Personal Finance 101 Notes
(Building Personal Wealth)

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Purpose & Objective

The purpose of this document notes is to inform the reader of the various personal finance terms, calculations, money investments options, debt management, insurance policies, mutual funds, social security, retirement benefits & options, taxes and tax laws, wills & trust.

Although, I do not trust financial institutions in this current economic climate and with the current banking laws implement against those whom have there money in banks. Where the laws are against the depositors where all monies (currencies) belong to the banking institutions and no longer under the jurisdiction of the depositors. The trust relationship no longer exist with the banking and the financial institutions,

Finance Foundation

Investment

Emergency Fund

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Debt Management

Taxes (Added by Me)

Protection

The Wealth? Formula

Money + Time + or - Rate of Return - Inflation - Tax = Wealth (Future Income)
* The term "wealth is a subjective word and must be defined on an individual basis.

Money Talk

Warren Buffet Advise - "Don't save what is left after spending; spend what is left after saving."
1) Pay Yourself First
2) Buy Only What You Need
3) Small Change, Big Money

Time

Time is money

Get Rich Slowly

- It takes time to build a solid foundation
- Avoid get rich schemes or impulses
- Investing is not gambling.

Rate of Return

The Magic of Compound Interest (Rule of 72)
72/Rate of Return = Years to Double Your Money
Example: 72/4 = 18 (Years to Double Your Money)

Simple Interest vs Compound Interest

- Simple Interest is a accumulates no interest at all
- Compound Interest accumulates interest which increases your savings

Rate of Return

- The rate of return is determine by two main factors, which are Taxes & Inflation.

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- The logic sense is to get at least 5% or more in interest to beat taxes & inflation
- Taxes & Inflation is what the Moneylender used to maintain an hedge on the working class.
- Most wealthy elitist did not earn their income by trading time for currency (Money).
- Most wealthy people DO NOT pay taxes and hire CPA's to provide them with ways to avoid it (Offshore Accounts, Foundations, etc..)

Inflation
(The Silent Killer)

- The rise of prices of goods & services over time.
- Too many funds chasing to few good & services is another definition.
- What need to be considered here is whom control the prices of good & services and what determines the rise in prices. Most monopolies whom control minerals or materials resources usually determine the price for the so called profit motive of maintaining power & control of natural resources.
- The Central Banking System is the real culprit in regards to Inflation, by the increase in the money supply based upon borrowing & creating debt.

Taxes

- First of all their two types of taxes Direct(Property Tax) & Indirect (Activity or Privilege Tax).
- DIRECT TAX. An easy way to remember the difference between direct taxes and indirect taxes is to remember that direct taxes are DIRECTLY on inalienable rights (people or property, real and personal). A direct tax can be thought of as simply a property tax. It is on something you own. (your body, your possessions, your rights)
- INDIRECT TAX. Indirect taxes are able to be passed on to someone else INDIRECTLY (excise tax, ie; alcohol tax or corporation tax). An indirect tax can be thought of a simply an activity or privilege tax. It is on something you do. Exercising a privilege.
  Web Source: http://usa-the-republic.com/revenue/true_history/Chap3.html

Capital Gains Tax

- Capital asset is a personal or investment such as stocks, bonds or your home (although you home is a more of a liability than an asset).
- The difference between the amount sold for it and what you actually paid for it.
- Capital assets held for less than a year is a short-time gain and usually taxed as ordinary income tax rate (What your current income tax bracket rate).

Debt Management

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- Control your debt or debt will control you.
- Using credit cards increase your debt.
- Using financial common sense along with cash can help alleviate your debt.
- Control your debt by creating a Debt Management Report.

The X-Curve Concept
<u>(Building Wealth or Income with Responsibility)</u>

- A person's responsibility decreases and their wealth increases over time.
- The X-Curve takes into effect two opposite curves (Wealth & Responsibility)
- Wealth increases hopefully as you age.
- Responsibility decreases hopefully as you age.
- The X-Curve requires a discipline savvy person to build wealth (income).

Insurance or Investment?

<u>Insurance Concepts</u>

- Insurance is protection against a future unforeseen event and investment is security for your future.
- Insurance provides protection for your investment for unforeseeable events.
- Use the DIME method to determine your life insurance protection (Debt+Income+Mortgage+Education = Amount of Life Insurance Protection).
- Stay at home parents need life insurance as well.
- Single people may need Life Insurance for many reason outside the norm, like burial, business partnership, co-signed student loan, care for their parents, tax benefits, financial legacy, etc...
- The cost of insurance (COI) per $1000 (or death benefit) for 1 year is the unit cost.

