Financial Prep101:

Simple Tips for the Next Generation

Teacher Lesson Guide/Activity Answers

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Chapter 1 Check Understanding

Prepare a list of areas that encompass your definition of *Financial Literacy*.

Money
Management
Budgeting
Saving
Interest Rates
Buying a Home
Debit/Credit Cards
Insurance
Investing
Retirement
Taxes
Income
Identity Theft

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Define *Financial Literacy* in your own words.

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Record some resources for developing a budget. See website source list.

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Make a list of subject areas for your short and long-term budget goals. Offer at least 15 categories.

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Translate the *5 Steps of Developing a Budget* into your own words – rename the steps to make them appropriate for you and your lifestyle.

Assess
Set goals/prioritize
Analyze
Reduce/eliminate
Revise/review

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Discuss why individuals may procrastinate in creating a budget and sticking with it.

1. It is difficult to write down what you spend and then go back and add it up, month after month.
2. You just don't want to believe that you spend as much as you do.
3. You are adverse to conflict and don't want to conduct 'budgeting' discussions with others.
4. Budgeting is typically an area where discipline to stay on track, and interest in the process, wanes over time.
5. A consensus on how much to spend is difficult to obtain.

Describe in your own words why you think a budget is hard to create and monitor.

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Find and employ a budget you have found through research. Record the website/source here and identify general budget areas.

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Illustrate how you, or someone you know, might be able to realistically reduce monthly spending.

1. Record everything you spend.
2. Write down a budget.
3. Make a list of ‘wants’ vs. ‘needs.’
4. Enter into a contract to ‘save’ money with someone you trust and value.
5. Find a thrift or consignment store that you like.
6. Shop for your health and beauty aids (and other items) at a discount store.
7. Make a list of ‘free’ activities that you can engage in. http://zone.msn.com/en-us/home; https://www.arkadium.com/free-online-games/; https://www.biblemoneymatters.com/10-free-or-cheap-activities-for-adults-this-summer/
8. Use coupons.

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Calculate a tip for a $ 45.87 food bill, with a $ 3.21 tax

Example: 20% Tip	Example: 15% Tip
$45.87 food 3.21 tax	$45.87 food 3.21 tax
$49.08 subtotal	$49.08 subtotal
$9.82 20% tip	$7.36 15% tip
$58.90 total	$56.44 total

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Compare the differences between a debit card and credit card.

❖ A debit card permits you to pay for purchases with a plastic card, “same as cash.” When you use the debit card you are withdrawing money from your own checking or savings account, so you do not ‘apply’ for the card and there are no interest ‘terms’; there also are no ‘balances’ with a debit card; generally there are no fees associated with the debit card.

❖ A Credit Card is not linked to your checking or savings account; you receive a credit card bill and you write a check and send it in to the credit card company to reduce your charge balance down to ‘zero’ again for the next month. Failure to pay off the charges each month results in a penalty, or interest charge added on to your account balance and both carry over to the next month. The next month charges are then added to the previous month’s balance and interest charge and the result is an even larger balance for the next month’s bill.

❖ You apply for a credit card and you sign a contract that indicates that you agree to specific repayment terms; there are rate and fees associated with a credit card, like: telephone payment fees, late frees, the annual administration costs, penalties for using your credit card overseas, rates that escalate the more items you purchase, etc.

Contrast a checking account with a savings account, how are they alike or different?

How they are alike: both hold your money, and both can generate some interest on your money; in today’s world neither may cost you to open the account; you can use either to hold your money so you don’t have quantities of cash laying around.

✓ A Checking Account is generally utilized for immediate access to your money, the money held in your checking account is typically employed for paying for your everyday purchases. You write checks out of your checking account to pay for items and expenses you incur daily or monthly, or for a one-time purchase. Sometimes a checking account will have a ‘maximum’ number of ‘free check writing capabilities,’ charging a per-check fee for writing checks that exceed that number. Money that you keep in your checking account is generally NOT ‘ear-marked’ for investment or savings.

