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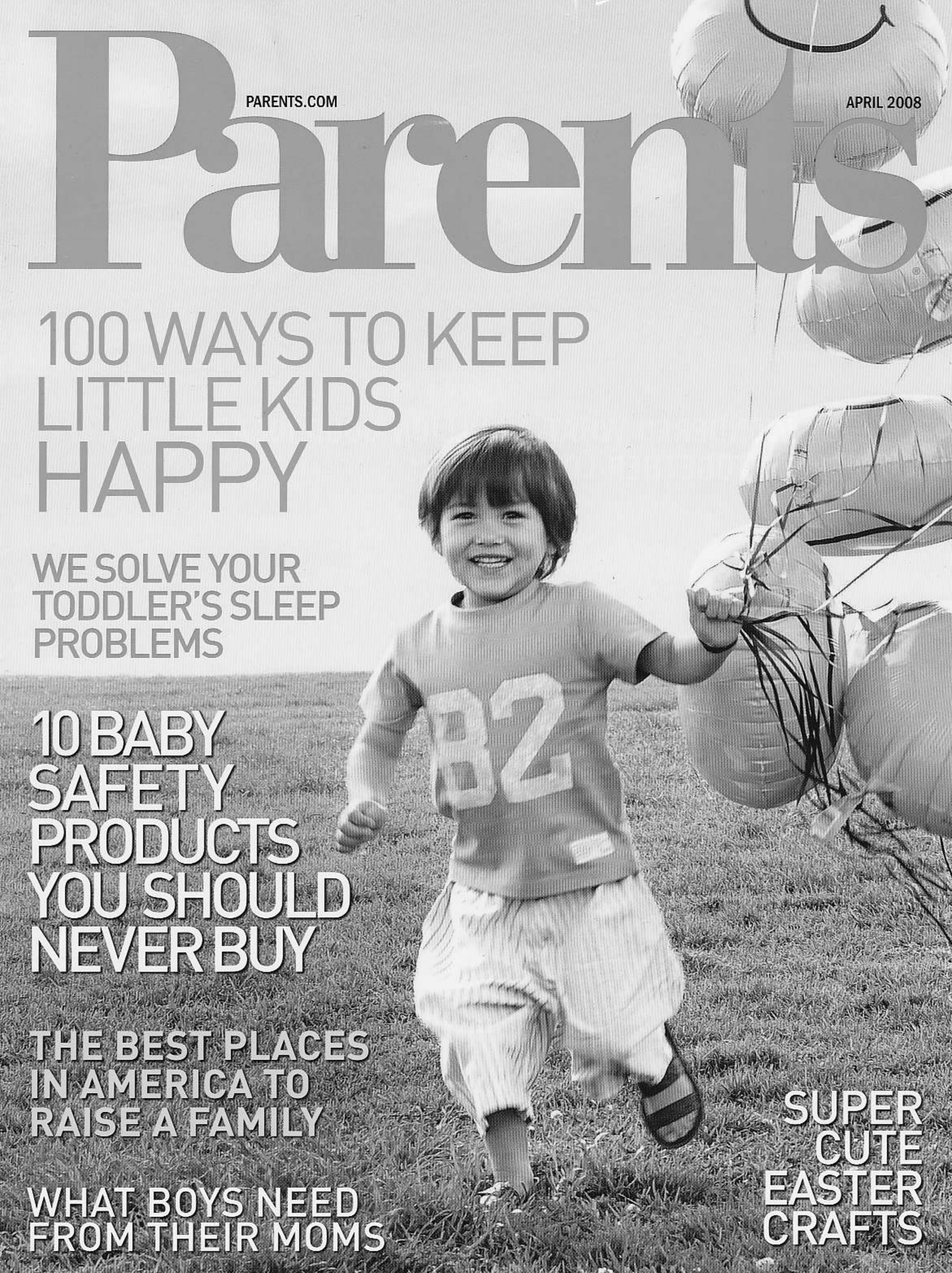

