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SPENDING SMART

Consumers gouged by hidden fees, deceptive prices

BY GREGORY KARP, personal finance writer for The Morning Call, a Tribune Co. newspaper in Allentown, Pa

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Consumers today have to navigate a minefield of gotchas and deceptions. The only way to plot a course through those hazards and safeguard your wallet is to educate yourself about dubious marketing practices, get mad and do something about it.

Today, companies face severe price pressures from all sorts of competitors.

"Their response, almost universally, has been to compensate by lying about the true price of things," writes Bob Sullivan in his book, "Gotcha Capitalism: How Hidden Fees Rip You Off Every Day -- And What You Can Do About It."

"I don't think it's a conspiracy. I think it's a business model," Sullivan said in an interview. "It's a business model to trick people -- to advertise one price and charge another price."

Sullivan claims hidden fees rip off the average American consumer for \$1,000 a year.

Joseph Ganem, a physics professor at Loyola College in Maryland, also sees consumer missteps, many of which are due to true-but-deceptive numbers in marketing. In his book "The Two-Headed Quarter: How to See Through Deceptive Numbers and Save Money on Everything You Buy," he says context is always the key.

"You have to understand what's behind those numbers," Ganem said. "Where did they come from, and what were the motivations of the people who provided those numbers?"

Here are samples of things you should know about:

Prices and fees. Ten categories of spending are among the worst for containing hidden fees, Sullivan said. They are: cell phone service, credit cards, banking, airline travel, hotels, cable and satellite TV, Internet access, retirement services, insurance and groceries.

Numbers. Marketers know big numbers and exact numbers are impressive, Ganem said. For example, America Online once gave away 1,025 hours of its Internet service, which sounds like a lot. But the offer expired in 45 days. There are only 1,080 hours in 45 days, making it virtually impossible for

someone to take full advantage of the giveaway hours.

Retirement plans. "Everybody should go running to their 401(k) account and check on the expense ratios of their mutual funds," Sullivan said.

Look for fees below 1 percent. Higher fees mean you'll have far less money at retirement, or you might even have to delay retirement.

You can complain to your human resources office about high-cost funds. In the meantime, use index funds, if they're available.

Zero-percent financing. Often, you receive either no-cost financing or a rebate when buying a car. Forgoing the free financing may well be a better deal. If you choose zero-percent financing, you pay extra for the car, more than someone who took the rebate.

With zero-percent financing, you essentially prepay finance charges by agreeing to the higher price.

"They're not giving you the money for free," Ganem said.

Anchoring. An anchor is the starting price or benchmark figure in your mind. When you buy a stock, the price you bought it for becomes the anchor.

"If a stock is worth even a little less than what bought for, they can't bear to sell it," Ganem said. "They want at least to get back to even. But people can make disastrous decisions waiting to get even."

What you personally paid for the stock has nothing to do with what it will do in the future.

What to do? When you come across numbers in marketing, do the math and think critically about the context of the numbers.

When it comes to fees, Sullivan recommends setting aside a half hour a month to scrutinize your bills, especially those for recurring services. And complain loudly if you're being mistreated. That means phone calls, e-mails and letters.

If you have trouble getting through on the phone to a real person, see <http://www.gethuman.com> on the Internet to find a telephone number that links to a real person. Try to call during normal business hours, when the call center's best personnel are likely to be working.

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For additional discussion on spending wisely, see the Spending Smart blog at <http://blogs.mcall.com/spendingsmart> .

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