✓ A Savings Account is typically utilized to hold your money that you do not anticipate needing on a daily or monthly basis. You may receive a higher interest rate on money you hold in your savings account. A savings account may be utilized to put money away for longer-term goals and purchases.

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Examine your recent pay stub, how did taxes impact your ‘net’ verses ‘gross’ income?

Gross pay:

Wages, tips, other compensation.
Federal income tax withheld: Social Security wages:
Social Security tax withheld:
State wages, tips, etc.
Local wages, tips: State income tax:
Local income tax:
Medicare tax withheld:
Medicare wages and tips:
Medical deductions:
Retirement plan deductions:

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Chapter 2 Check Understanding

Estimate how much you will pay in interest if you are charged 5% simple interest (annualized) over a 3-year period for a $ 500 purchase.

$ 500 x .05 = $ 25

$ 500 x .05 = $ 25

$ 500 x .05 = $ 25

Total $ 75

List how an *Adjustable Mortgage Rate* is different from a *Fixed Mortgage Rate.*

Adjustable Rate Mortgage

- **ARMs have two rate periods:**
    - The first period is the time frame when the initial interest rate is fixed and locked-in. The length of this period is also pre-determined when the contract is signed. ○ After the first fixed-rate period has passed, then the next term is the 'adjustable' rate period. The adjustable period could change every month, every quarter, every year, or on a multiple year schedule (like every 3 years or every 5 years), depending on which you pre-select.
    - The interest rate for an ARM is comprised of two parts: the index, and the margin.
        - The index is typically the prevailing rate that lenders utilize as a benchmark rate for lending money in the market;
            - The index upon which the mortgage is based can vary. Research which index your mortgage is tied to very carefully; understand how the index has historically fluctuated.
        - The margin is the amount that the lender charges over-and-above the interest rate to hold and manage the loan.
            - Some lenders determine your margin based on the strength of your credit score. ○ ARMS may have and 'interest-rate cap.'
                - A lifetime cap identifies how high the interest rate may climb during the life of your loan. The lifetime cap must, by law, be disclosed when the loan is negotiated.
                - A periodic adjustment cap identifies how much the interest rate can move up or down during your adjustment period date. For example: If you have a 3-month adjusting loan, and it can move a maximum 2% up or down… every three months you may see a 2% or less change in rate.
    - Beware of any 'discounts' offered that may reduce the mortgage rate for an initial period, only to adjust upward after that initial period; which in turn increases the amount of your future payments.
    - There are a couple of other ARM types. One is an Interest Only option. With this option your payment does not reduce the amount of principal you owe each month, you are only paying the interest rate charged on the money you borrowed.

Fixed Mortgage Rate

• A fixed rate mortgage locks in a specific rate for the length of the mortgage and the payment does not change. There is an Amortization Schedule that is disclosed during the loan process. The Amortization Schedule illustrates how much interest you will pay over the life of your loan if you do not change the terms or pay the loan off early.

Discuss how the Federal Reserve policies impact you.

The **monetary policies are directed through the efforts of one government agency, the Federal Reserve (the Fed).** The Federal Reserve is in charge of the nation's monetary policy and oversees the regulation and management of banking institutions. These policies can influence interest rates though the process of setting the **'discount rate.'** (The discount rate is the interest rate that banks pay on short-term money loans they receive from the Fed.) How the rates are set impacts how you and I can borrow money, and at what rate.

The Federal Reserve has a monetary policy that impacts how money flows down through our banking and financial systems. The actions of the Federal Reserve impact interest rates, the economy, and the job market. What interest rate you pay at a particular time is determined by a number of factors:

a) Do the markets offer a lot of 'loan-able' money right now; or is money 'tight?'
b) What is the status of inflation? It is high or low?
c) There is a connection between the risk of the loan and the interest charged?
d) The duration or length of a loan can also affect the interest rate.
e) Is the taxable interest higher than tax-free interest?
f) Can the lending institution 'use' your money?

