David Bach fixes up your finances.

REDBOOK Love Network expert David Bach is the author of eight best-selling books, including *Start Late, Live Rich*. Visit him at finishrich.com.

Stay out of credit card debt

Q "I just dug myself out of credit card debt and want the cards out of my life. Is it smart to cancel them?"

A Congratulations on paying off your debt! And of course it's a priority to stay out of debt. Getting rid of the temptation to spend by closing your accounts may seem like the logical thing to do. But by closing out your accounts, you'll actually *lower* your credit (FICO) score—which determines whether a bank will lend you money and at what interest rate. A low FICO score can really put a wrench in your financial plans, so getting rid of credit card accounts altogether is not a smart solution: Using cards responsibly is necessary to build a solid credit history.

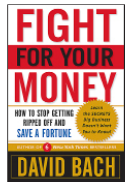
Why does canceling your credit cards lower your score? Because your credit score takes into account what's called a credit-utilization ratio, which compares your total credit used against your total credit available. The higher the ratio is—i.e., the more of your available credit you're using—the more negatively it can affect your credit score. So when you close a credit card account, you are decreasing your total available credit, which then increases your credit-utilization ratio. Confused? There's an excellent example of how this works at myfico.com. Click on Credit Education, then go to the Q&A section and scroll down to "Will closing a credit card account help my FICO score?"

Here's your best bet: If you really don't trust yourself not to use your cards, cut them up—but keep the accounts open. You can always have a replacement card issued if you feel you can use it responsibly.

HAND BOOK

Money Smarts

Check out David's newest book, *Fight for Your Money: How to Stop Getting Ripped Off and Save a Fortune*. Have a money question for David? Email him at moneysmarts@redbookmag.com.



The $787 billion stimulus plan: What's in it for you?

Congress passed a $787 billion stimulus plan in February. The idea is, if the government pours money into our nation—to build new roads, provide better Internet access, renovate our schools, and more—the spending will give a significant boost to our struggling economy. But will *you* feel the benefits of the investment? REDBOOK investigated how the plan might work for you:

1. **Big purchases will cost less.** First-time home buyers will get an $8,000 tax credit that doesn't have to be repaid later. New car buyers can deduct the vehicle's sales and excise taxes from their total taxable income.
2. **You'll probably receive a tax credit.** So long as you earn less than six figures, you'll receive a $400 credit; couples making less than $190K will receive $800. The extra money—about $15 per week—should have already appeared in your paycheck.
3. **You might save on college tuition.** A new tax credit gives you up to $2,500 toward tuition and related costs. Also, more money will be pumped into our schools: The Department of Education will receive $100 billion to be used on anything from early learning to post-secondary education.
4. **You might get better Internet service.** If you live in certain rural areas, your only Internet option may be satellite-based, which is pricey. The stimulus plan offers funding to companies to deploy more affordable broadband Internet in these areas.
5. **Unemployment benefits will improve.** You'll receive more money per week (the national weekly average payout has increased to almost $300, though your exact payout will depend on your state), and the first $2,400 you get will be exempt from federal taxes. And if you're taking advantage of COBRA, a program that allows workers to continue using their former employer's health plan, 65 percent of your premiums will be subsidized for nine months. *—Lindsey Palmer*

COURTESY OF SUBJECT.