

The Accounts Issue



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Principles Discussed

- FDIC Insurance
- Checking Accounts
- Checks and Check Registry
- Bank Services
 - Bank Products
 - ATM/Debit Cards
 - Savings Accounts
 - Certificate of Deposit (CD)
 - Money Market Accounts



FDIC Insurance

- The Federal Deposit Insurance Corporation
 - Independent agency of the federal government
 - Insures deposits in banks and thrift institutions for at least \$250,000
 - Identify, monitor and address risks to the deposit insurance funds
 - Limit the effect on the economy and the financial system when a bank or thrift institution fails
 - Insures deposits only



Checking Accounts





Understanding Checking Accounts

Advantages

- Safety
- Control over spending
- Records of activity
- Interest income

Disadvantages

- Fees
- Penalties



Opening a Checking Account

- Required documents and information
 - Identification, Address
 - Date of Birth
 - Social Security Number
 - Application
 - Signature card
 - Deposit
- Upon receipt of checks, verify personal information
- **Read everything before signing**



Maintaining a Checking Account

- Do not include these on your printed checks:
 - Social Security number
 - Driver's license number
 - Date of birth
 - Phone number

- If using joint account, inform co-owner of all account activity



Writing a Check

Johnny User
1212 Bogus Ave.
Anytown, TX 91212

101

Date _____ **A**

Pay To The Order _____ **B** \$ _____ **C**

_____ **D** Dollars

First-Timers Bank, U.S.A.

Memo _____ **E** _____ **F**

⑆ 122000496 ⑆ 12345678 ⑆ 101

- A. Date-
The date the check is written
- B. *Pay to the Order Of* –
The organization or person to whom you are writing the check
- C. The numerical amount –
For example: \$57.50
- D. The amount written in letters –
Show cents as a fraction of 100.
For Example: Fifty-Seven and 50/100-----.
Ensure that the information in C and D match
- E. The memo line
Note what was purchased
- F. Your signature



Using the Check Register

Item No.	Date	Description of Transaction	Payment, Withdrawal, or Fee Amount	√	Code	Amount of Deposit or Interest	Balance
A	B	C	D	E	F	G	H
		(What the check is for)					

- A. Item No. –
The check or transaction number
- B. Date –
The date money came in or went out
- C. Description of Transaction –
The organization or person to whom you wrote the check or made the debit purchase, or the type of activity (deposit, ATM, transfer...). Then in the gray area below, write the purpose.
- D. Payment, withdrawal, or fee amount
- E. The check mark –
Mark this column as you are reconciling (balancing) your checkbook.
- F. Code –
This optional column is to help you record the type of transaction. (Codes are listed in the register).
- G. Amount of deposit or interest –
- H. Balance –
Add or subtract as appropriate to calculate the balance each time you record a transaction.



Bank Services



Bank Products

- Online Banking
- Overdraft Services



Overdraft Services

- “Opt In”

Federal Reserve
Board amended the
rules that pertain to
overdraft protection.



Understanding ATM/Debit Cards

- These cards are issued for your checking account
- **ATM** - **A**utomated **T**eller **M**achine
 - Personal identification number (PIN) required
 - Withdrawals, deposits, transfers
 - Fees may be charged



- Debit
 - PIN-based (direct)
 - Signature-based (deferred)
- Record activities in check register



Understanding Savings Accounts

- Emergencies
- Short-term needs
- Avoid unnecessary use of credit
- Pay yourself first
 - Direct deposit from paycheck
 - Automatic transfer from checking account
 - Automatic bank draft



Opening a Savings Account



- Required Information
 - Identification
 - Date of birth, address
 - Social Security number
 - Application
 - Signature card
 - Deposit

- **Read everything before you sign up**





Certificates of Deposit

- FDIC insured up to maximum allowed
- Owner makes deposit of any amount
- CD earns specific rate of interest (usually higher than regular savings account) for a specific amount of time
- Larger deposits held for longer terms usually have higher interest rates
- At maturity, owner receives deposit amount plus interest earned
- Not for emergency savings
- Early withdrawal may be penalized



Money Market Accounts

- FDIC insured up to maximum allowed
- Type of savings account with slightly higher interest rate than regular savings account
- May have limited withdrawal capability
- Higher interest rate if required average or minimum balance is maintained
- Interest compounded daily and credited at close of each statement cycle
- Used for monthly & emergency savings, short-term needs, larger planned purchases (vacation, car...)



Questions



First Command Educational Foundation

1 FirstCommd Plaza

Fort Worth, TX 76109-4999

Toll Free: 1-877-872-8289

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The Entrepreneur Issue



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Principles Discussed

- Self Analysis
- Starting Up
- Developing a Business Plan
- Financing Your Business
- Applying for a Loan



Self Analysis

- Current Skills & Education
- Business Experience
- Decision-making Abilities
- Entrepreneurial Skills



Finding Your Niche

- Find Any Unfulfilled Needs
- Look Into Existing Markets
- Be Competitive
- Do the Market Research



Starting-Up

- Business Name
- Type
 - Sole Proprietorship
 - Partnership
 - Corporation
- Licenses & Permits
- Business Laws
- Legal Help



Developing a Business Plan

SUCCESS



Business Plan

- Communication Tool
- Management Tool
- Planning Tool



Components of a Business Plan

- Description of the Business
- Situational Analysis
- Marketing
- Management
- Financing



Promotion



Price



Marketing Plan

Place



Product



Management Plan



Financing Your Business

- **Debt financing** – Loan(s) from individuals or institutions
 - Savings & loans
 - Commercial finance companies
 - Small Business Administration
 - State & local government programs
- **Equity financing** – Stock sales to individual or institutional investors



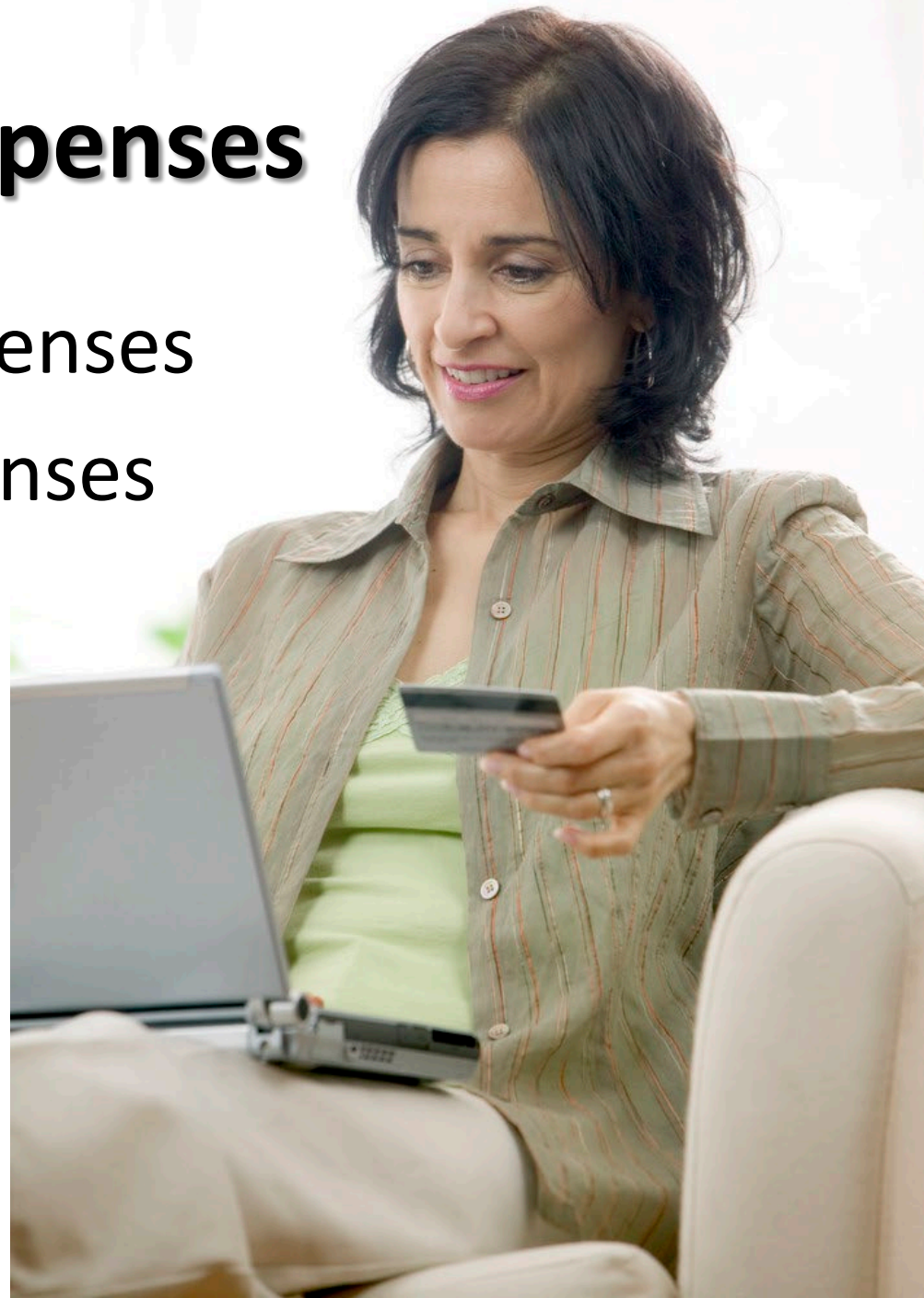
Finding Capital

- Personal Savings
- Friends & Relatives
- Banks & Credit Unions
- Small Business Administration



Expenses

- One-time expenses
- Ongoing expenses
 - Fixed
 - Variable



Applying for a Loan

- Written Proposal
 - Cover Letter/Executive Summary
 - Written Description of Your Business



Questions



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The Bankruptcy Issue



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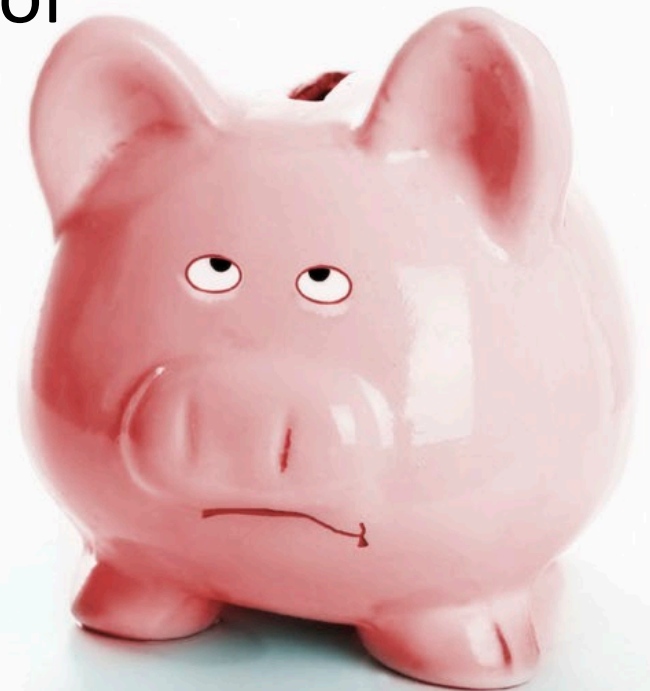
Principles Discussed

