particular for the estimated 100 million Americans who participate in travel rewards programs. Knowing what a mile is worth, and acting accordingly, can make the difference of thousands – perhaps tens of thousands – of dollars over the course of a lifetime.

Admittedly, a large part of the vaunted power of travel loyalty schemes is psychological in nature. To use a term much in vogue with airline marketers, travel is “aspirational.” As a reward, its perceived value far exceeds its monetary value, leading consumers to behave in ways that can be economically irrational in the pursuit of miles.

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**FRANKLIN'S HINT:**

► Savvy travelers know they can get superior value from their frequent-flier miles by redeeming them for more expensive flights and upgrades, such as a first-class ticket to Europe or international flight upgrades.

**FRANKLIN'S HINT:**

► Airline-mile credit cards are often trumped in benefits by other cash-oriented rebate cards. For instance, among the best values in the rebate-card arena is American Express' Fidelity Investment Rewards card. Cardholders get a 2 percent rebate on all purchases charged to the card, which can be deposited automatically into a Fidelity checking or brokerage account.



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Instead, you can be a smart consumer by focusing on the real-world worth of frequent-flier miles – and hence, on the programs themselves – to distinguish between the true and illusory value, thereby making better buying decisions. Here are the insider answers to the eight most common frequent-flier questions.

**1) How Do I Calculate the Value of a Mile?**

The value of a frequent-flier mile depends on the price of an equivalent paid ticket, adjusted in the case of restricted awards to reflect the hassle factor of redeeming for capacity-controlled seats.

In fact, the great majority of miles are redeemed for restricted domestic-coach awards, at 25,000 miles. Because the average price of a domestic-coach ticket now is about \$350, the average per-mile value derived from those awards would be 1.4 cents. To adjust for the hassle factor, knock off a couple tenths, bringing the average value to about 1.2 cents.

That's a broad average. Separately, there is the value of the miles that you redeem, which will depend on the market price of the tickets you would have purchased if you hadn't used miles to book them.

Redeeming for a first-class ticket to Europe can generate a per-mile value of 10 cents or more, and using miles for international upgrades can generate even higher values.

At the other end of the spectrum, redeeming 25,000 miles for a \$100 coach ticket yields just four-tenths of a cent in value.

**2) The Hassle Factor: What's Your Return on Investment?**

With a rule-of-thumb value of frequent-flier miles in mind, one of the first questions a current or prospective frequent-flier program member should ask

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is whether participating in the program is truly worth the time, energy, and expense required. In other words, is the return worth the investment?

That question is particularly relevant in the area of credit cards. Using a credit card affiliated with most airline loyalty programs awards one mile for every dollar charged to the card – except in the case of purchasing airline tickets, in which the mileage payout is greater.

So because the average mile is worth 1.2 cents, you're effectively getting a 1.2-percent rebate for charges to the airline-linked credit card.

As a point of comparison, all the major credit-card issuers – American Express, Bank of America, Capital One, Chase, Citi, Discover – have cards that offer cash rebates of up to 5 percent for selected categories of service or merchandise and 1 percent for everything else. Unlike the airline cards, the rebate cards typically have no annual fees. And the rebate cards' annual percentage rates generally are lower than the airline cards' annual percentage rates.

Another issue is the type of rebate. Although miles often are referred to as a loyalty currency, what they can be redeemed for is limited. Cash, on the other hand, can be used to buy anything, including airline tickets that aren't encumbered by capacity restrictions or blackout dates.

It still might make sense to use an airline card if you're on the frequent-flier end of the spectrum and earn the bulk of your miles from flying, staying in hotels, and renting cars. Then the credit-card miles are a handy adjunct to the other earning activities.

But if you're among the growing ranks of those who earn most of their frequent-flier miles exclusively from using a credit card, the cash-back cards offer value and convenience that rival the airlines and may trump them.

### **3) Is Buying Additional Miles From the Airlines a Good Deal?**

The economics underlying the airlines' loyalty programs generally are so confounding that only industry analysts and forensic accountants can understand them. Suffice it to say that, for the airlines themselves, selling frequent-flier miles to their program partners – the credit-card companies, hotel chains, and retailers that award miles as sales incentives – is a large and very profitable side business. The largest airlines generate more than \$1 billion each from the sale of miles.

In recent years, all airlines have extended that business to consumers, selling miles directly to the public on their websites. The miles typically are priced at about 3 cents apiece,

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and there's a limit to the number of miles that may be purchased annually.

You might, of course, be able to redeem miles for more expensive flights, thereby recouping that 3-cent purchase price. But if you're not confident in your ability to get at least twice the average value of a frequent-flier mile in rewards, your best bet is to limit your purchases to a few thousand miles needed to reach an award threshold. Better: Don't buy them at all, ever.

#### **4) Should You Use Miles or Cash to Buy Tickets?**

Need a ticket? If the answer is yes and you have the option of buying one with cash or frequent-flier miles, the follow-on question is: Which is the financially optimal course?