<u>Type of Life Insurance</u>

Term Insurance
- Based on COI
- The cost goes up every year due to risk of dying is higher as you get older.
- It base on your health condition, for smoker vs non-smoker & life expectancy man vs woman.

Annual Renewable Term (ART)
- Coverage is for one year term.
- Renewable every year with premium increase.
- Cost less when you are younger, but expensive when grow older.

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Level Term: 5, 10, 20, 30 Years

- The premium for coverage is the or level for term.
- At the end of each term, the cost increases more than the ART insurance.
- The insurance company averages of the COI for the term. (ex. $1 @ age 35, $1.50 @ age 39, average= $1.25 for 5 years)

Decreasing Term:(

- Really a Mortgage Life Insurance policy.
- The premium cost will not increase during the life of the policy.
- Death benefits payoff the balance of the mortgage, if you die or something major happens to you.
- Mortgage Life Insurance is still a term life insurance.
  - The balance of the will decrease every year as well as the benefits, its a decreasing term policy.
  - The cost is the major factor here, you can get a better rate with a Level Term insurance policy.
  - The benefits will remain constant and not decrease during the term.

Return of Premium Term

- The policy will return the premium paid for the coverage, if insured survives the policy term.
- This type of term insurance may cost more and made have taxable implications.
- Make sure to know the real cost.
- Term insurance is simple insurance. You paid the insurance company, if you die, they paid the benefits to your family. If you don't die, they don't pay and you lose your premium money, just like car insurance.

Renewable Term

- Some term insurance policies are not renewable.
- Many term policies are renewable meaning you are guaranteed to renew the term for the rest of your life regardless of your health condition.
- With Non-Renewable term, you may not be able to renew unless you are in good health. Non-renewable insurance is cheaper than renewable insurance.

Convertible Term

- Allows the insured to convert to another policy for example from term to permanent life, regardless of the insured's health.
- Most often this entitlement is for employee who have a Group Term Life when their employment ends, can convert their policy within 31 days after being terminated.

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Permanent Life: Term + Cash
- Also called Cash Value Life Insurance

Whole Life
- It is the original and oldest form of cash value life insurance.
- Paying the COI alone is not sufficient, your paying higher premiums.
- The difference between the COI and the premium goes into a cash value.
- Whole Life policies give you a guaranteed rate of interest. Some insurance companies may provide dividends, but they are not guaranteed.
- The cash value compounded with interest is built up in the early years will pay for the higher COI in the later years. So policy can last a whole lifetime.
- Whole Life is not very flexible, the premium is fixed, interest is guaranteed and death benefit fixed.
- Since insurance companies have to guaranteed the interest for whole life policies, they give a conservative rate resulting in a slow cash build up.
- These type of policies have surrendering charge or fee for canceling the policy in the early years.

Buy Term, Invest the Difference
- May sound like the best financial solution from a insurance prospective or financial reasoning.
- The two condition to consider.
  - You must have the discipline and consistency to invest the difference. If not, you may end up buying Term but spending the difference. With uncertainty about the economy and the ever-changing job market, consistency can be a challenge.
  - You must know how to invest the difference. Other investment may be able to give better rates of return, but this may also sink your nest egg.
- In either case, if your investment haven't performed well at the end of the term, and the cost of insurance substantially increases, you may have lost your surplus money, or even worse, you may no longer be able to afford to continue your insurance coverage.
- Please consider all options to find a suitable solution for your financial foundation.

Additional of Life Insurance Products (US. Only)

Universal Life
- Flexibility is the major difference between Universal Life & Whole Life.
- Change your premium.
- Pay more one month or less the next.
- Due to financial problems you can skip a payment as long as the cash value is enough to pay the COI, resulting in a decrease of your cash value.
- You can adjust your death benefits to fit your life changing circumstance.

- The interest on cash value may be impacted by market conditions. This allows insurance companies to adjust the interest rates higher or lower if necessary.
- Some policies provide a minimum guaranteed interest.

Index Universal Life
- The cash value is based on a certain index, such as S&P 500.
- The investor is not directly investing into the index. The cash value inside the policy is credited with a return based on the performance of the index.
- Other types of life insurance include, Variable Life and Variable Universal Life.

Other Types of Life Insurance
- Accidental Death Insurance
  - This insurance usually is a stand-alone option, but often added to existing life insurance policy (Double Indemnity) coverage.
  - It only covers accident-related only death, unlike regular life insurance which covers all causes of death.

Joint Life Insurance
- Covers 2 people (Married Couples).
- Two types of joint policies.
  - First to Die
  - Second (last) to Die
- A Second to die policy does not pay benefit until the death of the last surviving spouse.
- A First to die policy pays out when the first person passes away.
- A common purpose is to protect a business.
- Its for estate planning due to the benefit are being used to minimize or eliminate the burden of estate tax on the heirs.
- The cost of this policy is cheaper than for the couple to buy separate policies.