- Bankruptcy Basics
- Discharge of Debt
- Filing Bankruptcy
- Types of Bankruptcy
 - Chapter 7
 - Chapter 13
 - Chapter 12
 - Chapter 11
- Life Afterwards Bankruptcy



Bankruptcy Basics

- Purpose
 - Protection
 - Relief
- When to consider filing for bankruptcy



Advantages

- Fresh financial start
- Keep assets
- Collection efforts stop

Disadvantages

- Loss of privacy
- Loss of assets
- Closed accounts



Common Mistakes for Filers

- Running up credit cards
- Taking out cash advances
- Transferring property to others
- Cashing in retirement accounts
- Ignoring pending lawsuits
- Neglecting other creditors to repay personal loans from family and/or friends



Bankruptcy Discharges

May be discharged:

- Credit card debt
- Medical bills
- Most personal loans
- Judgments resulting from car accidents
- Liabilities on repossessed vehicles
- Some older tax debts
- Payday loans
- Garnishments

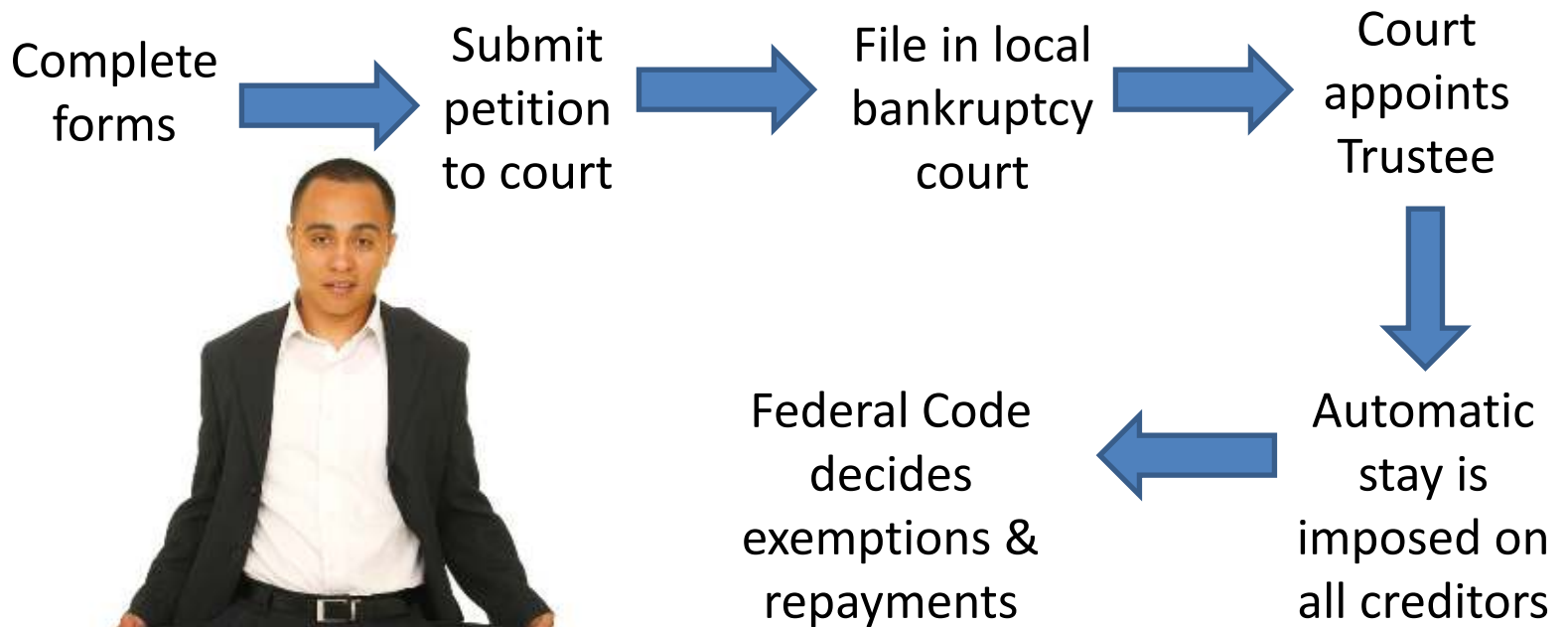
Cannot be discharged:

- Most taxes
- Child support
- Most student loans
- Court fines and criminal restitution
- Personal injury caused by driving under the influence of alcohol or drugs



Filing Bankruptcy

- Financial Education & Counseling



Types of Bankruptcy



Chapter 7 Liquidation

- Non-exempt assets are liquidated
- Trustee appointed
- Some debts may be discharged, if you qualify
 - Your income must be less than your state's median income



Filing Chapter 7

- No income or low income
- Little or no money left after paying living expenses
- Rent or low equity in your home
- Few or no assets



Exempt Property

- Varies by state
 - Your primary residence
 - Certain items of personal property
 - Tools
 - Work equipment
 - Your vehicle



Advantages

- No min. or max. debt requirement
- Any unpaid balances are discharged
- Keep wages you earn or property you acquire
- Most cases discharged and over in about 3 - 6 months

Disadvantages

- Non-exempt property sold by the trustee
- Foreclosure is only temporarily stopped
- Not all debts are discharged
- Withdrawing a Chapter 7 filing is difficult



Chapter 13 Liquidation

- For those with regular income
- Must have enough disposable income
- Specified limits
- Renegotiate debt with creditors
- Repayment plan is integral
- Monthly payment sent to trustee for distribution to creditors



Filing Chapter 13

- Behind on payments for property
- Tax debts
- Non-exempt property
- Previous Chapter 7 discharge
- Protect co-signers
- Consolidate student loans



Exempt Property

- Varies by circumstance
 - Your primary residence
 - Certain items of personal property
 - Your vehicle



Advantages

- Protections against collection efforts and wage garnishment
- Exempt and non-exempt properties are protected
- More time is allowed than original contract to pay debts
- The amount is usually reduced amount

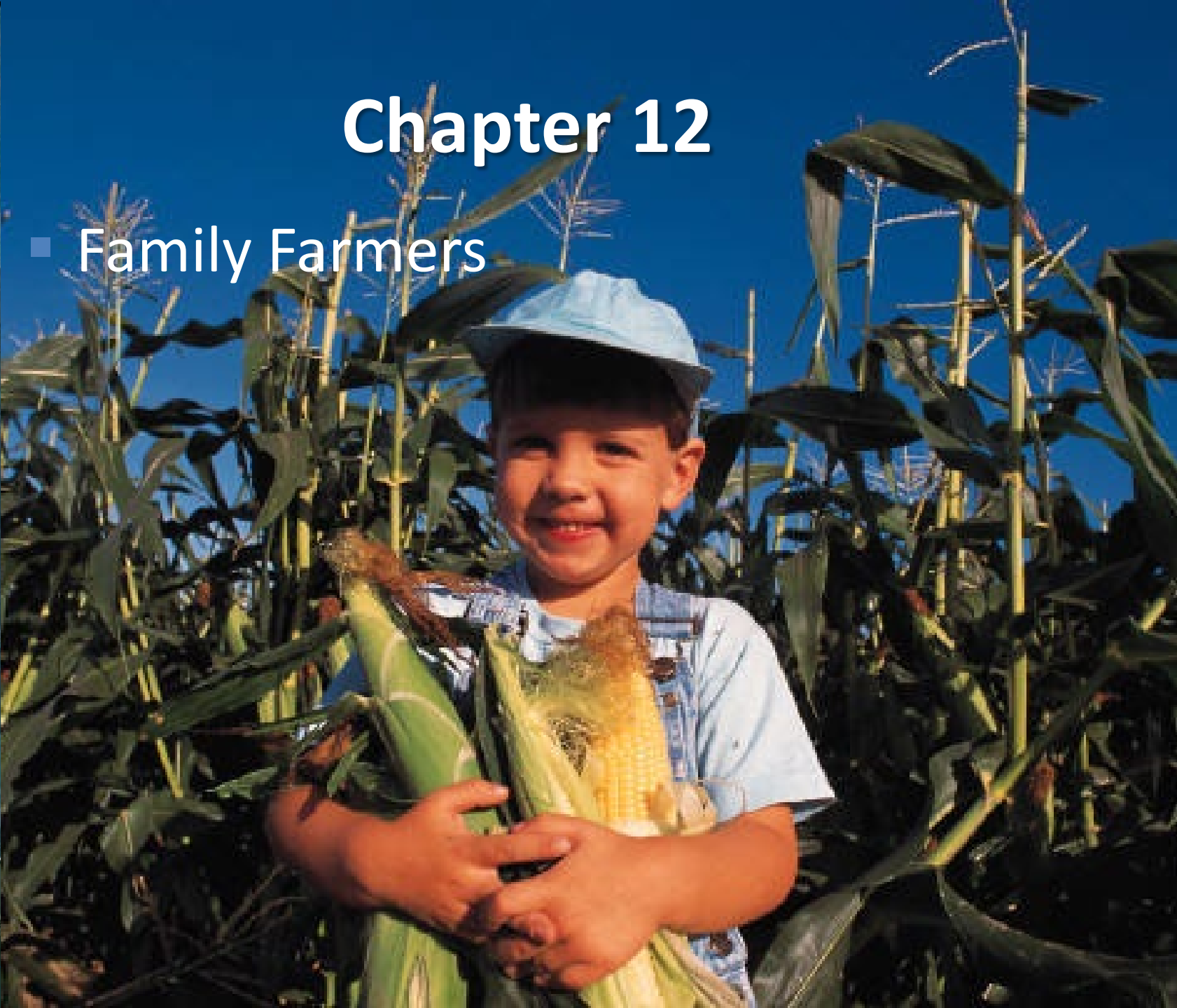
Disadvantages

- You still have to pay your debts
- More expensive if lawyer is hired
- Amount of debt is limited
- Limit amounts change based on bankruptcy law changes



Chapter 12

- Family Farmers



Chapter 11 - Business

- Financial difficulty but want to continue to operate
- Repayment plan
- No trustee unless judge deems necessary
- Reorganization attempts
- If no trustee assigned, management continues to run the day-to-day business operations
- Significant business decisions must be approved by bankruptcy court



Legal Help

- When do you need a lawyer?