The key is the ticket's price. If it's a ticket for a flight between Los Angeles and Phoenix, available for sale for \$175 or for 25,000 frequent-flier miles, the mileage option would yield a per-mile value of just seven-tenths of a cent. That's significantly less than our 1.2-cent average, suggesting that buying the ticket and saving the miles for a future trip would serve you best.

For instance, that future trip might be a business-class flight to Europe that may cost more than \$6,000. If you redeemed 100,000 miles for that flight, you'd be getting 6 cents a mile, almost 10 times the value of miles used for the cheap Phoenix flight.

#### **5) Should I Buy a Ticket Based on Earning Miles or Just Take the Cheapest Ticket?**

Related to the miles-or-cash dilemma is the question of which ticket to buy. Should you buy the cheapest ticket or spend more to fly on the airline that awards your favorite flavor of frequent-flier miles?

Knowing the value of the miles makes the decision fairly straightforward. For example, consider a round-trip flight between San Francisco and New York, available for \$450 from United and \$350 from JetBlue. The round-trip mileage is about 5,000, but you're invested only in United's loyalty program, not JetBlue's. So the question becomes: Is it worth spending an extra \$100 to earn the 5,000 United miles, or is it more prudent to save the money and fly JetBlue, even though you'll likely never earn enough points in JetBlue's loyalty program to qualify for an award?

If you fly United, you're effectively buying the frequent-flier miles for 9 cents each. That's a substantial premium over the average value of 1.2 cents a mile – unless, again, you have a strategy in mind for getting better-than-average value from your miles when you redeem them.

#### **6) Are Alternate Non-Flight Awards a Good Value?**

The combination of capacity cuts and a rebound in travel demand has left the airlines with a problem that many companies would be happy to have: Flights are running more than 80 percent full year-round.

That's good news for the airlines' bottom lines but bad news for frequent fliers hoping to redeem their miles for a free flight. To minimize the cost of displacing a paying passenger with someone flying for free, the airlines use sophisticated software calibrated to limit the seats allocated for award use to those that would have been empty anyway. But with flights so full, fewer unsold seats are available for award travelers.

The airlines' solution: Create non-flight awards. The three largest U.S. airlines – United, Delta, American – now include hotel-room nights and car rentals in their award catalogs, giving their program members welcome alternatives to the increasingly scarce free flights.

As with miles used for award tickets, the value of miles used for hotels or rental cars depends on the price you would have paid if you'd purchased the service at market rates. Depending on the airline, the hotel, and the time of year, miles redeemed for hotel nights range in value from three-fourths of a cent to almost 2 cents.

Although airlines won't disclose the specifics, it's clear that they have negotiated different rates with their respective hotel and car-rental partners that result in higher and lower per-mile values for program members. In other words, don't assume that all hotel and car awards represent equally good use of your miles.

## 7) Is Elite Status Worth Pursuing?

We've been focusing on the dollar value of miles redeemed for flights and other awards. But for those who fly frequently, frequent-flier miles derive additional value from a separate source that's harder to quantify in financial terms.

Once travelers reach certain mileage thresholds, they earn elite status and the perks associated with it.

The industry standard among major programs is that entry-level elite status is awarded after a program member earns 25,000 elite-qualifying miles during a calendar year. Not all miles are elite-qualifying miles – typically, only flight miles count toward status.

### **FRANKLIN'S HINT:**

► Although the high prices of business- and first-class tickets make for compelling mileage-value calculations, the financial value may not reflect real value. For example, is a business-class trip truly worth 10 times more than the same flight in coach? There's no right answer, but don't forget to ask the question.

### **FRANKLIN'S HINT:**

► According to my random test bookings, miles redeemed for hotel stays are worth the most in American's program and the least in Delta's. Even then, each airline offers ranges of prices, so you'll want to do a quick calculation before pressing the "Book with miles" key.

The principal benefit of elite status is upgrades. And the more often you travel and the longer the flights, the more welcome is the extra comfort that comes with a cushier seat in a more spacious cabin.

How much is an upgrade worth? It would be a simple matter to compare the price of a purchased coach ticket with the price of a premium-class ticket and conclude that the value of the elite upgrade was the difference between the latter and the former. But that would assume that the more expensive ticket was actually worth its published price. It's probably not, which explains why so few first-class fliers actually pay for their tickets.

**FRANKLIN'S HINT:**

► If you travel enough to earn elite status, any miles that count toward elite perks are more valuable than miles that qualify only for awards. How much more valuable depends on the value you place on the extra comfort of flying in first class.

Nevertheless, there's no denying that upgrades have value. And to the extent that your miles get you closer to elite status and the associated upgrades, those miles have additional value not reflected in the initial computation.