Name two sources for obtaining your credit report – credit score.

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Describe your plan for obtaining a good credit score.

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Explain some of the potential consequences of having a lower credit score.

A really low credit score may preclude you from getting a loan, or credit card. If your credit score is moderately low then you may be able to obtain some types of loans, but typically the rates will be higher than they might be if your credit score was higher.

There is no one credit score number that is the cut off, or the defining number, to indicate to you whether or not you have high or low, or moderately low credit.

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Identify what you believe to be some of the reasons why individuals may not understand their credit card contracts/mortgage document?

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Evaluate what you believe your responsibility is for using credit; and, does your philosophy coincide with current society trends? Explain.

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Discuss a Home Equity Line of Credit, when might you use one?

A Home Equity Line of Credit is a loan that utilizes your home as collateral; it is a credit line secured by your home. You can apply for this type of loan either at the time you apply for the original mortgage financing on your home, or at a later date. The rate for this type of loan is typically different than what your mortgage interest rate is, and the rate can be tied to the 'prime' rate. The home equity line of credit interest rate may fluctuate during the loan period. You may find that the rate for your home equity line of credit will be less than a credit card rate, and therefore use your home equity line of credit to pay off your credit card balances, or other outstanding lines of credit to take advantage of the lower (assuming the rate is actually lower) rate.

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Describe Private Mortgage Insurance (PMI).

PMI insurance is a 'lender mortgage insurance' that is payable to the lender; PMI is typically required on all conventional loans when you have put less than 20% of the purchase price of the home down (written a check for 20% of the loan to get the loan started) at the time you initiate the loan. For example, if your home is $ 100,000 and you put less than $ 20,000 down the lender may require you to pay PMI insurance over and above the interest rate. This insurance will be an additional monthly cost for you. This type of insurance is paid to the lender to protect the lender in case you default on the loan.

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Explain some of the fees that may be accessed during the process of buying or selling a home.

See various websites:

- https://www.thebalance.com/how-much-home-can-you-afford-mortgage-rule-of-thumb1289846
- https://www.businessdictionary.com/definition/homeowners-insurance-policy.html
- https://legal-dictionary.thefreedictionary.com/Title+Insurance
  https://www.answers.com/topic/appraisal-fee; https://www.agmrc.org;

- **Private mortgage insurance:** If you supply a small down payment for your loan (usually less than 20%), you may be required to buy private mortgage insurance. Private mortgage insurance costs can be up to a full year's extra insurance at time of purchase; or the 'extra' may be added each month with your mortgage payment.
- **Homeowner's insurance:** When borrowing money to purchase a home, you will be required to obtain insurance on your home to protect your home against losses such as: fire, personal liability exposure, and other associated perils; typically you buy a homeowner's policy before closing on the home.
- **Title insurance:** Title insurance covers you in the unlikely case that the person who sold you the house didn't actually own the home; or if information on the title was incorrect.
- **Appraisal fees:** An appraisal is an 'estimate of value' of your property. The appraisal is needed so that a current fair market value, or the 'value' of your home can be established for tax and loan purposes.
- **Escrow fees:** During the closing process, an escrow account will typically hold the money while the buyer and seller finalize the transfer of property. Also, an escrow account is typically set up to hold the portion of your monthly mortgage payment set aside for property taxes and insurance.
- **Points or origination fees:** An origination fee (described as 'points' – a percentage of the loan) is paid to the lender for the costs of administering the loan – evaluating credit, checking legal records, verifying collateral, and other services the lender provides during the loan process.
- **Credit report fees:** To finalize the loan process, the lender will require a verified credit report.
- **Document preparation fees:** The lender or broker will usually charge a fee to prepare the required documents.
- **Survey fee:** If an existing survey of the property to be transferred cannot be obtained, a new survey of the property will be conducted in order to determine the legal boundaries of the property.
- **Pest or Mold inspection:** This requirement can vary by location, but if required, a fee will be assessed for this service.
- **Property taxes:** A property tax is levied by local governments, based on the value of property you own, or is being transferred. Property tax on real estate is the main source of financing for local

governments and school districts. In the case of transferring property, you may owe some property taxes immediately; and this cost will be calculated at the time of transfer. Also, there may be other municipal taxes or fees for sewer or water that need to be paid.