Key Person Insurance
- Life insurance policy on the key person in a business.
- It focus on the owner or key employees whom are important to the business.
- The company buys this life insurance on these key people, pays the premium and are the beneficiary of the policy.

Executive Bonus Life Insurance
- This policy is offered to executive of a company.
- The company pays the premium and can deduct it as a tax-exempt contribution
- The executive receives the benefits.
- The cash value can be taken out as loans against the policy. The executives must

claim the premium payment as regular income in the event the executive passes away and the family can receive the benefit.
- The Executive Bonus Life Insurance is a good way for employers to attract and keep important employees.

Final Expense Insurance
- Referred to as Funeral expense insurance.
- This insurance is used to pay for funeral cost.
- This provides peace of mind to those in their final days without creating an additional financial burden to their loved ones.
- For people who may not qualify for regular life insurance, this is a easier and simplified policy to buy.
- People who have medical issues may still have a chance to qualify.

Living Benefits of Life Insurance
- The main purpose of life insurance is to protect your ones, business, or estate if you die.
- The insured may have a great needs at critical times while still living.
- Living benefits, also known as Accelerated Death Benefits, are a feature where the insurance company pays or advances a portion of the policy's death benefits to the insured to pay for care or treatment. If the insured dies, the balance of the death benefit will then be paid to the beneficiary.
- Life insurance is beneficial not just for the death benefit. With living benefits, the insurance can be more flexible to provide much needed money at critical.

Tax Advantages of Life Insurance
- Internal Revenue Service (IRS) gives many favorable tax advantages.

Tax-Free Death Benefit
- Death of the insured will provide the entire death benefit including the cash value is income-tax free to the beneficiary.

Tax-Deferred Earnings
- You do not pay taxes on gains in the policy. Tax is deferred until you decide to surrender the policy, the policy has lapsed, or when certain distributions occur.

Tax-Free Withdrawals
- When the cash value in the policy is sufficient, premiums paid into a policy can be taken as taken as tax-free withdrawals up to your cost basis in the policy. This is the premium you paid with after-tax dollars.

Tax-Free Loans

- You can take more money out of the policy in excess of your basis (your paid premiums) through tax-free loans with a very low net effect rate.
- When you take a loan from the insurance company, they will take the same amount of the loan from your cash value and transfer it to a loan reserve account. Interest on the loan is access, the loan reserve earns interest.
- Staying within the IRS guidelines, withdrawals and loans can be taken without federal income tax liability.

The Importance of Tax Advantages

- The tax advantages of insurance are only good if you have gains and a significant accumulation of money.
- If you have Term, all these tax-free loans, tax-free withdrawals, and tax-deferred earnings are of no use because term has no cash.
- Permanent Life policy, if you have little money in it, it also makes little difference.
- In reality, many policy owners either don't understand the advantages, don't have the money, or don't want to contribute enough to capitalize on the tax advantages.
- Traditional policies with low rates of interest did not help to accumulate high cash values, so these advantages were not so beneficial.
- The recent introduction of different savings and investment choices, more people are able to get better cash accumulation and make good use of these tax advantages.
- Considering the amount of taxes people pay, people must understand and look for the vehicles, whether in insurance or investment, that can save their future cash build up.

Understanding Annuities

- As more people are concerned about living a long life in retirement, annuities are becoming a solution for long-term planning. An annuity is the savings version of a life insurance product. All annuities are classified as either Deferred or Immediate.

Deferred Annuity

- Deferred annuities are tax-deferred accounts where the owner invests a lump sum (such as from rollover 401k or IRA) or makes regular payments over the course of many years. This period of cash growth and build up is called the accumulation phase.

Immediate Annuity

- Immediate annuities are different. The owner puts in a lump sum and starts receiving payments right away based on the term of the annuity contract.

Two Phases In An Annuity

Accumulation Phase

- The accumulation phase only applies to deferred annuities.

- Early withdrawal during the accumulation phase may face a surrender charge. Most annuities allow the policy holder to make partial withdrawals within their contract without penalty.
- In the U.S., if withdrawing before age 59 1/2, you may get a 10% federal income tax penalty as with other tax-deferred accounts.