**8) How Do I Compare Competing Airline Promotions Accurately?**

The airline business is intensely competitive, with no carrier willing to cede a single point of market share to a rival. That pervasive warrior spirit means that one airline's price cut or frequent-flier promotion rarely goes unmatched by other carriers flying the same routes, which in turn means that consumers often find themselves in the position of comparing offers that are similar, if not identical.

**FRANKLIN'S HINT:**

► Don't assume that all frequent-flier programs are created equal. Some are significantly more generous than others, which means their miles have proportionately greater value.

It's easy enough to choose the airline that's offering 20,000 bonus miles over the one offering just 10,000 miles, assuming that everything else is equal. But what about the case in which both airlines are awarding 20,000 miles, for the same flight, at the same price?

At this point, you have to acknowledge that the hassle factor used for the initial average-mile computation is itself something of an average. In fact, some airlines make more seats available for award travelers, while other airlines are stingier with their award seats. And if two carriers offer the same number of miles as incentives, you naturally will choose the airline with miles that are easier to redeem for free flights.

So which are the more and less generous airlines? Unfortunately, there is no independent body that evaluates and compares the various airlines' propensity

for hoarding or releasing award seats, so consumers are mostly at the mercy of anecdotal evidence from friends, relatives, and acquaintances about the ease or impossibility of cashing in miles on this or that airline.

There is, however, at least one reality check on the anecdotes. In 2010, an industry consulting company called IdeaWorks test-booked award flights on the nine largest North American airlines and reported its success rate as follows: 1. Southwest (99.3 percent); 2. Air Canada (93.6 percent); 3. Alaska (75.0 percent); 4. Continental (71.4 percent); 5. United Airlines (68.6 percent); 6. AirTran (67.9 percent); 7. American Airlines (57.9 percent); 8. Delta (12.9 percent); 9. US Airways (10.7 percent).

Although there's not enough supporting evidence to conclude that the above data is definitive, it highlights the wide range of results consumers might expect when redeeming their miles.

## 'Til Expiration Do You Part

Miles expire. That's just a sad fact of frequent-flier program life. But they don't all expire at the same rate. And some miles' expiration is terminal, while other miles' lives can be extended indefinitely.

Among the legacy airlines (American, Delta, United, and so on), miles expire after 18 months or two years of account inactivity. So earning or redeeming a single mile is enough to keep your miles alive for the foreseeable future.

On the other hand, miles earned in Spirit's program expire if a member doesn't earn at least 2,000 miles within six months, or make at least one monthly charge on the Spirit MasterCard.

And until the program was overhauled beginning March 1, 2011, credits in the program of Southwest expired after 24 months. And when they disappeared, that was it — use 'em or lose 'em, because when they were gone, they were gone forever.

The simple rule is that miles that expire before you can redeem them for a free trip are worthless, no matter what a calculation of their "potential" or "average" value might show. Miles that are less likely to expire are more valuable than miles that are more likely to expire. Can you realistically expect to fly 2,000 miles every six months on Spirit? If not, participating in that airline's Free Spirit program can only be an exercise in futility and frustration. The antidote: a program with a less draconian expiration policy.

With all of this frequent-flier knowledge, you now have a distinct advantage over the airline marketing departments when you book your flights and claim your rewards. Frequent-flier miles do have value, but knowing just how much will help you avoid irrational economic decisions. We wish you safe travels! □



## Learn to Profit From the ‘Secret Codes’ Hidden in Company Communications

Public companies issue a steady stream of financial reports, shareholder letters, earnings releases, conference-call transcripts, press releases, and other communications that most investors ignore or remain unaware of.

But those communications are filled with subtle messages and clues that can help you decide to dump overvalued stocks – or discover undervalued gems, says Eric Heyman, research director at Olstein Funds.

In evaluating stocks for his firm’s mutual funds, Heyman scrutinizes company communications that others disregard, reading between the lines and looking for trigger words that can signal problems or opportunities others won’t recognize.

“We read shareholder letters for ‘heat,’ looking for words that in our experience may signal a noteworthy change likely to affect company cash flow and future value,” Heyman says.

Here’s his advice.

In shareholder letters and discussions:

- Look at what management chooses to emphasize (successes, challenges, missteps) as well as what it downplays or doesn’t mention at all. “When there are no references to problems or issues that management believes are important, we become concerned they may be stonewalling or have an unrealistic view of the business,” Heyman says.
- Pay special attention to how management frames its financial results and discusses progress toward goals it has already stated. Ask yourself this question: Does management define specific benchmarks for judging its success, and are those benchmarks rooted suitably in the company’s financial performance?
- Look for frank discussion of how the company is using its capital and its return on invested capital, and especially how the company believes it stacks up against the competition. To Heyman, a truly informative shareholder letter not only discusses company operating results but also covers factors that have helped or hindered free cash flow, along with information on how the company plans to use its cash.