Life After Bankruptcy

- Be prepared
 - Difficulty obtaining loans
 - Higher interest rates
- Cut expenses
- Pay bills on time
- Build savings



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The Giving Issue



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Principles Discussed

- What is a Charity?
- Giving Wisely
- Ways to Give
- Planned Giving



What is a Charity?

- Tax-exempt under IRS Code 501(c)
- No earnings to profit private shareholders or individuals
- No participation in campaigns for or against any political candidate
- Set up for various purposes



Standards of Accountability

- To ensure a charity has defined, measurable goals
- To ensure the charity spends funds honestly and prudently
- To ensure that a charity's representation to the public is accurate, complete, and respectful



Giving Wisely

- Know your charity
- Ask for written information
- Find out where the money goes
- Do not respond to pressure
- Keep records of donations



Cautions

- Tax exempt is not always tax deductible.
- Beware of “sound-alikes”
- Organization should willingly share information, not just play on your emotions
- Free gifts to contributors may mean that more of your contribution is going to fund-raising costs and less to services
- Be skeptical if you receive “thank you” for a donation you do not remember making



Ways to Give

- Volunteer Time
- Donate Goods
- Donate Money
 - Check, money order, credit card
 - IRA distributions
 - Ownership of assets



Planned Giving

- Deferred charitable gift
 - Arranged now
 - Fulfilled later
- Bequest
- Trusts
- Annuities
- Pooled Income Fund
- Retained Life Estate



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The Checkbook Issue



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Principles Discussed

- Writing a Check
- Using the Check Register
- Balancing Your Checkbook
- Common Mistakes



Writing a Check

Johnny User
1212 Bogus Ave.
Anytown, TX 91212

101

Date _____ **A**

Pay To The Order _____ **B** \$ _____ **C**
_____ **D** Dollars

First-Timers Bank, U.S.A.

Memo _____ **E** _____ **F**

⑆ 122000496 ⑆ 12345678 ⑆ 101

- A. Date-
The date the check is written
- B. *Pay to the Order Of* –
The organization or person to whom you are writing the check
- C. The numerical check amount –
For example: \$57.50
- D. The check amount written in letters –
Show cents as a fraction of 100.
For Example: Fifty-Seven and 50/100-----.
- E. The memo line
Note what was purchased
- F. Your signature



Using the Check Register

Item No.	Date	Description of Transaction	Payment, Withdrawal, or Fee Amount	✓	Code	Amount of Deposit or Interest	Balance
A	B	C	D	E	F	G	H
		(What the check is for)					

- A. Item No. –
The check or transaction number
- B. Date –
The date money came in or went out
- C. Description of Transaction –
The organization or person to whom you wrote the check or made the debit purchase, or the type of activity (deposit, ATM, transfer...). Then in the gray area below, write the purpose.
- D. Payment, withdrawal, or fee amount
- E. The check mark –
Mark this column as you are reconciling (balancing) your checkbook.
- F. Code –
This optional column is to help you record the type of transaction. (Codes are listed in the register).
- G. Amount of deposit or interest
- H. Balance –
Add or subtract as appropriate to calculate the balance each time you record a transaction.



A young man with short brown hair and a friendly smile is the central focus of the image. He is wearing a black t-shirt. The background is a soft, out-of-focus green, suggesting an outdoor setting with foliage. The overall mood is positive and approachable.

Balancing Your Checkbook



Step One:

Reconcile Your Checks

- Put canceled checks in order by check number
- Match up amounts shown on statement, on check, and in register
- Put check marks in appropriate column of register to show that the bank has recorded (cleared) the transaction



Step Two:

Reconcile Your Deposits

- Match up deposits on statement with those in register
- Make sure any direct deposits are shown in both places
- Go through your deposit slips to verify that those amounts are included in both places
- Check cleared transactions in register



Step Three:

Reconcile ATM & Debit Card Activity

- Match up what's in your register and on receipts with what's on your statement
- If statement shows activity not shown in register, record it now
- Check off all cleared transactions



Step Four:

Record Bank Fees & Interest Earned

- Inspect your statement for bank fees or charges
- Record them in the register
- Look for interest earned or other bank credits
- Record them in the register



Step Five: Complete the Balancing Form

1. Outstanding Deposits		2. Outstanding Checks/Debits	
Date	Amount	Check#	Amount
Total		Total	

- | | |
|--|----------|
| a. Ending balance from your bank statement | \$ _____ |
| b. Add total outstanding deposits | + _____ |
| c. Subtract total outstanding checks | - _____ |
| d. Subtract bank fees | - _____ |
| e. Add interest earned | + _____ |
| f. New balance (should equal your checkbook balance) | \$ _____ |



Common Mistakes

- Forgetting to record Transactions/Fees
- Math errors and transpositions
- Resultant penalties for overdrafts
 - Non-Sufficient Funds (NSF)
 - Bank charges
 - Vendor charges



Questions



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The Credit Issue



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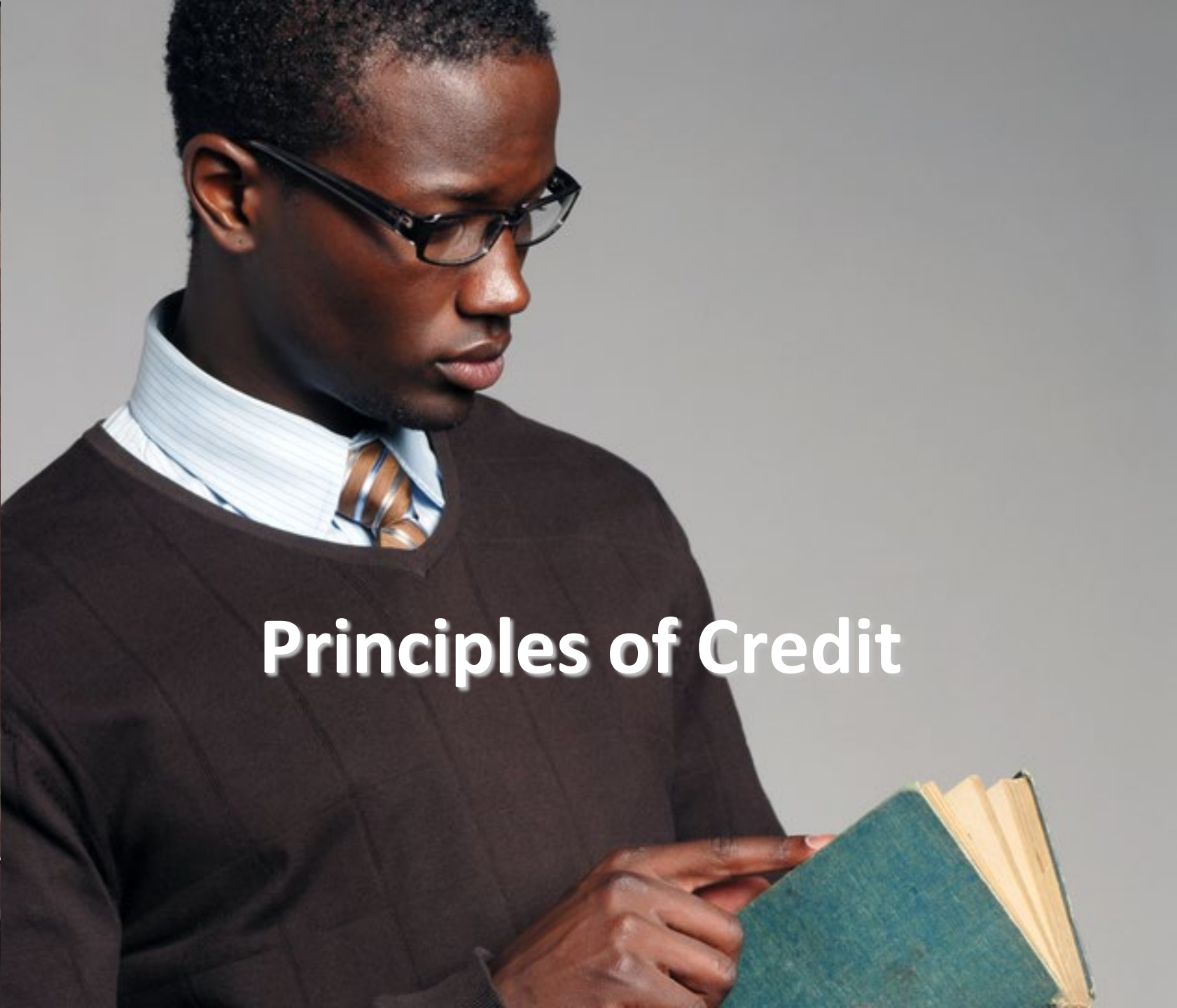
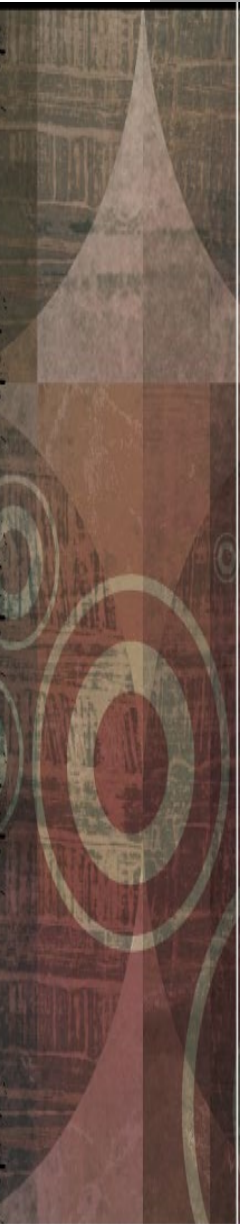


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Principles Discussed

- Principles of Credit
- Principles of Credit Safety
- Principles of Credit Dispute
- Principles of Debt Management





Principles of Credit

Credit

What is it?

- The receipt of goods, services, or money in exchange for a promise to pay a definite sum of money at a future date.