Payout Phase

- The payout phase is traditionally referred to as annuitization. When the owner receives payouts, the annuitization period begins.
    - Period Certain: The period chosen to receive payments. If you die before the period the remaining years will be payout to your beneficiary. If live past the chosen period it will stop at the last period.
    - Lifetime Payment: You receive payment as long as you live Payments stop when you die.
    - Lifetime Payment with Period Certain: The combination of Period Certain & Lifetime Payment.
    - Joint and Survivors Annuities: Usually for couple, if one dies, the payment continues to the spouse until his or her last day.
- Now, new annuity contracts have offered a rider called guaranteed lifetime income withdrawal. It does not require annuitization of contracts, which gives the client more flexibility at the payout phase.
- It is important to understand that annuities can be an excellent tool if you used them properly. Annuities are not right for everyone.

Annuity: A Reverse Bet!

- Annuities look like a reverse life insurance policy.
- The primary difference between an annuity and life insurance is when payment is made. Annuities pay a set amount of money monthly, quarterly, or annually to meet future financial needs, usually in retirement. Life insurance pays the value of the policy at the time of death.
- With life insurance, you make a bet with the life insurance company. You make payment to the policy, if you die too soon, the company will pay the death benefits to your beneficiary.
- With an annuity, you give them a lump sum or accumulated premium. If you live long enough, the company keeps paying you monthly. If you die too soon, the company wins.
- Annuities are a good solution for people who worry that they may live too long and run out of money. Annuities can help them feel confident about their financial future.
- Annuities offer different investment options:
    - Fixed Annuity: Guarantees a fixed rate of return.

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- Fixed Index Annuity: Return is credited by a market index, such as the S&P 500. The index normally has a minimum floor and a maximum cap.

- The U.S. unlike IRA's and 401k's annuities have no limits on contribution. You can put in as much as you want.
- Due to lifetime payouts, it is a vehicle of choice for many people to rollover or transfer their 401k and IRA into annuities.

The Capital Markets
<u>(Stocks and Bonds)</u>

- When a company needs to raise money, they can either issue stock or bond certificates.

The First Market

- Company sells stock and bonds through a process called initial Public Offering (IPO).
- Stock and bond certificates are called securities.

The Secondary Market

- After IPO, investor can buy sell and trade these certificates on the Stock market.

<u>Stock</u>

- A stock is an instrument that signifies equity ownership in a cooperation, and represent a proportionate claim on a company's assets & profits.

<u>Bond</u>

- A bond is an instrument of indebtedness of the bond issuer to the holders.

<u>The Market Index</u>

- An index is a statistical indicator used to measure and report changes in the market value of a group of stocks.

The Dow

- The Dow Jones Industrial Average (DJIA) measures 30 powerful companies in American.

S & P 500

- The Standard & Poor's 500 is the indicator of 500 large cap companies and covers about 70% of the entire U.S. equity value.
- It represent companies in all major sectors in the U.S. such as Manufacturing to Financial's, Health Care, Technology, Energy, Retail and Pharmaceuticals.

NASDAQ

- The NASDAQ Composite Index lists the stocks of over 4,000 companies in its market.

- Its focus is on technology stocks such as Apple, Google, Microsoft, Cisco, Intel, Tesla, Netflix and Amazon.
- The international companies indexes such as Hang Seng in Hong Kong, Euro Stoxx 50 in Europe and Nikkei 225 in Japan.

The Money Market

- It's a market for short-term, low-risk securities such as U.S. Treasury Bills, Bank CD's, Commercial Paper and other debt issues by corporations or governments.
- Money Market Accounts are offered through banks or credit unions. It generally gives better returns than savings accounts and provides easy access to money when you need it. But it tends to require a higher deposit amount to participate.
- MMA's are different than money market funds, which are mutual funds with money market portfolios.

Mutual Funds

- A mutual fund is a pool of money from investors. Each fund has a specific mandate or purpose and a professional fund manager who invests the money based on the specific strategy and goal of the funds.
- Mutual funds consist of a mix of stocks, bonds, money market and other assets.

Type of Mutual Funds

1. Money Market Funds: Considered relatively low risk.
2. Bond Funds: Government and/or Corporate bonds.
3. Stock Funds: Shares in Companies.
4. Balanced Funds: A mix of stocks and bonds.

Stock Funds

- Growth Funds: Focus more on capital appreciation.
- Value Funds: Focus more on stocks that are deemed to be undervalued in price and likely to pay regular dividends.
- Index Funds: Aim to achieve returns similar to a particular index such as the S&P 500.
- Sector Funds: Focus on a particular industry segment such as biotech, energy, real estate, emerging markets, etc.

Buying and Selling Mutual Fund Shares

- Net Asset Value (NAV) is similar to the stock price of a company NAV measures the value of one share of the fund.
- NAV = Assets - Liabilities/Outstanding Shares

Mutual Fund Fees and Expenses (Load or No Load)

- Running a mutual fund involves costs. Funds pass along these cost to investors by charging fees and expenses.