Here’s what to look for in financial statements:

- Be skeptical if the company reports strong earnings growth but is not paying much more in taxes. This may indicate poor earnings quality. “The

smaller the difference between free cash flow and reported earnings, the higher the quality of the earnings," Heyman says.

- Be wary if inventories or receivables are increasing faster than sales. This could be an early warning of a future slowdown.

## The Smarter Way to Tackle Tax Time

When you're a kid, scavenger hunts are a thrill. If you're an adult, however, and the game is getting ready for your tax preparer, the hunt becomes a lot less fun and a lot more frantic.

Rifling through drawers, file cabinets, pants pockets, recycling bins, and anywhere else you might find those all-important receipts, credit-card statements, W-2s, 1099s, investment quarterly reports, property-tax bills, and all the other various paperwork you need to square your obligations to Uncle Sam all adds up to one thing: major stress.

No, you can't salvage the return you will file this year, but you can at least promise yourself that April 2012 will be better. How? With this simple file-as-you-go advice.

**First, buy an accordion file with at least 12 pockets.** You may want to choose plastic over cardboard because it'll be more durable over the course of a year, and make sure it has a flap that allows you to close it securely. One option is a Poly Color Expanding File from Staples, which has 13 pockets and retails for around \$10.

**Next, using the blank sticker tags that are usually included with the files, create the following headers:** Income, Business Expenses, Medical Expenses, Charitable Donations, Taxes, Investments, Education, and Miscellaneous – and put a sticker on each pocket.

**Now, place the file in a spot where you'll always have easy access to it.** Throughout the year, place all of your key tax-related paperwork into its respective labeled pocket as soon as it passes through your hands, instead of tossing it in various piles or file cabinets (or the trash) to be dealt with "later."

That means receipts for equipment and work travel, bills for medical and education expenses, acknowledgments for charitable donations, confirmation statements from your stocks and mutual funds, and basically every other important piece of paper you don't want to dig for in frustration next spring will be organized and accessible.

This new habit may take a few months before it becomes automatic, but once ingrained, you will find it's an incredibly easy way to tackle your taxes. And it may lead to a few extra deductions, too, that would have otherwise been lost in the shuffle. For a mere \$10 or so, it's a wise investment in your peace of mind.

## Choose Better Dividend Stocks With This Underutilized Investing Metric

If you're a buy-and-hold investor focused on dividend-income-producing investments, you likely look at current yield as a key metric in stock selection. But there's another easy-to-calculate figure that means more to the long-term growth of your portfolio: yield on cost.

Yield on cost is a measure of your current return on a security compared with what you initially paid for it. You multiply the most recent annual dividend by the number of shares you own, divided by what you paid for the shares (i.e., the cost basis). When a company increases its dividend, your "yield on cost" rises.

"Most people are familiar with current yield – dividing the annual dividend by the current stock price," says Charles Farrell, J.D., L.L.M., a principal with Northstar Investment Advisors in Denver and author of *Your Money Ratios: 8 Simple Tools for Financial Security* (Avery, 2009). "But yield on cost is something you'd want to calculate over time."

Farrell provides a simplified example. "Let's say you had a stock you paid \$100 a share for with a 3 percent dividend," he explains. "Your current yield would be \$3 and your initial yield on cost would be 3 percent. Now, let's say that dividend grew 5 percent a year for 10 years. It would then be kicking out roughly \$4.89 on your original \$100 investment – your yield on cost would be 4.89 percent."

Over that time, the stock price may have risen to \$150, Farrell admits, so the current yield may be a lot lower, but that doesn't matter if you got in at \$100. "The price movement is random; we don't know from year to year, cycle to cycle or even decade to decade whether that will be positive," he says. "But if you look at what income the stock produces for you every year as opposed to getting focused on what the price changes are, then you get a very different picture of how your investments are doing."

In addition, when looking for stocks to buy, using dividend yield calculations to research a company's historical performance can help you pinpoint a great dividend performer that may be currently out of favor. "Although their price may have been stagnating for years, many companies have continued to maintain or grow their dividend, which increases an investor's yield on cost," Farrell explains. "Because it's a measure of income, it's a very important metric when you're thinking about retirement." □



### Ben's Good Cents

"A slip of the foot you may soon recover, but a slip of the tongue you may never get over."



# Retirement

## How to Land a Job When You're 60-Plus

In your 60s, retirement may or may not be an option. Whether you want to continue to work full-time or part-time, out of necessity or as a way to stay engaged and active, the prospects for older workers finding employment can be tough. (Heck, when the national unemployment rate continues to flirt with 10 percent, finding a job is a daunting task for anyone.)

How can those 60 and older compete in a culture that is driven increasingly by evolving technologies developed by and for college students? Fortunately, experience is one of the most valuable things any candidate has to offer a potential employer. Start thinking outside the box to find ways to maximize yours with these four strategies for success:

**1. Translate your life experiences into new job fields.** You've probably raised children and maybe even cared for your own aging parents. These skills can translate into caregiving fields and customer service, according to the Eldercare Locator ([www.eldercare.gov](http://www.eldercare.gov)), a service of the U.S. Administration on Aging.