The 4 C's of Credit

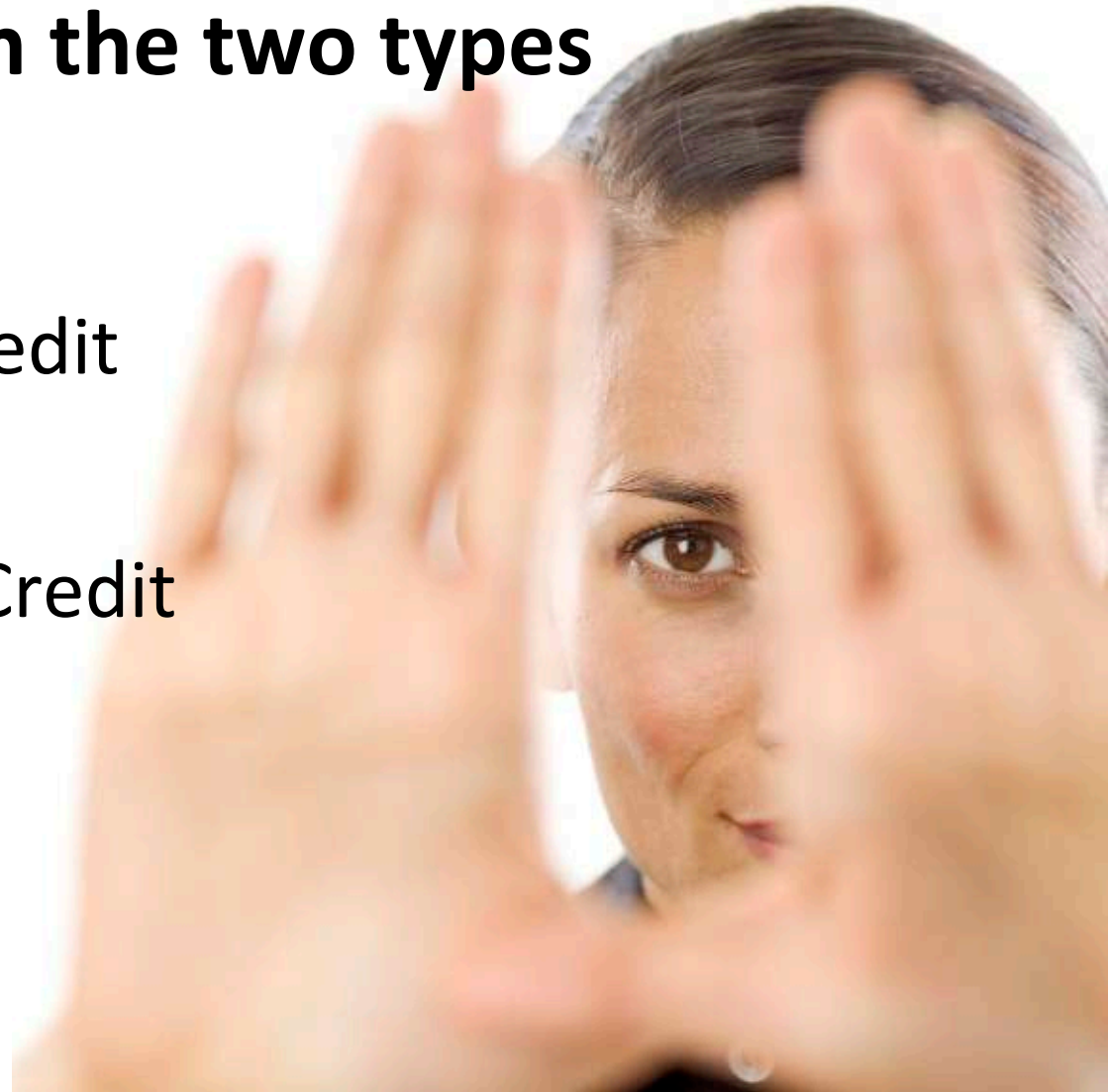
- Character
- Capacity
- Capital
- Collateral



Types of Credit

Let's focus on the two types of credit:

- Revolving Credit
- Installment Credit

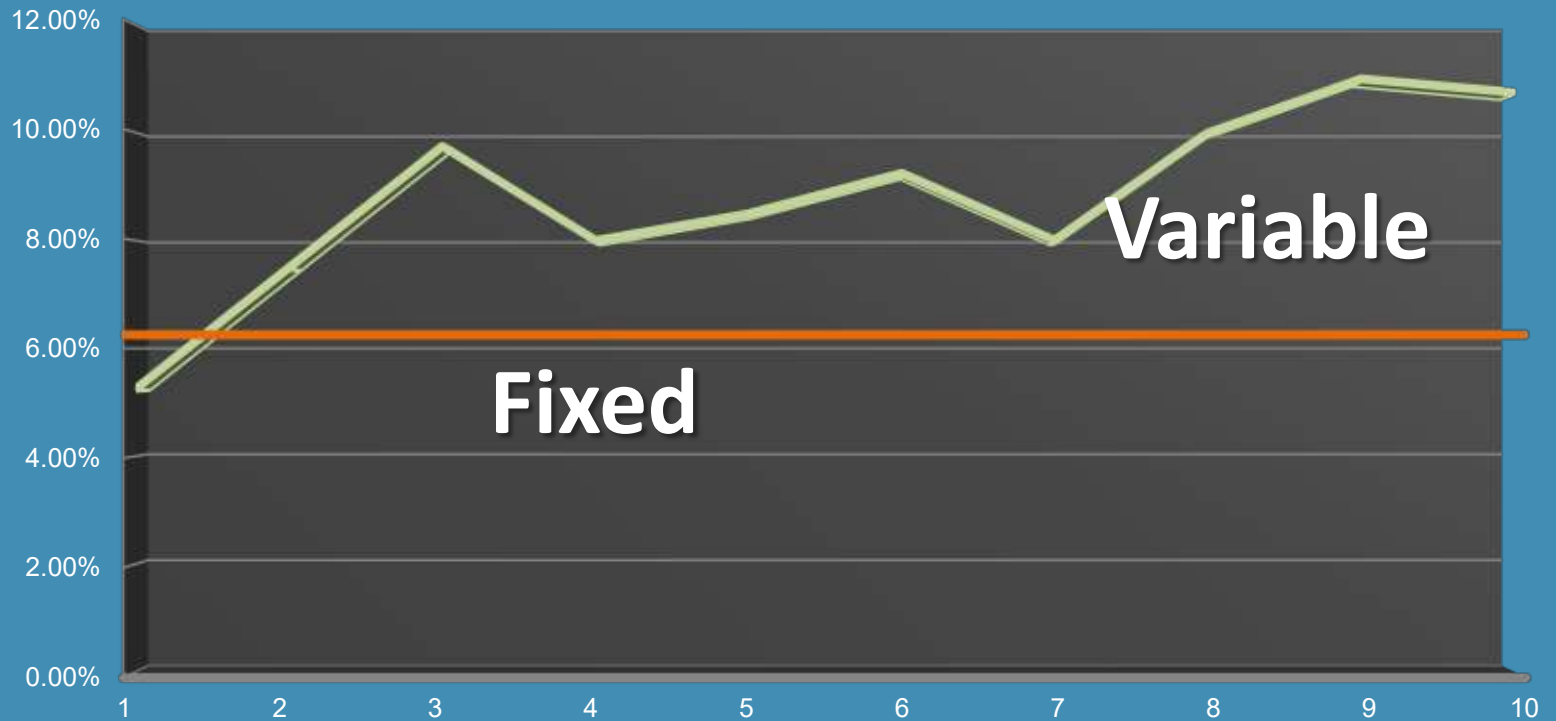


Interest

- A fee for the privilege of borrowing money
- The price a person pays for the ability to spend money today that would otherwise require time to accumulate



Types of Interest



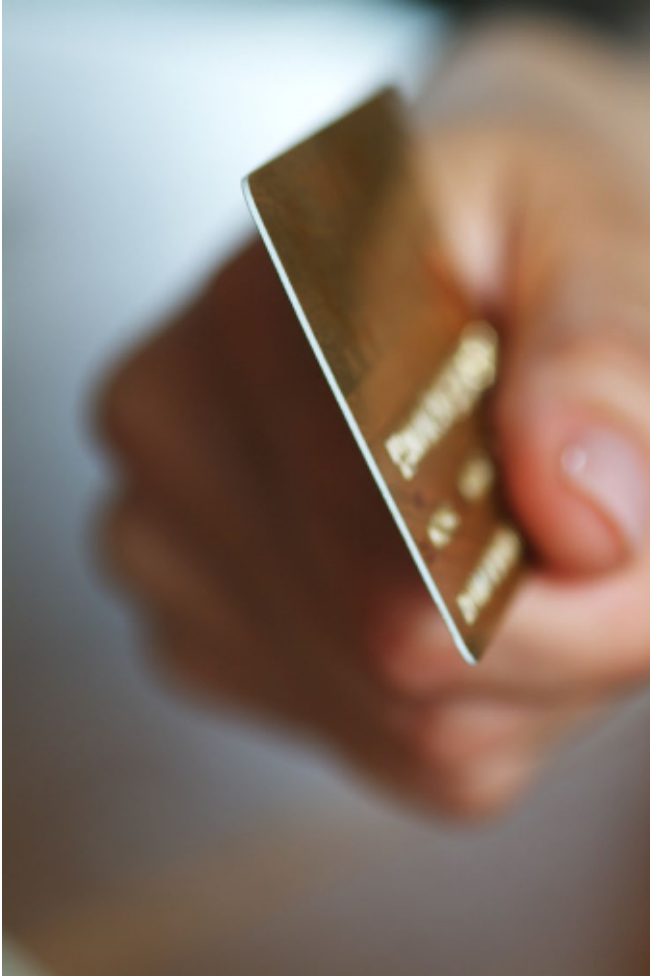
The Credit Card

What is it?