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- Mutual fund charges include but not limited to; front load, back end load, purchase fee, redemption fee, exchange fee and account fee, plus annual operating expenses such as management fee, distribution/service fee and other other expenses.
- No Load
  - It means that the fund does not charge any type of sales load.
  - A no-load fund may charge fees that are not sales load, such as purchase fee, redemption fees, exchange fees and account fees.
  - No-load funds will also have operating expenses.

The Advantage of Mutual Funds

- Professional Management: Money managers provide investment expertise in researching, selecting and monitoring the performance of the securities purchases.
- Diversification: Diversification lowers your risk by not putting all your eggs in one basket. The money will be spread among different stocks, bonds and other assets.
- Liquidity: Get in or out quite easily.
- Low Investment Minimums: Some funds can let you start investing with as low as $50.00 a month.
- Ease and Convenience: It's easy to set up pre-authorized checking (PAC) programs for ongoing purchases and dollar cost averaging.

The Dis-Advantage of Mutual Funds

- The professional can be wrong. There are no guarantees. You can lose money.
- Fees and expenses reduce your return.

How You Can Make Money With Mutual Funds

1. Income: Returns to the fund from stock dividends and bond interest.
2. Capital Gains Distribution: The price of the securities a fund owns may increase when the fund sells them, in which case it has a capital gain. The gains will be distributed back to the investors.
3. Increased NAV: Investors can make money by selling mutual fund units at a price higher than they brought them.

Note: Any income or capital gain that an investor receives is taxed. Consult your tax professional and understand the effects that taxation has on your investments.

Exchange Traded Funds

- An exchange-traded fund (ETF) is an investment fund traded on stock exchanges, much like stocks. ETF's hold assets such as stocks, commodities, or bond and fluctuates over the course of the trading day.

Variable Life, Variable Universal Life, Variable Annuity

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- With the repeal of Glass-Steagall by the Clinton administration the insurance industry has incorporated investment vehicles into their insurance products.
- By combining investment with insurance clients may be able to capitalize on the potential growth of the market while also benefiting from the tax advantages of life insurance and annuities.

Variable Life and Variable Universal Life

- The difference between permanent life policies with cash, such as Whole Life (WL) and Variable Life (VL), is that the extra cash in the VL is put into a separate account, which is invested into securities, instead of the insurance policy's cash value.
- Variable Universal Life (VUL) is very similar to Variable Life (VL), except that you have flexibility on the premium and the death benefit.

Variable Annuity

- When you put money into fixed annuities, the insurance company will give you a fixed rate of return.
- With variable annuities, the policy owner is responsible to choose different investment options for their money. Thus, your rate of return depends on the performance of your investment.
- There are many investment choices, typically mutual fund-like portfolios. The account will gain or lose value depending on how it's invested in the market.

Considerations When Investing

- Past performance is no indication of future results.
- When investing, keep in mind that all the data, statistics, rates of return, dividend yield and share prices were numbers of the past.
- So when you invest, the data is relatively helpful to give you an idea of how a certain investment vehicle has performed in the past. It is important for you to know your risk tolerance.

Time and Timing

- Knowing Your Objectives and Risk Tolerance
- Understanding your goals and objectives helps you make the right choices and select the right tools or investments for the job. Time, as well as your risk tolerance, can play an important part in picking the right investment.
- When and where to put your money are also important factors.
  - If you need your money within 1 year, you want to keep it liquid. You may want to put it in a saving or money market account.
  - If you need it between 1 to 5 years, find some safe vehicles such as CD's, GIC's Treasury Bills, or conservative bonds.

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- If you need money in 5 years or later, consider stocks and bonds. The longer you invest the money, the more chance you may have to increase the amount of stock in your investment portfolio. Historically, statistics show that investors who kept their investment in stock for 20 years did not suffer losses.
- Time in the market is far more important than timing the market.

Asset Allocation

- Playing it safe and invest in one investment option as oppose to multiple or diverse investment options.
- Although multiple or diverse investment options are risky, you stand a better chance of generating a better return.
- Overall as your life changes from younger to older. You may be willing to be more aggressive with investment as a younger person. Conservative to moderated investment as a older person.
- Asset Allocation Category
  - Conservative
  - Moderate
  - Moderate Growth
  - Aggressive Growth

Dollar Cost Average

- The most major concern of investors is when the best time to purchase stock or get into the stock market.
- DCA is a strategy to systematically purchase shares of a securities product to offset investment risk in a fluctuating market.
- Simply keep investing the same dollar amount every month to buy the same shares. If the share price goes up, you buy fewer shares. If the share price goes down, you buy more shares.