Likewise, knowing how to develop a budget could help you fit into a basic accounting or office-management position. Weatherproofing your home might give you an edge in jobs conducting energy audits or other "green" services. Your hobbies and interests can lead to paying jobs – you don't have to stay in the same line of work you already know. The key to getting a job isn't how you view the market; it's how the market views you. Passion will take you a long way in that arena.

**2. Brush up on your technological skills.** Taking a class at your community college to learn basic computing skills or HTML can even the playing field with younger applicants and give you an edge over your peers, according to SimplyHired.com, a national job search engine.

Reading technology blogs such as TechCrunch or Mashable can take you even further. An added bonus: You can mention this in personal interviews to demonstrate your willingness and ability to learn new skills. Job seekers with more specialized skill sets and knowledge stand a stronger chance of getting hired.

Even if your plans are to continue in your familiar career field, the skills you'll need probably have evolved since you took on your last role, according to a study titled "Buddy, Can You Spare a Job?" that the MetLife Mature Market Institute released in October 2009. Combining up-to-date technology skills with your wealth of experience is a solid strategy. Remember that, in a market flooded with applicants, hiring managers are looking for reasons to reject you. Don't give them one.

**3. Exploit the resources available to you.** Several agencies offer hands-

on help to seniors searching for jobs. Check your local Area Agency on Aging (find it by calling 800-677-1117 or visiting [www.eldercare.gov](http://www.eldercare.gov)) to see whether your town has a Senior Community Service Employment Program ([www.doleta.gov/seniors](http://www.doleta.gov/seniors)), which helps older workers learn new skills by placing them in part-time, temporary community-service jobs.

In addition, One-Stop Career Centers (877-348-0502, [www.careeronestop.org](http://www.careeronestop.org)) offer skill assessment, career counseling, job listings, and help with resumes and interviewing skills, as do many public libraries and community colleges. AARP ([www.aarp.org/work/job-hunting](http://www.aarp.org/work/job-hunting)) has free advice and resources, as well, and SimplyHired.com offers filters to help you focus on jobs that meet your specific needs and interests.

**4. Redefine the word "networking."** You already know most job leads come from people you know. Expand your list of contacts by spending time with people in their 20s and 30s. Jeff Williams, founder of Bizstarters.com, suggests finding an organization to volunteer with younger people. "It's an advantage to be able to say, 'I've been working with 20-year-olds,'" he notes in the MetLife study.

An added bonus: This age group can teach you how to use social-networking sites such as Facebook, Twitter, and LinkedIn to find jobs. Only 6 percent of active job seekers older than 55 are using online social-networking sites to do so, compared with 15 percent to 30 percent for all other age groups, according to "2010 Job Seeker Nation," a national survey that the recruiting software company Jobvite released in October. Meanwhile, 83 percent of the firms surveyed plan to use social networking to fill open positions in 2011. If hiring is going digital, you must, too.

**Many people do find re-entering the work force at later ages to be more difficult.** More than 2.1 million people 55 and older – that's a rate of 7.1 percent – were unemployed as of May 2010, according to the U.S. Bureau of Labor Statistics. AARP says they endure an average unemployment period of 35.6 weeks, compared with 28.3 weeks for those younger than 55.

The good news is that employers are all looking for the same thing: candidates who are familiar with their companies' needs and can tell them specifically how what they have to offer will move the entire organization forward. In this scenario, your age is an asset, not a detriment.

"The older you are, the less excuses you have for not figuring out what the employer values," says James R.F. Berkeley, director of Berkeley Burke International, an international consultant based in London who helps several corporations recruit candidates 55 and older. "You just need the courage to ask the right questions and make a common-sense case." □



### Ben's Good Cents

"If a man empties his purse into his head, no man can take it away from him. An investment in knowledge always pays the best interest."



# Spending

## Know the “New Normal” in Credit Scores

In these tight economic times, lenders are demanding better scores for loans and revolving lines of credit, which means it definitely pays to be aware of what your score is and why.

A FICO credit score of 700 is considered “good,” but may not be enough for some lenders. “You also may have a high debt-to-income ratio, or your income is too variable or unverifiable,” says Cathy Pareto, president of Cathy Pareto & Associates, a financial planning company in Coral Gables, Fla. “Because credit is so strained right now and lenders’ standards have increased, many require ‘great’ credit near or above 760.”

Executives at myFICO, the company that designs credit-score formulas, tend to agree. Although the company adjusts its methodology from time to time, such as changing the weighting of components that go into a score, the basics that determine overall credit health, such as paying bills on time or avoiding borrowing too much, still largely determine scores. Translation: Don’t run up credit cards and then shirk payments when the bills come.

“I wouldn’t say it’s harder to get a good score than in the past, but what lenders consider a good score has changed,” says Barry Paperno, consumer operations manager for myFICO in San Rafael, Calif.