- A plastic card with a coded magnetic stripe that, when signed, entitles its bearer to a revolving line of credit, with a credit limit and interest rate determined by the borrower's creditworthiness



Types of Credit Cards



There are two types
of credit cards:

Secured

Unsecured



Building Solid Credit

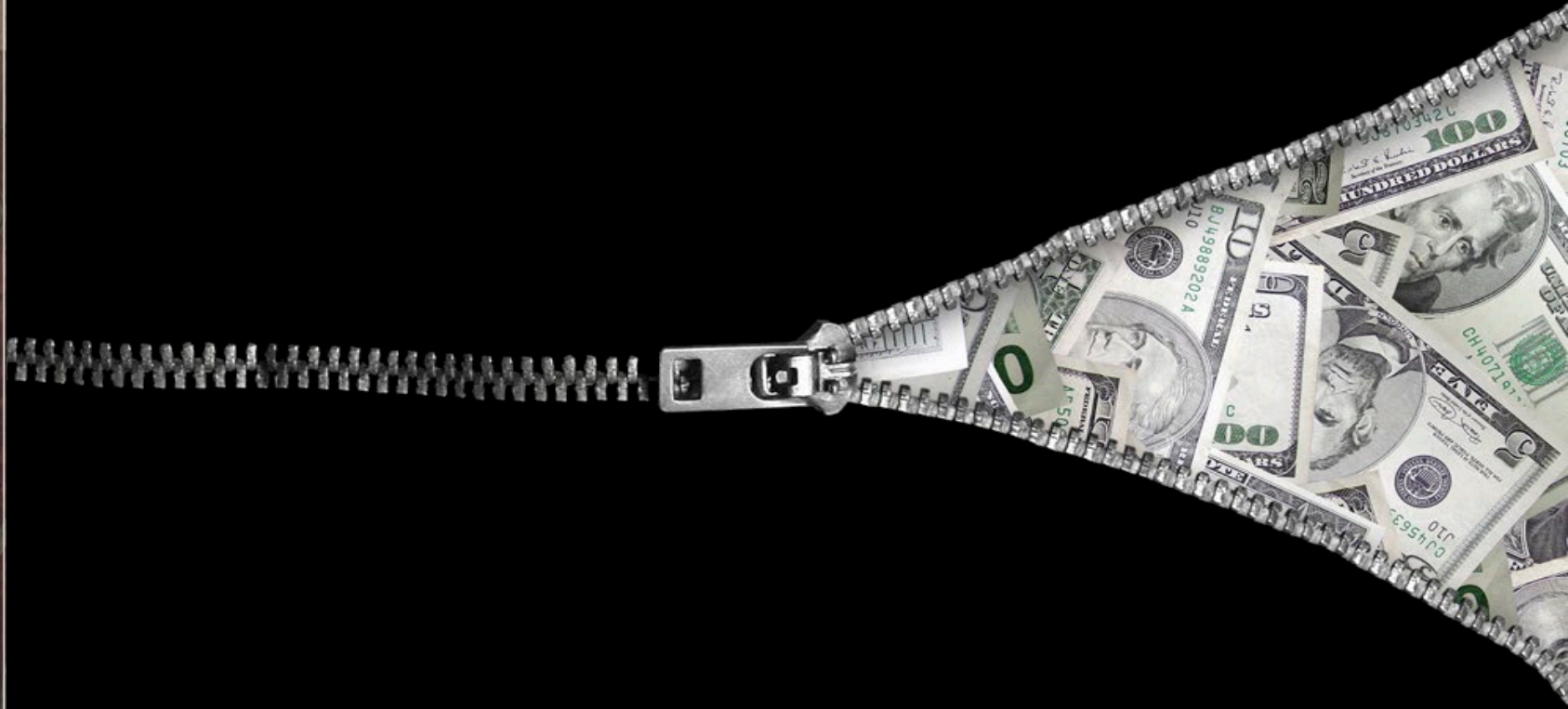
- Spending behavior as a consumer



- Level of personal responsibility



Principles of Credit Safety



Credit Safety

What is it?

- Actions taken to verify one's credit record remains unblemished by mistakes and unauthorized purchases



Credit Theft

- Check your credit report to make sure your information is correct
- Only give your Social Security number when absolutely necessary
- Never carry your Social Security card with you



Credit Card Theft

- To guard against identity theft, report stolen or missing cards to the credit card company as soon as possible, at least within 24 hours
- Doing so will increase the chance of avoiding liability on fraudulent purchases. Many companies have toll-free numbers and 24-hour service to deal with such emergencies



Reporting Credit Theft or Fraud

- If you suspect identity theft, call the Identity Theft Hotline toll-free:

1-877-IDTHEFT (438-4338)

- You may also file a complaint online with the Federal Trade Commission

www.ftc.gov



Principles of Credit Dispute



Credit Report Disputes

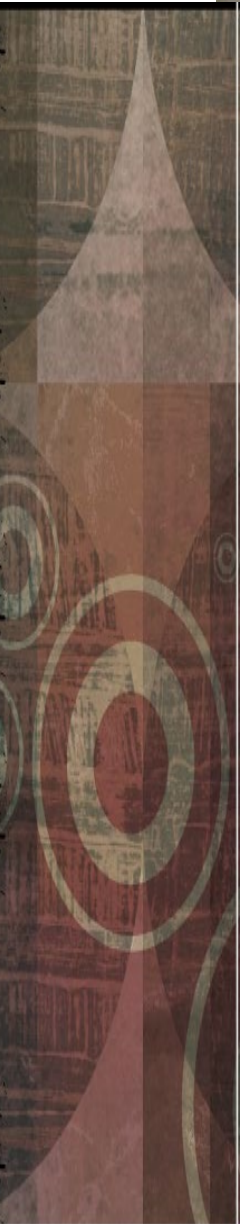
- What is it?
 - If you find incorrect information on your credit report it is your responsibility to notify the credit reporting agencies
 - Disputing mistakes is a process that requires alertness and follow-through



Credit Card Protection

- When one has purchased poor-quality or damaged merchandise with a credit card the law gives the consumer the right to withhold payment
- Credit card purchases are protected under the Fair Credit Billing Act
 - Under this law, the cardholder needs to make a real to resolve the dispute with the merchant before he or she can ask the issuer to stop a credit card payment





Principles of Debt Management



Debt

WHAT IS DEBT?

- Debt is the money you owe, an obligation
- Unsecured debts are debts such as credit cards, personal loans, lines of credit, department store cards, and medical bills that are not secured by collateral
 - Mortgages and car loans are considered secured because the lender has collateral (your house or car) that can be repossessed if the debt is not paid



Debt Management

WHAT IS DEBT MANAGEMENT?

- Debt management is the practice of keeping debt under control and monitoring spending to ensure the debt accrued is not overwhelming



Methods of Debt Elimination

- Debt reduction schedule
- Debt consolidation
- Credit counseling



Debt Reduction Calculator



[Reduce Your Debt Now](#)

**Here's a Free
tool you can use!**

Visit

www.FirstCommand.org



Debt Consolidation

- Goals
 - Lower overall interest rate
 - Lower overall payment(s)
- Caution
 - Requires discipline and commitment
 - Make payments
 - Save the difference in payments
 - Avoid new debt



Credit Counseling

- Non-profit services
- Confidential
- Professional
- Alternative to bankruptcy
- Ensures payments made on schedule



Questions



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The Loans Issue



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Principles Discussed

- Debt Consolidation Loans
- Mortgage Loans
- Home Equity Loans
- Auto Loans
- Education Loans



Debt Consolidation Loans

- Combine most or all current debt into a single new loan
- Goals
 - Lower overall interest rate
 - Lower overall payment(s)
- To be successful, consumer must change spending and saving habits



A photograph of a modern bedroom. In the center is a bed with a light-colored headboard, covered in white linens and several pillows. To the right is a wooden nightstand with a lamp that has a white and yellow shade. A telephone is on the nightstand. The floor is covered with a light-colored rug, and a pair of white slippers is placed on it. The text "Mortgage Loans" is overlaid in the center of the image.

Mortgage Loans



Understanding Mortgage Loans

- Long-term loan for purchase of a property and/or house
- The property or the house and land on which it is located serves as collateral for the loan
- Foreclosure if payments are not made



Understanding Mortgage Payments

Principal

- The loan balance

Interest

- Interest owed on that balance

Real Estate Taxes

- Taxes assessed by different government agencies to pay for school construction, fire departments, etc.

Property Insurance

- Insurance coverage against theft, fire, disasters, etc.



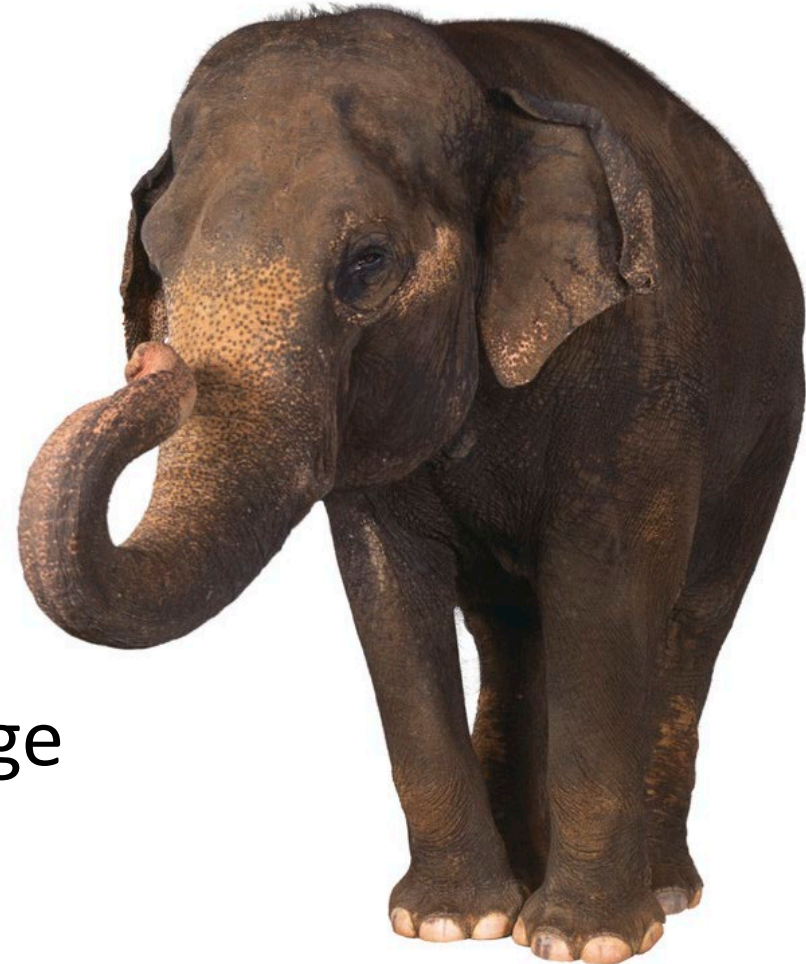
Fixed Rate Mortgage

- Interest rate and payments remain essentially the same for the life of the loan
- Very affordable when interest rates are low
- Usually 15- or 30-year loan terms



Kinds of Mortgages

- Interest-Only Loans
- Jumbo Loans
- Assumable Mortgage
- Construction Mortgage





Home Equity Loans



Home Equity Loans

- A home's equity is the collateral
- Home equity loan
 - One-time lump sum loan
- Home equity line of credit (HELOC)
 - Revolving credit like a credit card
 - Amount and time limit set by lender
 - Interest rates & payment amounts vary during life of loan
- Balance of either type equity loan is payable when house is sold





Auto Loans



Understanding Auto Loans

- Shop loan rates in a limited period of time
- Research on the internet
- Decide on the car you want
- Make sure your credit report is accurate



Shop for Financing

- Bank
- Internet
- Credit union
- Dealer
- Home equity loan





Education Loans



Applying For Loans

- Free Application for Federal Student Aid (FAFSA)
- Procedure
- Deadlines
- Estimated Family Contribution
- www.fafsa.ed.gov