How Risky is the Risk

- Average Rate of Return vs Actual Return
  Year 1 - Year 2 /Total Years

How Big is the Swing

- Investment and stock are very volatile.
- They rise very high and very quickly, but collapse just as fast.

Don't Be Too Emotional

- Just like the weather the stock market can be determined.
- The stock market like other commodity such as Currencies, Metal, livestock, etc... are controlled by the Money-changers.

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- Stock market rule of thumb is to buy low and sale high.

<u>Retirement Plans</u>

- Two basic categories of Retirement Plans
  - Defined Benefit Plan
  - Defined Contribution Plan

Defined Benefit Plan

- Know as a transitional pension, it pays a retiree a specific benefit based on years of service & salary level until they die. In the case of the retiree death, payout will continue for spouse or a beneficiary.
- This plan is quite costly for the employer. Most companies have dramatically scaled back on these plans or eliminated them altogether.
- Unfortunately, the slave wage employee is treat unfairly by corporation, unless you are a golden parachute executive.

Defined Contribution Plan

- This plan is normally known by the IRS Tax Code, like 401k, 403(b), etc.
- Defined Contribution allow employee base on the Tax Code to make pre-tax contribution to their own so called retirement account.
- Employers "may" make matching contributions up to a certain amount.
- Your employer serves as a "plan sponsor" and has another company to administer the plan and its investment.
- The plan administrator is typically a mutual fund company, a brokerage form or an insurance company.
- You are responsible for the investment of your money by choosing the best investment options in the plan.
- Contributions limits are set every year to adjust to the high cost of living.
- Defined contribution plans invest with pre-tax contributions. Withdrawing money before 59 1/2 will be subject to early withdrawal penalties with some exception.
- All distributions will be taxed as ordinary income.
- Defined contribution plans lets you know what you put in, you'll won't know what you may get when you retire due to market fluctuations.

IRS Tax Codes

- 401k: Essentially a retirement savings account which offers tax advantages. It doesn't have the lifetime payout like pension plans.
- 403(b): Similar to 401k but is available only for employees of tax-exempt organizations, like schools, hospitals or religious organizations.
- 457: Plans in general have similarities to 401k and are available to state and local public employees and to certain non-profit organizations.

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<u>U.S. IRA and ROTH IRA</u>

- Individual Retirement Account
  - ▫ Common form of retirement plan.
  - IRA Two major benefits
    - ▫ You do not pay tax on the money you contribute until you make a withdrawal.
    - ▫ Any interest, dividend or capital gains in the plan are tax-deferred until withdrawal,

Roth IRA

- Although Roth are similar to traditional IRA's, the major difference is contribution are not tax deductible, and qualified distributions are tax free, if you meet the following guidelines.
  1. You leave the money in the account for at least 5 years after you make the first contribution.
  2. You reach 59 1/2, with exceptions for death or disability.
- With Roth, you can leave money in the account for as long as you want.
- Traditional IRA's don't allow that extension. You must start withdrawal by the time you reach 70 1/2.

Key Points to Remember

- Traditional IRA: You don't pay tax on the money you put in, but you pay tax when you take it out.
- Roth IRA: You pay tax on the money when you put it in, but you don't pay tax when you take it out, assuming you meet the criteria.
- IRA's and Roth IRA's have limits on how much you can contribute each year, and you face penalties if you withdraw before the designated retirement age.

IRA Rollovers

- IRA rollovers are an important feature to move your money to a better investment account of your choice.
- Not only can you rollover one IRA into another, you can rollover 401k's, 403(b)'s and the like into an IRA or Roth IRA.

SIMPLE IRA

- Saving Incentive Match Plan for Employees (SIMPLE) is a type of traditional IRA for small businesses and self-employed people.
- Contributions are tax deductible, investment have the potential to grow tax deferred until withdrawal.
- Employers are required to match contribution with employees up to 3% of salary or 2% fiat of pay whether the employee contributes or not.

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SEP IRA

- Simplified Employee Pension (SEP) is a retirement plan set up by the employer, including the self-employed person. The employer makes tax-deductible contributions for the employee, including the business owner.
- Employees can't contribute; only the employer can. Employer don't pay tax until withdrawal.
- Like other IRA plans, 59 1/2 & 70 1/2 rules apply. Withdrawals before 59 1/2 receive a penalty with certain exceptions, such as medical or education expenses or first-time home purchasing.

Note: Both SIMPLE and SEP IRA's are simple and low cost to set up.

<u>College/University Saving Plan</u>

- According to the U.S. Department of Agriculture in 2013 it will cost a middle-income couple $245,000 to raise a child until 18 years old and it does not include college costs. That's roughly $1,000 per month from birth to adulthood.
- As oppose to spending on unnecessary things on children (Toys, Parties, Trips), creating a college fund would have been a better option.