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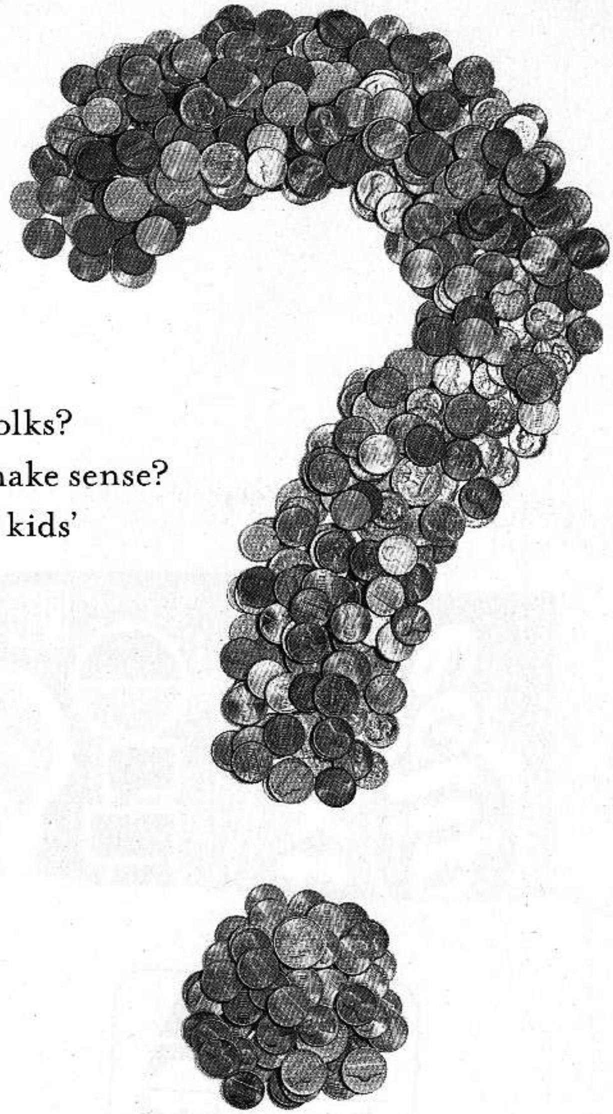

Is it okay to borrow money from your folks? Does a high-deductible medical plan make sense? Should you save for retirement or your kids' college? We have the answers.

SHOULD YOU PAY OFF DEBT? (OR) **START AN "EMERGENCY" SAVINGS ACCOUNT?**

It's smart to stash a little cash for unexpected expenses, such as a car repair or an E.R. visit. But if you're carrying debt, don't focus on socking away three to six months' worth of living expenses, as most financial planners recommend. For the time being, aim to build a modest emergency fund of $1,000.

Once you've reached that level, focus on paying off your credit-card debt and loans one at a time. Start with the smallest dollar amount, not the highest interest rate, since it's more empowering to eliminate a debt entirely than to see it decrease slowly, suggests Dave Ramsey, author of *The Total Money Makeover.* Once you've paid off everything, go back to building a bigger financial cushion for those unexpected expenses.

Bottom line: You need some money for a rainy day, but it's better to get out of debt as quickly as you can.

SHOULD YOU BORROW FROM FAMILY? (OR) **GET THE MONEY FROM A LEGIT LENDER?**

Your in-laws say they'd be happy to front you the money to buy new furniture for the kids' room—and they won't even charge you interest. What's wrong with that? "If you need a low- or no-interest loan badly enough to borrow from relatives, you probably can't afford what you're buying," says Michael Haubrich, a financial advisor in Racine, Wisconsin. Plus, there's often more than money at stake with the Family Bank: What if you miss payments? What if the "lenders" start questioning your other money and parenting decisions?

Unless the money is offered as a gift—with no strings attached—you should borrow from a bank or a credit union. Also, think about checking the financing options with the retailer where you plan to make a purchase; you might even get a better deal.

Bottom line: Relatives and money generally don't mix.

SHOULD YOU CHOOSE A HIGH-DEDUCTIBLE MEDICAL PLAN? (OR) **PICK A LOW-DEDUCTIBLE PLAN?**

In an attempt to switch more of the health-care burden to workers, many companies are promoting high-deductible health plans (HDHPs), which offer two advantages over traditional plans: lower premiums and the option of opening a Health Savings Account (HSA). As with a Flexible Spending Account (FSA), you contribute pretax dollars to an HSA and use them to pay medical expenses.

KEATE/MASTERFILE.