Consider mortgages. “It takes a higher score now than it did two years ago to get the best rate on a fixed 30-year mortgage,” Paperno says. For a 30-year fixed mortgage, to get top rates (APR of about 3.855 percent), a borrower would need a FICO score of 760 to 850, according to a recent myFICO survey of lenders. Three years ago, a borrower could have gotten the best rates on a 30-year fixed mortgage with a score of 720 to 740, Paperno says.

Nevertheless, borrowers shouldn’t fear the possibility of an across-the-board score needed to secure attractive lending rates because one really doesn’t exist. “The standards have increased, but there’s not a single, across-the-board score that will get you what you want,” Paperno says.

However, a target can help you plan, so shoot for a minimum 760. “Once you’re over 760, or definitely 780 or above, you won’t have any trouble, at least in terms of your score,” Paperno says. “Keep in mind that other lending criteria, such as income, also come into play, good score or not. But we (at myFICO) don’t dictate the scores that lenders should accept as part of their lending decisions.”

If your score is not very high, pay off your credit-card bills, especially if you’re behind, and stay current on everything. Your scores will increase, although gradually. How long will it take? “Within two to three years, you can take a score from the 500s up to the 700s,” Paperno says.

## Why You Should Wave Off Damage Waiver Insurance

When consumers think about using their credit cards for travel, it's generally to book a flight or pay for a hotel. But using your credit card for a rental car typically gives you automobile insurance coverage. This can save you a significant amount of money the next time you rent a car, if you reject the collision-damage waiver coverage the rental company offers.

"I've rented cars for many years and saved myself hundreds of dollars just declining coverage offered by the rental-car company," says Curtis Arnold, founder of CardRatings.com, a site that helps consumers choose among credit-card offers.

His most memorable car-rental experience was on his honeymoon, when his rented Mustang convertible was totaled. "My wife and I were emotionally distraught. I immediately thought, 'This is going to be big bucks.'" He also feared a mountain of paperwork from his credit-card provider over the incident. "We were really pleasantly surprised at how it all worked out," he says. Arnold filled out a claim form his credit-card company provided and submitted the police report of the accident. A few weeks later, he received a check that covered his auto insurance policy deductible.

During the 12 years Arnold has run CardRatings.com, he has never received any complaints from users of his site about getting their credit-card company to cover accident costs. The big three – Visa, MasterCard, and American Express – offer such coverage for theft or damage of a rental car. Insurance through your credit card is typically secondary to your primary car insurance, so first you have to file a claim with your automobile insurance company, and the credit-card company picks up whatever costs remain.

There may be limits on the number of days the coverage can be used during any one car-rental period, such as a maximum of 15 or 30 days, and limits on the types of vehicles to which it applies, such as pickups or high-end automobiles. The coverage also may not be valid if you rent the car in certain countries outside the United States. If an accident does occur or your rental car is stolen, some companies require that you call in your claim, while others allow you to file your claim online.

The most important thing is to check with your automobile insurance company and your credit-card company before you rent a car to see what kind of coverage they provide. If you have more than one credit card, it makes sense to call around and see what kind of coverage each one offers as you decide which to use to pay for the rental. "Some have better protection than others," Arnold says. □



### Ben's Good Cents

"Happiness consists more in the small conveniences of pleasures that occur every day, than in great pieces of good fortune that happen but seldom to a man in the course of his life."



## Is It Prudent to Refinance ... Again?

When mortgage rates plunged last year, refinancing soared. For some homeowners, it may have been their second or third refi. But rates have continued to drop, breaking records on the way to their lowest levels ever.

What now? Many people who refinanced only a short time ago are considering doing it again. Refinancing too often, however, can hurt your long-term financial outlook because each time you refinance, you start the clock all over and may face costs and fees, as well. The key to knowing when to stop refinancing is crunching a few numbers, says Gina Pogol of the mortgage financing firm HSH Associates.

The first thing her firm advises is to understand that your decision depends on the cost of the refinance versus the savings realized by improving your mortgage terms. Those costs include the following:

**1. Closing costs (such as appraisal fees, lender charges, and title insurance).** If you recently refinanced, you should be able to get a discount on your title insurance, called a "short-term rate." Prepaid taxes and insurance don't count as refinancing costs. These are costs of homeownership that have to be paid whether you refinance or not.

**2. Extra interest.** Every time you refinance, you restart the clock on your mortgage amortization. If you have been paying on a 30-year fixed loan for five years and then refinance to a new 30-year fixed mortgage, you'll end up paying on your mortgage for 35 years. The total interest paid for the first five years and then the last 30 may well exceed what you would have paid had you not chosen to refinance.

Then you need to assess your potential savings. Those include the following:

**1. Lower monthly payments.** The savings on monthly payments are derived from stretching your balance over a new term and paying a lower interest rate.