U.S. 529 Saving Plan

- With a 529 saving plan, parents open an account and choose an investment strategy. The money you put in is after tax. Potential earnings accumulate tax free, and withdrawals can be made tax free when it's time to pay for college expense, such as tuition, books, room and board.
- 529 is a state-sponsored college saving plan but open to nonresidents. Thus, parent can shop around for the best plan to meet their financial goals and needs.
- If your kid decides not to go to college, you can transfer the money to another family member for college. If all your children decide to skip school and become rock stars, then the money is subject to regular income taxes plus a 10% penalty on gains.

Note: 529 plans affect a family's eligibility for financial aid because it is considered an asset.

<u>Social Security</u>

- Congress established the Social Security Act of 1935 to help supplement the income of retirees.
- SS has become the only source of income for millions of American.
- SS is funded by current payroll taxes (FICA) from you and your employer. Thus, the shrinking pool of workers per retiree will be a big challenge to the system.
- You can start receiving benefits as early as age 62, or you can wait until full retirement age. Of course, early retirement will give you fewer benefits.
- Your spouse can also receive half of your benefit amount whether he or she works or not.

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Taxes on Your Social Security Benefit

- SS benefits will be taxed depending on your other incomes.
  - If you're still working, your salary;
  - If you're earning interest and capital gains;
  - If you're withdrawing from retirement savings such as IRA, 401k, 403(b) and other employer-sponsored programs;
  - If you're earning gains from annuities distributions.
  - Roth IRA distributions are income-tax free, assuming certain requirements are met as outlined previously. Withdrawals and loans from insurance policies are also not a taxable event and thus won't be counted.
  - Depending on your income, combined income from you and your spouse will be subject to tax.
  - The IRS will be there even after you retire.
  - Even with a good income and withdrawals from pensions and qualified plan, in addition to your SS benefits, you may still be in a high tax bracket.
  - If your mortgage is paid off, meaning no more mortgage deduction, no more dependents deduction or kid tax credits.
- If you fail do to Required Minimum Distribution (RMD) at 70 1/2, you will have to pay 50% of tax penalties on top of the income tax on the RMD amount.

Managed Growth

- Making big income does not necessarily mean that you are going to win.
- Millions are drowning in a sea of debt. Bankruptcies don't just happen to the working poor. It befalls people from all walks of life. Some people make a lot, but they may spend a lot too. Others make big bets when the market is hot but shy away when the market is undervalued.
- They lose and don't know why they lose. Those who win don't often know why they win. If they knew, they would continue to do what makes them win and avoid what makes them lose.
- Lack of knowing how money works is the main cause for losing the money game.

Growth or Safety

- The main factors to considered in regards to growth or safety.
  - Growth
  - Safety
  - Tax Advantage
  - Protection
- The key is diversify, allocate your assets into different position. Use dollar cost averaging to capitalize on the downtime in the market.
- You must re-balance your investment mix if your objectives have changed and to make sure your investments are doing what you need them to do.

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- Take advantage of tax advantages allowed by law to grow more and keep more. A tax saving of 20% is as good as a 20% gain in rate of return.
- So having a good defense with protection of your life, your investment and your estate.
- Questions to ask yourself in regards to building your future.
  1. Can it potentially grow to achieve my goals?
  2. Is it safe enough?
  3. Does it have tax advantages?
  4. Does it have proper protection?

<u>Formula 10/20</u>

- If you die too soon, you'll need 10 times your income.
- If you live too long, you'll need 20 times your income.

<u>Medicare</u>

- Medicare is your health insurance after the age of 65 in the U.S. unless you are still covered by your employer's health plan, you must enroll in Medicare before you can get additional private Medicare supplement coverage.

Medicare Has 4 Parts

- Part A: Medical insurance for hospital visit and is free for most people.
- Part B: Medical insurance for doctor visits and other health care providers and is not free. Current monthly premiums are $104.90 in 2014 of higher if you're wealthy.
- Part C: See below
- Part D: Insurance for drug coverage to help lower drug costs.

Enrollment in Part A & B through the Social Security Administration

- Two Enrollment period
- Initial Enrollment Period: You have a total of 7 months, 3 months before and 3 months after your birthday month.
- Special Enrollment Period: For people with employer coverage coverage, you can do the initial sign up right away or within 7 months after your group coverage ends.
  - If not, you can still enroll during the General Enrollment period, January 1st to March 31st of each year. Late enrollment penalties will be assessed.

Note: After signing up with Part A & B, you can sign up with Part D.