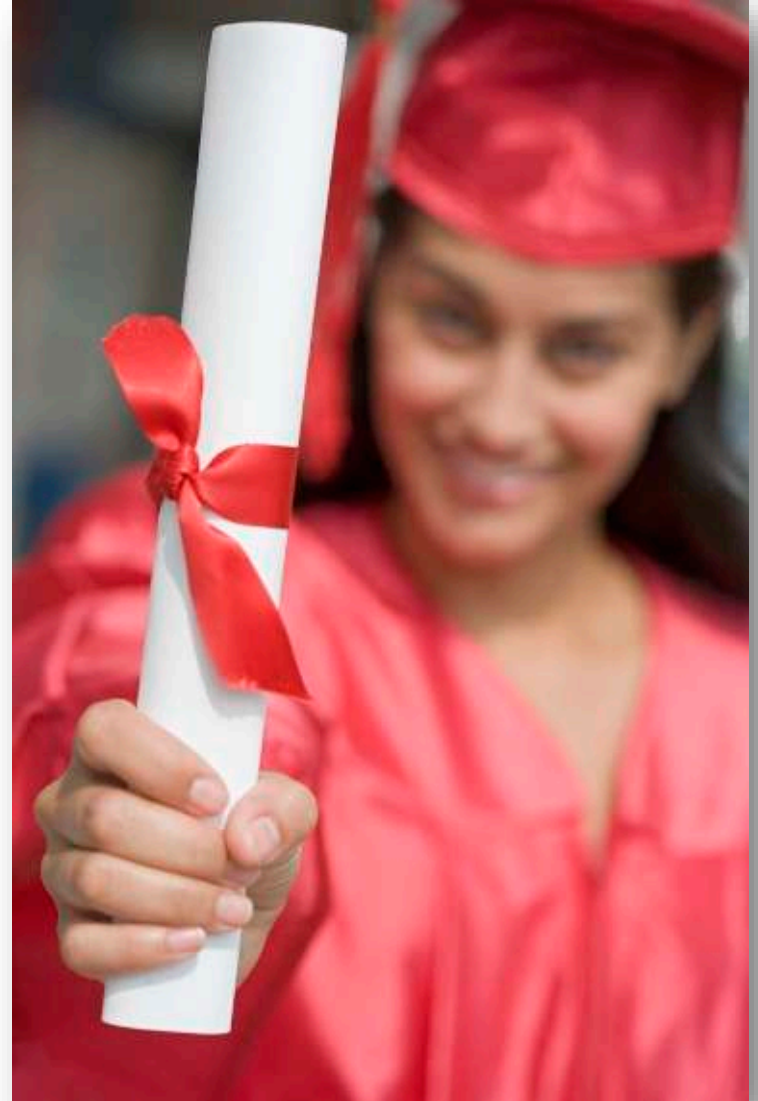
Understanding Education Loans

- Apply for scholarships and grants before turning to loans
- Loans must be repaid with interest
- Education loans for consideration:
 - Student loans
 - Parent loans
 - Private education loans



Student Loans

- Stafford Loan
- Perkins Loan
- PLUS Loan
- Private Student Loans



Questions



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The Rights & Responsibilities Issue



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Principles Discussed

- **Protection Under Federal Law**
- **Rights**
 - Renter
 - Landlord
- **Responsibilities**
 - Renter
 - Landlord
- **Be Informed**



Protection Under Federal Law

■ The Fair Housing Act

- prohibits discrimination in the sale, rental, and financing of dwellings, and in other housing-related transactions, based on race, color, national origin, religion, sex, familial status, and handicap (disability)

■ The Equal Credit Opportunity Act

- prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age, because an applicant receives income from a public assistance program, or because an applicant has in good faith exercised any right under the Consumer Credit Protection Act





Rights

Rights of the Renter

- State law will vary
- In general, you may expect the **right** to:
 - Privacy
 - Refuse unlawful or unreasonable entry
 - A decent place to live
 - A certain level of security
 - Proper notice before pesticides are applied
 - Proper notice of rent increase; decrease in services
 - Proper eviction notice
 - Speak out



Rights of the Landlord

- State law will vary
- In general, landlords have the **right** to:
 - Prompt payment
 - Have compliance with tenancy agreement
 - Increase rent
 - Have tenants pay a late payment penalty
 - Utilities
 - Enter the apartment





Responsibilities

Responsibilities of the Renter

- **Responsibilities** of the renter should be explicit in the *lease or rental agreement*
- The lease or rental agreement are legal contracts
- They should be read and understood in entirety



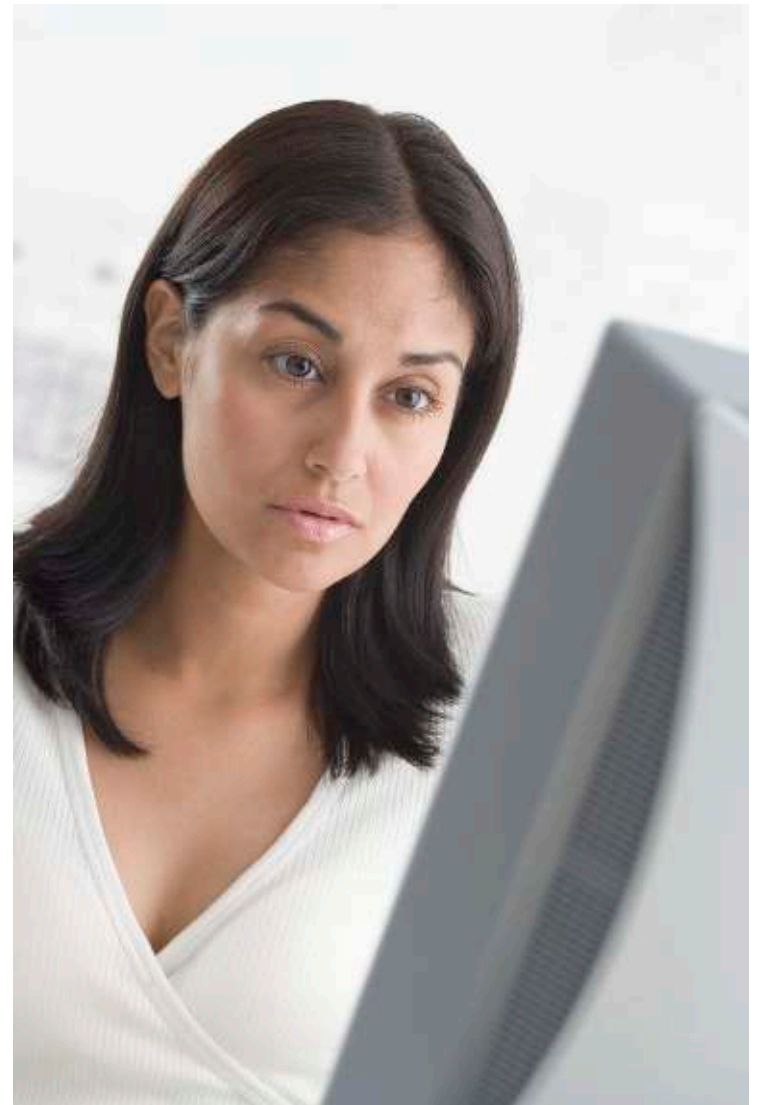
Responsibilities of the Landlord

- **Responsibilities** of the landlord should be explicit in the *lease or rental agreement*
- Landlords are responsible for providing a safe and habitable rental unit for the tenant
- Responsibilities are also outlined in the *Landlord Tenant Laws* – usually Landlord Tenant Courts provide protection for tenants and landlords



Be Informed

- Know your rights
- Know your responsibilities
- Make your own informed choices



Questions



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Fort Worth, TX 76109-4999

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The Buying Issue



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FINANCIAL LITERACY FOR LIFE



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Principles Discussed

- Protection Under Federal Law
- Renting a Home
 - Advantages
 - Disadvantages
- Buying a Home
 - Advantages
 - Disadvantages
- Which Choice is Right for You?

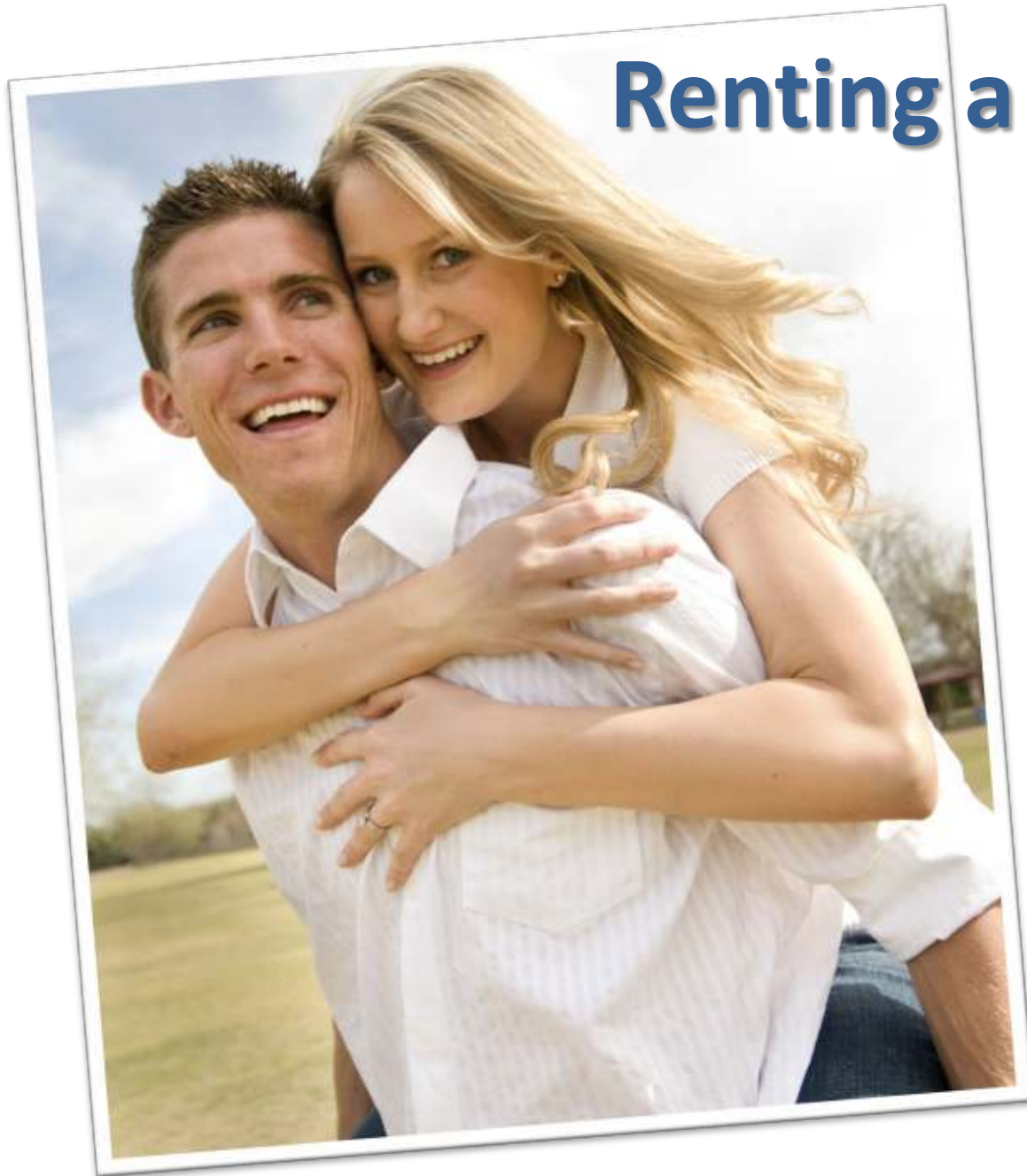


Protection Under Federal Law

- The Fair Housing Act
- The Equal Credit Opportunity Act



Renting a Home



Advantages of Renting a Home

- Minimal maintenance costs
- Flexibility to move without having to find another renter
- Ability to establish your credit rating
- Does not lose equity