**2. Principal reduction.** Additional reduction in principal is created when you select a mortgage with a shorter term and a lower rate – for example, when you refinance from a 30-year mortgage to a 15-year term.

To see whether refinancing still makes sense, plug your numbers into one of the many mortgage amortization calculators available online, such as the one at HSH.com. Include the loan balance, interest rate, loan term, and any additional monthly principal payments you plan to make. The calculator will show your payments, interest costs, and balances due at future dates. Next, you'll compare estimated costs with your potential savings to see if refinancing will net you savings over the period you expect to remain in your home. □

## Dr. Franklin's Mailbag



Every month, we ask readers for their best tips on making and saving money. The amounts don't matter; it's about little changes anyone can make to keep more cash in their pockets to save, invest, or spend better elsewhere.

### Get Paid for Being Prudent

If you carry money, do not carry singles or change. Always carry the largest bill you can. A \$20 bill is better than two \$10s, and a \$10 bill is better than two \$5s, which is better than 10 \$1s. Why? It's much harder to buy a small snack when passing a store or a vending machine when you have to break a larger bill first. You'll rethink how hungry you actually are, and it'll cut down on impulse buying.

As for budgeting, here's a tip to help you earn a little extra and have peace of mind. Take all your bills that you pay once a year, twice a year or every three months, such as car insurance, life insurance, car tags, membership dues, etc. Add them up and divide the total by 12, rounding the result to the nearest whole dollar.

Each month, take that amount from your income and put it in a savings account set up for only this purpose. Later, as the bills come due, take out the amount needed. You've earned a little interest, and you don't have to worry about where you will get the money to pay a bill you may have forgotten.

– John W., Greensboro, N.C.

### Add It Up

I participate in Bank of America's Keep the Change program. Each time I use my checking account debit card for a purchase, it rounds the transaction amount up to the next whole dollar, transferring that difference to my savings account. The bank matches 5 percent of my contributions annually.

To make the most of my contributions, when I eat out and leave a tip on the receipt, I make sure the total transaction amount after the tip always ends with .01. For example, the meal is \$11.94 after tax. I leave a \$2.07 tip and total out the receipt to \$14.01. This puts .99 cents in my savings.

Also, when I pump fuel using my debit card, I always fill the tank ending in a purchase amount of .01, putting another .99 cents in my savings.

– Elizabeth W., Brandon, Fla.

(Editor's Note: Wachovia Bank offers a similar plan, Way2Save, in which it transfers \$1 to your savings each time you use your debit card for a purchase or pay a bill online with its BillPay system.)

### Let Nothing Go to Waste

Over the years, raising five children, I've always recycled my zippered baggies, aluminum foil, margarine tubs, and rubber bands when possible.

I also reuse the wax paper bags that cereal comes in, using them to double-bag a loaf of bread or doughnuts to maintain freshness longer. And using a cereal bag to double-bag any fresh meat I portion into individual freezer baggies helps prevent freezer burn. Also, the newer plastic containers with the reclosable tops that lunch meat comes in, such as the one from Hillshire Farm, are great for food storage.

Finally, regular plastic grocery-store bags are good for relining my kitchen garbage/trash pail. They have side handles that hold the bags in place and make for easy removal.

– Rosemary K., Littleton, Colo.

### **Be Happy to Haggle**

I have found that you can negotiate for just about anything. For instance, I did that when I purchased my last refrigerator, asking the manager whether he could give me a discount. He did after I invested an hour shopping around his store and giving him information about how I was treated by various employees.

Another example: I went to buy a tablecloth the other day and took it to a customer service representative because I thought it should be marked down even more because it was in the clearance section. The associate gave it to me for one-third of the price on the package.

We bought a new car last month and set an impossibly low price for the salesman to meet and left with the promise of returning in an hour to see what he could work out. He met our price because he knew that we had cash in our pocket and that we would take our business elsewhere.

When my newspaper comes up for annual renewal with outrageous prices, if I can't negotiate something better, I cancel it. Within a week, a representative from the paper will call with "specials." (Amazing how that happens, isn't it?) This last time, the year was going to cost \$240, but after I canceled, the representative called with an offer – I get the paper every day but Monday and Tuesday for \$90. I took it.

– Marilyn Z., Mansfield, Texas

### **Trim Your Shaving Costs**

I save about \$100 a year by drying my razor blades with a towel after shaving. Stainless steel corrodes when it's wet, so I tamp the wet blade against a dry towel, then put it back in the cabinet upside down so any residual moisture will drain down and away from the blade. Since I started doing this, my blades stay very sharp, and I replace them every six months instead of every two to three weeks.

– Woody H., Macungie, Pa.