Medicare Supplement (Medigap)

- The insurance plan you buy to pay for the "gap" that Medicare does not cover such as deductibles, copay's and coinsurance's.
- Benefits are standardized by plans from Insurance companies, Health Care or Retirement Organization. It's important to find the best cost-effective plan that would save money.

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Part C: Medicare Advantage

- This includes all the benefits and services covered under Part A & B and includes Part D.
- Part C is an alternative to the original Medicare, Insurance for Part C receive a per capital amount from Medicare this coverage.
- Medicare is similar to PPO
- Medicare Advantage is similar to HMO.
- You can change your plan during the Annual Election Period from October 16 to December 7 every year.

Long Term Care

- One of the major types of protection in planning for your future or for your aging parents.
- 70% of the people over age 65 will require some LTC services.
- 40% of those receiving LTC are between 18 and 64.
- The LTC cost is astounding, the average annual cost of a nursing home is $83,580.
- LTC pays for the insured who becomes chronically ill, which is defined as the inability to perform at least two of the following activities; bathing, continence, dressing, eating, toileting and transferring.
- LTC can be purchase as a stand-alone policy or purchase as a rider in an insurance policy.

Estate Planning

- Everything thing you own from an Asset or Liability minus your debt such as house, car, money in the bank, family heirlooms, etc...
- A Will or Trust is a tool for you to organize how you want your estate distributed when you pass away.

Wills

- A will is a legal document that allows you to distribute your property to those of your choosing.
- It allows you to assign specific items from your estate to one person and other items to other people or an organization.
- You can name an Executor, the person who will carry out your wishes.
- Wills also give you the opportunity to pick up a guardian for your young children. The guardian will be responsible for their welfare.
- If you don't have a will, the government will use their standard will to decide how to distribute your estate, and you may not like what they do.

Trusts

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- A will only takes effect after you die. A living trust can benefit you while you are still alive.
- Living trust are generally revocable, which means you can always make changes to them.
- With a living trust, all your assets like your home, bank account, stock, and bonds are put into a trust, administered for your benefit during your lifetime, and then transferred to your beneficiary when you die.
- Most people name themselves as the trustee in charge of managing these assets. Thus, you have control over it. You can also name a successor trustee in case you are unable to manage the trust.
- So having a trust is like you creating a corporation where you put all your assets in it, and you run it or have someone run it for you.
- Living trust may cost more to prepare, fund or management than a will. Having one helps to avoid probate costs for all the assets in the trust.
- If you don't have a will or living trust to take care of your family, the government will do it.
- Proper planning with professional help will assist you with leaving a legacy and preserve your estate.

<u>Saving Your Future</u>

- A Plan of Action
  - One of the greatest miracles in life is that you can change your life by simply changing your mind.
  - If you want to make a change, you must know whether you have a problem, and then it need to be addressed.

Spend Less, Make More

- The old way of thinking, getting a good job, working until 65 and retire happily is over. Nowadays you should be more proactive in your about making money.
- Whether you stay a few more hours overtime, get a second job, work part time, or freelance, you can use your special skills and know how to make money.
- Many successful stories in business came from things people started in their garage or from favorite hobbies. If you look for it, you'll find it.
- Make it a mission to change your family's future.
  1. Increase your cash flow - Make more money when you can, while you can. Have multiple sources of income.
  2. Spend less - Cut down your expenses. It's not how much you earn that counts. It's what you keep. Set aside 5, 10, 15% of your income to savings.
  3. Reduce your debt & liabilities - Interest on the debt will interfere with your goal for long-term asset accumulation.
  4. Understanding how money works - You must take time to understand how many works. You must learn how to make money work for you.

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5. Have a financial goal - Setup a plan of action.
    - Take care of your responsibility - Have proper protection.
    - Build up your wealth - Start to save. It's not how much. It's how disciplined you are to save. Start with a small amount and increase it gradually.
6. Embrace change and expect to succeed.
    - Change your habits
        - Change the way you think.
        - Two things that you can make to change your life; books & people.
        - If you want to be successful, move to a better environment.
        - A better environment will help provide better thinking and better solutions.
    - Expect to succeed
        - You don't win or lose overnight.
        - You win or lose by degree, if you want to win, make your way back toward winning, step by step, and fellow through to completion.
        - Get out of your cocoon
        - See the world.
        - There are people who are better off than you, but there are a lot more who are even more worse off.

Note: You are special, you are somebody and you are capable of doing great things. You are the captain of your ship. Set sail, feel the wind and enjoy the journey.

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Financial Resource Information

- The Retirement Nightmare: Baby Boomer Disaster: InvestmentWatch
- The Ownership of Corporate America — Rights and Responsibilities