BY TERI CETTINA

But an HSA is better than an FSA in that your employer can contribute to it, it can earn interest, and you can carry over any remaining money from year to year (and job to job). The downside of a high-deductible plan: You'll pay all your medical costs until you meet the yearly deductible, which is at least $2,200 per family.

If your family is very healthy—you and your kids don't have chronic conditions and you hardly ever see the doctor except for wellness visits—an HDHP may seem like a tempting option. But with medical insurance, it still makes sense to get the most coverage you can afford, so you should probably pick a low-deductible plan. And if you're planning to get pregnant, the choice is easy. A recent study by Georgetown University and the Kaiser Family Foundation found that a new mom covered by an HDHP would typically have more than double the out-of-pocket expenses than she would with a traditional health plan.

Bottom line: You can't afford to gamble on your family's health, so stick with a low-deductible plan if you have the choice.

SHOULD YOU INVEST MONEY IN A SAVINGS ACCOUNT? OR INVEST MONEY IN MUTUAL FUNDS?

The answer to this question depends largely on how soon you'll need the money. If you're saving up to pay for a big vacation or next year's preschool tuition, be conservative: Put the money in a savings account, a money-market account, or a CD (search for the highest interest rates for each at *bankrate.com*). Most of these accounts are federally insured and guaranteed to increase in value. The main difference: CDs tie up your money for months or even years, while savings accounts and money-market accounts let you withdraw the money at any time (money-market accounts often have a minimum-balance requirement of $1,000 or more).

But for long-term investing—including college savings and retirement accounts—mutual funds are the way to go. Since they comprise a variety of stocks (and sometimes bonds), they are subject to declines, depending on market conditions. But you can expect a much higher average rate of return over the long term.

Bottom line: If you might use the money within a year or two, keep it in the bank. Otherwise, invest it in a mutual fund.

SHOULD YOU SAVE FOR RETIREMENT? OR SAVE FOR YOUR KIDS' COLLEGE?

You've probably heard it before, but it bears repeating: Kids can get loans for college. You can't get loans for retirement. Try to sock away 15 percent of your gross income into a 401(k) account (if your company offers one) or the maximum amount you're allowed to contribute to a Roth IRA (you can withdraw from this type of account tax-free after age 59½, once you've retired).

Saving for college should take a backseat to eliminating debt, building an emergency fund, and contributing to your retirement account. Once you've done these things, open a 529 college savings account. The interest you'll earn is tax-free as long as the money is used to pay for your kids' education. Many states also let you deduct annual contributions on your income-tax return. For details on choosing the right plan, visit *savingforcollege.com*.

Bottom line: You should look after your own future first, your kids' education second.

SHOULD YOU PAY EXTRA ON YOUR MORTGAGE? OR PAY ONLY WHAT'S DUE EACH MONTH?

If you have the cash, it's tempting to make an extra payment to shorten the life of your mortgage. But before you write that check, ask yourself this question: Is this really the best way to invest the money?

In most cases, the answer is no, says Haubrich. Paying off a mortgage faster will save you some interest, but probably not as much as you might think. When you factor in the state and federal tax benefits, a 6 percent mortgage really only costs you about 4 percent. And if you invest the money in mutual funds instead, you can expect to earn about 10 percent annually over the long haul (based on historical averages).

Bottom line: Paying down a mortgage feels good, but making your money work for you feels even better.

SHOULD YOU MAKE PURCHASES BY CREDIT CARD? OR PAY BY DEBIT CARD?

Credit cards have a number of advantages in this face-off. They let you dispute payments if the items you buy are unsatisfactory or (in the case of mail-order and online purchases) never arrive. Many offer rewards, such as cash-back bonuses and frequent-flyer miles, and some provide insurance in case a product is lost or stolen. But if you don't pay the whole balance on every statement, you'll be subjected to monthly finance charges.

Debit cards are fine for basic purchases (such as groceries and gas) that you might otherwise pay for with cash or by check. But it's crucial to limit their use to merchants you know and trust, since you're giving them electronic access to your checking or savings account, notes Gerri Detweiler, author of *The Ultimate Credit Handbook*. Monitor your bank account regularly for mistaken or fraudulent charges, and report them right away. And make sure you have enough money in your account to cover the charge, or you'll have to pay overdraft fees and your account could be frozen.

Bottom line: Stick to small (and local) purchases for your debit card. Use credit cards for all your other charges. ☆