Disadvantages of Renting a Home

- Have to make monthly payments, based on the price set by the owner of the property
- Earn no equity
- Do not receive tax advantages
- Limited on making improvements or changes to the property





Buying a Home



Advantages of Buying a Home

- You have an investment
- You build equity
- You receive tax advantages
- You may make property improvements and changes subject to building codes



Disadvantages of Buying a Home

- Your equity and investment will to fluctuate
- You are responsible for property taxes, maintenance, insurance, etc.
- You have little flexibility in moving until you find a buyer for your home



Which Choice is Right for YOU?



Determine Your Options

Some things for consideration is to determine:

- Your dwelling needs, not wants
- Your lifestyle; based on reality and practicality
- What you can reasonably afford
- All the costs associated with your choice



Things to Consider

Income

Down Payment

Homeowner's
Insurance

Mortgage Rate

Utilities

Loan Period

Property Tax



Which Option is Best... for You?



To rent a home or to buy a home depends on:

- Your lifestyle
- Your preparation
- Your finances
- Your goals



Questions



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The Stocks & Investments Issue



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Principles Discussed

- Stocks
- Stock Tables
- Bonds
- Mutual Funds



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Understanding Stocks



Types of Stocks

Common Stock

- Board of Directors decide what to do with profits

Preferred Stock

- Fixed dividends are paid out



Stock Advantages

- Stocks have higher potential growth and reward than fixed investments
- Long-term growth of stocks has outpaced interest paid on fixed investments



Stock Disadvantages



- Stocks have higher risk than fixed investments
- Single stock investment is particularly risky due to lack of diversification



Understanding the Stock Table

Generic Stock Table

Monday, June 2, 2008

1	2	3	4	5	6	7	8	9
52 Weeks								
HI - LO	SYM	DIV	VOL	YLD	PE	HI- LO	CLOSE	NET CHG
47 - 37	Z	2.30	335	5	10	43 - 40	42 3/8	+1



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Understanding Bonds



What Are Bonds?

- An IOU Issued by corporations or governments
- “Fixed income” investments



Types of Bonds



- Corporate bonds
- Municipal bonds
- Treasury bonds
- Treasury notes
- Treasury bills
- U.S. Savings Bond
- Zero coupon bonds



Selecting

Bonds



Issuer

Maturity

Credit Quality

Risks



Bond Advantages

- Predictability
 - Fixed income for defined period of time
- Generally higher source of income than cash investments or stocks
- Inclusion in portfolio provides diversification
- Income from some bonds is tax-exempt



Bond Disadvantages

- Fluctuations in interest rates
- Call risk
- Risk of issuer default
- Value of interest affected by inflation
- Corporate decisions may affect credit quality and/or market value





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Understanding Mutual Funds



Investment Objectives

- High Risk/Higher Returns
- Increase in Capital
- Balanced
- Future Income



Categorizing Mutual Funds

- Size
- Investing Style
- Market



Evaluating a Mutual Fund

- Value
- Performance
- Distributions

Advantages and Disadvantages

- Professional Management
- Marketability
- Diversification
- Regulations to protect consumer
- Lack of insurance
- Inflation risk
- Systematic risk



Questions



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The Retirement Issue



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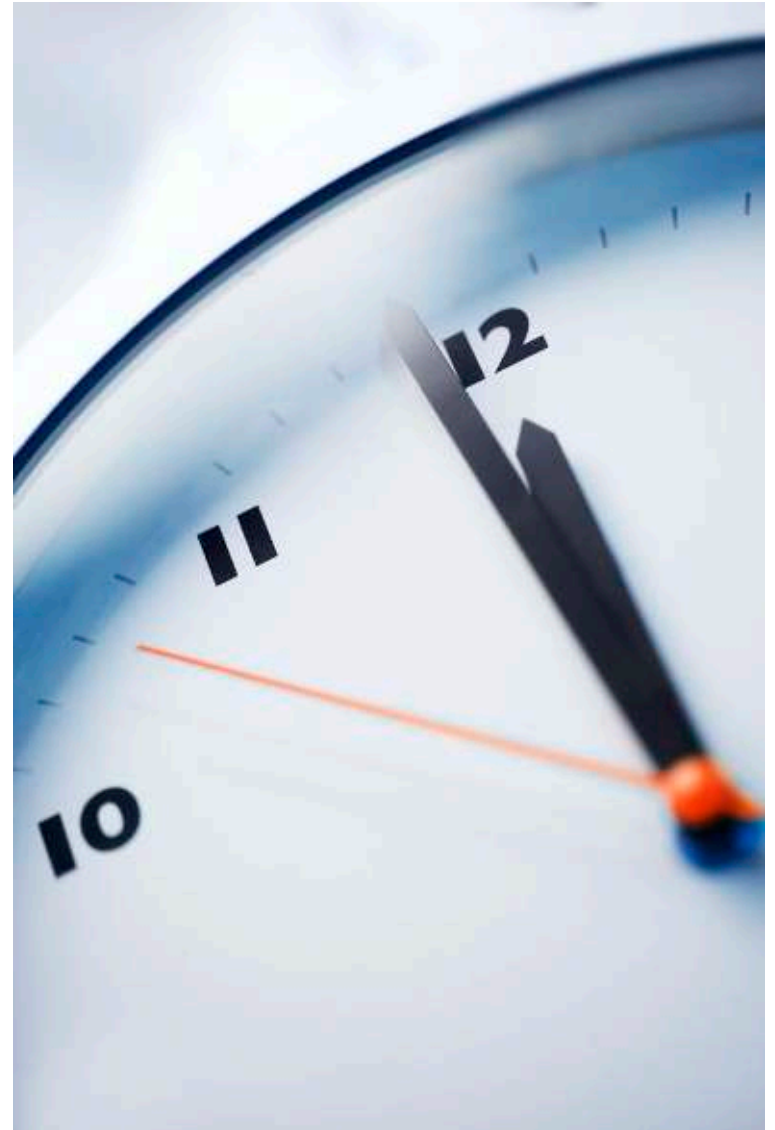
Principles Discussed

- Time Value of Money
- Individual Retirement Account (IRA)
 - Traditional
 - Roth
- Simplified Employee Pension (SEP)
- Savings Incentive Match Plans for Employees (SIMPLE)
- 401(k)
- 403(b)



Time Value of Money

- Input
- Rate of Return
- Time



Starting Early



Age	Return
25	Begin Investing
30	\$22,968
35	\$59,959
40	\$119,533
45	\$215,478
50	\$369,998
	\$618,853

Average Annual Return

10%

Cumulative Return

1631.14%



\$248,855



Age	Return
25	
30	Begin Investing
35	\$22,968
40	\$59,959
45	\$119,533
50	\$215,478
	\$369,998

Average Annual Return

10%

Cumulative Return

974.90%

Saving and Retirement Accounts

- Savings Accounts
 - Cash for emergencies and short-term goals
 - Liquid asset with no penalty for withdrawal

- Retirement Accounts
 - Long-term investment for retirement years
 - Some funded with pretax dollars
 - Tax-deferred or tax-free growth
 - Withdrawals prior to age 59 ½ usually entail additional taxes



Traditional IRA

- Set up under a custodian
- Variety of savings and investment vehicles
- Funded from post-tax income
- Depending on income, contributions may be tax deductible
- Growth is tax-deferred



Contributions

- Limit of \$5000 if under age 50
- Limit \$6000 if over 50
- Tax refund can be direct-deposited into IRA
- Can continue until age 70 ½

Withdrawals

- Reportable and Taxable
- Withdrawals prior to age 59 ½ may result in taxation and early withdrawal penalties
- No penalty after 59 ½
- Early Distribution
 - 10% Penalty
 - Exceptions



Required Minimum Distribution

- Withdrawals from traditional IRA are required beginning at age 70½
 - No later than April of the year following the year that the owner reaches age 70½.
 - IRA distributions can go to charity and not be reported as income



Roth IRA

- Set up under a custodian
- Variety of savings and investment vehicles
- Funded from post tax income
- Growth is tax-free



Contributions

- Contribution limit is \$5,000
- Income affects eligibility to contribute
 - Single: Adjusted Gross Income (AGI) <\$110,000
 - Married Filing Jointly: AGI <\$169,000
 - Married Filing Separately: AGI <\$10,000
- No age limitations for contributing

Withdrawals

- Withdrawals are always reportable, not always taxable
- Withdrawals are tax-free
- Distributions can go to charity and not be reported as income
- No minimum required distributions at age 70½



SEP- Simplified Employee Pension Plan

Employer-sponsored retirement plan

- Small businesses
- Self-employed individuals
- Growth is tax-deferred



Contributions

- Employer makes voluntary contributions
- Amount may vary each year
- All eligible employees receive same percentage of compensation
- Employer may be able to deduct contribution amount from taxes

Withdrawals

- Withdrawals are reportable and taxable
- Withdrawals prior to age 59½ may be subject to penalties



SIMPLE

Saving Incentive Match Plan for Employees

- Employer-Sponsored Retirement Plan
 - Known as SIMPLE IRAs
 - Growth is tax-deferred
 - Two contribution options



Contributions

- Option 1
 - Employee makes voluntary contribution through income deferral
 - Employer is required to match employee's contribution up to 3% of employee's annual compensation
- Option 2
 - Employer contributes 3% to all employee plans, regardless of level of employee participation