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## Franklin Matters

# Franklin on the Constitution And the Bill of Rights

By Mark Skousen

*"As all history informs, there has been in every state and kingdom a constant kind of warfare between the governing and the governed. This has alone occasioned great convulsions, actually civil wars, ending either in dethroning of the princes or enslaving of the people."* – Ben Franklin, 1784

Americans who travel by air now are required to go through "advanced imaging technology," X-ray machines that human rights activists deride as "porno" scanners because they reveal the naked body. If you refuse, Transportation Security Administration rules require you to go through a pat-down, what civil libertarians are calling an official form of sexual harassment.

These expensive machines are necessary to deter terrorism on airplanes, the TSA contends. Critics respond that such invasive procedures are too high a price to pay in the name of safety, and the chances of being killed by a terrorist on a plane are one in a million – the scanners are an example of "big brother" and a waste of money.

Not surprisingly, many Americans are objecting to these new procedures as a violation of their right to privacy as set forth in the 4th Amendment to the U.S. Constitution against "unreasonable" searches that require "probable cause" and a written search warrant. (See [www.wewontfly.com](http://www.wewontfly.com) for more information.)

What would Benjamin Franklin say about such intrusions? It's always problematic to determine the views of the Founders about modern-day problems. We can only guess and refer to general principles Franklin espoused more than 200 years ago.

One might point to the fact that Franklin was a fervent defender of American interests against foreign enemies of liberty. And he was quite a modern thinker when it came to women, minorities, and nudity (he was famous for parading around in the nude in the mornings as "refreshing" exercise). He was a bit of a playboy, and he himself might not object to disrobing in front of security guards.

But at the same time, he was like almost all of the Founders: a firm believer in individual liberty and limited government. He was a strong advocate of the Constitution and the rights of man.

TSA critics often cite Franklin's famous line: "They who can give up

essential liberty to obtain a little temporary safety, deserve neither liberty nor safety." This motto comes from the title page of *An Historical Review of the Constitution and Government of Pennsylvania*, which Franklin published in 1759.

Another quotation also may apply to the debate, in response to those who say the new TSA rules are a small price to pay for security against terrorism: "I am a mortal enemy to arbitrary government and unlimited power. I am naturally very jealous for the rights and liberties of my country, and the least encroachment of those invaluable privileges is apt to make my blood boil." This statement comes from the "Silence Dogood, No. 2" letter that an anonymous Franklin wrote in 1722, at the tender age of 16, when he still lived in Boston.

**"He was like almost all of the Founders: a firm believer in individual liberty and limited government."**

Perhaps the best Franklin statement to apply in this case was made two years before the American revolution:

"Laissez nous faire: Let us alone . . . Pas trop gouverner: Not to govern too strictly."

Franklin was usually optimistic about America and the government he helped create. "America will, with God's blessing, become a great and happy country," he predicted at the end of War of Independence. When a woman asked the old man after the signing of the Constitution what kind of government they were getting, he responded, "A republic, if you can keep it."

Franklin sometimes worried that the "ruling power" would see its power growing too big, and we would lose our republican form of government. In a moment of doubt, he warned, "I am apprehensive, therefore, perhaps too apprehensive, that the government of these states may in future times end in a monarchy, and a King will the sooner be set over us."

Let us pray that it never happens here. But in the words of David Hume, the Scottish philosopher and contemporary of Franklin, "Liberty is seldom lost all at once."

**Be free,**



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**Mark Skousen, Ph.D.**, a sixth-generation grandson of Benjamin Franklin, is an economist and holds the Benjamin Franklin Chair of Management at Grantham University. He's the author of *The Completed Autobiography by Benjamin Franklin*, a tome that fills in the 33-year gap left by Franklin in his original work from age 51 until his death, using Franklin's own papers as the guide.



## Ask Franklin

**Do you have information on offshore banking?  
Are there options for small-money players?**  
— Rod S., Paso Robles, Calif.

"You can open a foreign bank account with as little as \$5,000, but it'll be at a commercial bank where you're a number and not given attention or service," says Rich Checkan, vice president of Asset Strategies International, a firm specializing in moving money around the world. He says anyone wishing to open an offshore account may want to speak with an attorney who can advise how to get the best service. Search "offshore banking attorney" on the web for options to explore.

Also, as a courtesy to members, The Sovereign Society maintains a list of foreign banks that'll work with U.S. citizens, and HSBC and Citibank will open offshore accounts for U.S. customers who maintain onshore accounts of at least \$100,000 with them.

**Is there a way to avoid self-employment tax or reduce the amount I pay? Every year it pops up and clobbers me.**  
— Fred C., New York, N.Y.

The only way to reduce your self-employment tax is to reduce the amount of taxable income you earn, says Daniel A. Prisciotta, CFP, CPA, founder and managing partner of Equity Strategies Group in New Rochelle, New York. "Be vigilant about claiming every allowable tax deduction and don't forget to put money in your tax-free investment accounts," Prisciotta counsels. "Aside from that, there's nothing you can do. Everyone who is self-employed has to pay this tax, but you definitely should make every effort to lower your taxable income figure."

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