Withdrawals

- Withdrawals are reportable and taxable
- Withdrawals prior to age 59 ½ may be subject to penalties



401[k]

- Employer-Sponsored Retirement Plan



401k

- Funded from pretax dollars
- Funds and growth are tax-deferred



Contributions

- Employees get a list of funds
- They choose which fund(s) to contribute to
- They choose how much goes to each fund
- Employees can use payroll deduction
- Employer can match contributions or contribute a specified amount to employee's fund
- Employer can contribute even if employee doesn't

Withdrawals

- Withdrawals are allowed in cases of
 - Termination
 - Disability
 - Death
 - Hardship, if allowed by company
- Cash withdrawals subject 20% additional tax
- Alternatively, withdrawal may be rolled over to another tax-qualified plan



403[b]

- Defined contribution plan for investments for employees of
 - Non-profit organizations
 - Hospitals
 - Public schools
 - Universities
- Very similar to 401(k) in features and restrictions
 - Funded from pretax dollars
 - Funds and growth are tax-deferred



Contributions

- Employees can contribute pretax dollars through payroll deduction
- Employees are given a list of funds and, they choose which fund(s) to contribute to & how much goes to each fund
- Employer can match contributions up to specified limits or contribute money to employee's fund
- Employer can contribute even if employee doesn't

Withdrawals

- Withdrawals are allowed in cases of
 - Termination
 - Disability
 - Death
 - Hardship, if allowed by company
- Cash withdrawals subject 20% additional tax
- Withdrawal may be rolled over to another tax-qualified plan



Roth 401[k] & Roth 403[b]

- Growth is tax-free
- Certain criteria must be met



Contributions

- Participant can make retirement contributions
 - On a pretax basis to traditional account
 - On a post tax basis to Roth account
 - Or a combination of the two
- Contributions are irrevocable and cannot be shifted to a pretax account

Withdrawals

- Allowed in cases of
 - Termination
 - Disability
 - Death
 - Hardship, if allowed by company
- Cash withdrawals may be subject 20% additional tax
- May be rolled over to another tax-qualified plan
- Tax-free under certain conditions.
- Required minimum distributions apply



Annuities

- Investment vehicle combined with insurance contract
- Growth is tax-deferred
- Designed to provide income for a given time or for the life of the annuitant
- Two types



Deferred Annuity

- Provides income at later date at least a year after purchase
- Two phases
 - Accumulation – series of payments **into** account
 - Distribution – payments **out** of account
- Fixed or variable
 - Fixed - pays fixed interest rate guaranteed by issuer; payments based on set formula
 - Variable – no fixed interest rate; payments based on performance of securities; investor assumes risk and potential for greater growth



Immediate Annuity

- Purchased with single, lump-sum payment
- No accumulation phase; distribution begins immediately
- Only available as fixed annuity



Cancellation or Exchange

- Cancellation
 - Owner has option to cancel annuity any time before distribution begins
 - There may be a termination penalty
 - Assets, minus any penalty, returned to owner

- Exchange
 - Owner has option to exchange original annuity for another at a different issuing company
 - Known as a 1035 exchange



Annuity Withdrawals

- Can be made during accumulation phase
- 10-20% of assets available annually
- Withdrawal charge may apply
- Taxes and penalties may apply
- May be treated as asset reduction or loan
- Provisions specific to contract



Advantages

- No contribution limit
- Tax-deferred growth
- Potential for lifelong income
- Investment flexibility (variable annuity)
- Insured investment (variable annuity)

Disadvantages

- Withdrawals & distribution treated as ordinary income for tax purposes
- No residual estate
- Penalty for early withdrawal
- Expenses
- No “stepped-up” cost basis for beneficiaries



Questions



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The Insurance Issue



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Principles Discussed

- Renter's Insurance
- Automobile Insurance
- Homeowner's Insurance
- Health Insurance
- Life Insurance





Renter's Insurance



Coverage

- Covers personal property
- Landlord's insurance
- Landlord's negligence
- Coverage is not very expensive
- Check with auto or life insurance provider



Auto Insurance



Types of Coverage

- Basic Coverage
 - Liability
 - Collision
 - Comprehensive



Types of Coverage

- Additional Coverage
 - Uninsured/Underinsured Motorist (UM/UIM) Coverage
 - Medical Payments Coverage
 - Personal Injury Protection (PIP) Coverage
 - Rental Reimbursement Coverage
 - Towing and Labor Coverage



Lowering Premiums

- Link auto and homeowner's policies
- Buy a vehicle that isn't popular to steal
- Ask for a higher deductible on collision and comprehensive coverage
- Lower your liability coverage
- List all safety and security features
- Compute your total number of miles a day





Homeowner's Insurance

Types of Policies

- Cash Value
 - What the property was worth at the time of damage, minus depreciation
- Replacement Value
 - What it would take to rebuild the home with similar quality materials



Exclusions

- Not usually covered under standard policy
 - Floods
 - Earthquakes
- Separate coverage can be purchased
- May be required if home is in flood- or earthquake-prone area



Coverage for Property

- Rebuild the home
- Rebuild other structures
- Personal property and contents
- Living costs if homeowner is unable to stay in home while repairs are underway
- Loss of personal property while away from home.
- Damages to trees, shrubs, and plants



Coverage for Liability

- Cover personal liability
- Provide medical payment for injuries that occur on the premises
- Insure the personal property of others



Appraisals

- Optional additional coverage for valuable personal property
- Review value of home and property periodically
 - Additional acquisitions
 - Improvements to home or property



Selecting a Company

- Ask friends, relatives, or trusted advisor
- Contact your current mortgage lender, real estate agent or insurance company
- Check online
- Check local agencies
- Contact the state Department of Insurance
- Get price quotes



Lowering Premiums

- Shop around
- Raise your deductible
- Obtain a non-smoker discount
- Install fire and burglary systems
- Select a home built with fire-resistant materials
- Link your auto, life, and home insurance





Umbrella Insurance

- Additional liability protection
- Put in effect when the liability on other current policies has been exhausted
- Often inexpensive in comparison to the coverage gained
- Covers non-business activities



Health Insurance



Selecting a Plan

- Compare premiums
 - Identify the levels of coverage needed
 - Determine what expenses are covered
- Compare out-of-pocket expenses
- Read the detail
- Know what is covered and what isn't
- Individual policy
 - Identify preexisting health issues
 - Determine if current physician is in- or out-of-network
 - Confirm that the plan offers guaranteed renewability



Payments

- Co-Payment or Co-Insurance
- Deductible
- Premium



Managed Healthcare Plans

- Health Maintenance Organizations (HMO)
- Preferred Provider Organizations (PPO)
- Point-of-Service (POS)



Health Maintenance Organizations

- Provider network offers services at fixed prices
- Primary Care Physician (PCP) provides, arranges, coordinates, and authorizes all aspects of the member's healthcare
- No deductibles
- Low monthly premiums
- Typically have lowest out-of-pocket expenses
- Preventive care is usually covered
- Many rules & restrictions



Preferred Provider Organizations

- Fee-for-service, pre-negotiated rates
- No PCP; incentives for using “preferred” providers
- Less restrictive than HMO
- Higher out-of-pocket expenses than HMO



Point-of-Service Plan

- Open HMO - combination of the traditional HMO, preferred provider network, and fee-for-service plans
- Low costs for in-network services and referrals
- Increased costs for out-of-network services and self-referrals



Disability Insurance

- Provides income when you cannot work due to illness or injury
- Paid weekly or monthly
- May be a percentage of current income or a set dollar amount



Long-term Care Insurance

- Coverage for costs of personal care made necessary by chronic illness (lasting over 90 days) or serious injury
- Costs may be associated with:
 - Nursing home
 - Adult day care
 - Assisted living
 - In-home care



A photograph of a man with dark hair, wearing a white t-shirt, leaning over a sleeping baby. The baby is lying on its side on a white blanket, with its eyes closed and mouth slightly open. The man's face is in focus, looking down at the baby with a gentle expression. The background is a plain, light-colored wall.

Life Insurance



Types of Coverage

- Permanent insurance
 - For permanent needs like family income or final expenses
 - Usually pay level premiums over time
- Temporary insurance
 - For temporary needs like mortgage, debts, college
 - Usually pay increased premiums if policy is renewed



Coverage Amount

- Burial costs
- Potential outstanding debts at time of death
- Mortgage payments
- Compensation for loss of income
- Other expenses (child care, college expenses, etc.)
- Other current insurance
- Other current death benefits
- Affordability



Premiums & Insurability

- Typically based on:
 - The type of insurance
 - The statistical chance of the insured's death while policy is in effect
 - The amount of insurance purchased
- Factors affecting insurability:
 - Hazardous vocation
 - Hazardous avocations
 - Personal health
 - Family health history
 - Personal habits
 - Travel plans
 - Driving habits
 - Military service



Family Members & Beneficiaries

- Riders may be offered to provide coverage for:
 - Spouse
 - Children
- Name a beneficiary
- Proceeds will bypass the will and go directly to the person designated as the beneficiary



Questions



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Supplemental Information



Adding Family Members to Health Insurance

- During an open-enrollment period
- Due to a life event such as:
 - Marriage
 - Loss of employment
 - Birth or adoption of a child



Policy Cancellation Options

- If you are no longer able or willing to pay the premiums
 - APL (Automatic Premium Loan)
 - Reduced paid-up coverage
 - Extended term coverage
 - Policy loan
- Consult your agent
- Do so in writing



Selecting a Company

- Research company's financial security
- Contact local insurance agencies
- Ask for references from friends, family or a trusted financial advisor
- Check the insurer's claims payment history
- Contact the state Department of Insurance



Consumer Safeguards

- State licensing and regulations
- State approval required for business practices and products
- State guarantee fund
- National Association of Insurance Commissioners – www.naic.org



Indemnity Health Plans

- Fee-for-service
- Amount reimbursed varies
- Any provider you choose
- Deductible
- Co-payments
- Preventive care may not be covered and may not count toward deductible



Short-term Disability Insurance

- Provides you with income for a short period of time if you become ill or are involved in an accident
- Usually provides payments for 3 to 6 months
- Coverage may be offered by employer or may be purchased as an individual policy



Long-term Disability Insurance

- Provides income if illness or injury causes inability to work for extended time period (usually 6 months or more)
- Coverage may be offered by employer or may be purchased as an individual policy



Types of Life Insurance

- Participating Whole Life
- Non-Participating Whole Life
- Interest-Sensitive Whole Life
- Variable Whole Life
- Level Term
- Decreasing Term
- Potentially Permanent Insurance
- Adjustable Life
- Universal Life
- Variable Universal Life