- **State recording fees:** Depending on where you live, a fee may be paid for recording and holding the information regarding the sale.

Identify an item you may obtain a loan to purchase. Identify and research the terms for a hypothetical loan. Report your findings here.

Locate some of the agencies that are available to you for solving credit issues.

See website source also.

Chapter 3 Check Understanding

Create a list of your assets.

Investment Choice	Examples
Equities	Stocks, equity mutual funds
Bonds	Corporate, municipal, international
Cash	Money in checking and savings accounts, Certificates of Deposits

Organize a chart to capture your understanding of some of the investment choices in these three categories: Equities/Bonds/Cash. Provide examples of each.

Evaluate your answers to the Investor Profile Questionnaire. Does the evaluation accurately describe your current investment philosophy?

Estimate what the return (gain) percentage is for an investment that you purchased for $400, and now has a market value of $482 two years later.

$ 482
- 400

$ 82 $ 82 divided by $ 400 = 20.5%

In your own words, define 'risk' as it relates to investing.

Name some of the differences between A, B and C Shares of Mutual Funds.

	A Shares	B Shares	C Shares
Loads	up-front	back-end	none
Holding period w/o penalty	short or none	varies by fund	1 year
Penalties for selling	none*	graded percentage	1% before 1 year
Internal expenses	low**	higher***	higher***

*Some mutual funds will require a number of 'holding days' before selling and repurchase

** Typically, lower than B and C Share classes – however other classes may have lower internal expenses

*** Typically, higher than other Share classes

Consult a prospectus for full fee details and CDSC for all mutual funds before you purchase.... .

Explain the differences between 'Small, Medium and Large Cap' stocks.

The holdings are companies whose assets fall into a particular dollar range:

- ✓ Small Cap is less $ 2 billion
- ✓ Medium Cap is between $ 2 and $ 10 billion
- ✓ Large is greater than $ 10 billion

Identify three mutual fund sectors….

Consumer Goods Cyclical	**Energy**	**Transportation**	**Industrial**
Automotive	Oil	Airlines	Factory equipment
Manufacturing Clothing	Natural gas	Railroads	Heavy construction
Home Construction	Exploration equipment	Trucking	Heavy machinery
Hotels	Power Plants	Ocean shipping	Waste management
Restaurants	**Financial**	Airfreight services	Containers and packaging
Consumer Goods Non-Cyclical	Banks	**Utilities**	
Cosmetics & Personal Care	Insurance	Electrical	
Food	Securities brokers	Telephone water	
Medical supplies and Pharmaceuticals	**Technology**	Natural gas delivery	
Healthcare providers	**Communications**	Natural gas delivery	
Tobacco	Office equipment		
Household products	Computers		
	Semiconductors		
	Software		

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In simple terms interpret the differences between correlated and non-correlated investment products.

- Correlated investment products tend to move in the same direction, either up or Down when the market moves.
- Non-correlated investment products tend to move in the opposite direction of each other when the market moves.

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Design a hypothetical portfolio for a moderate investor.

See text examples; use website sources.

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Describe what the 'market indexes' are, and how you might utilize the index information.

Market indexes follow the performance of a large basket of stocks, bonds, or a sector; the indices are tools designed to help investors measure the overall performance of the broad market segment; the index can also function as benchmarks against which investors can evaluate the performance of their own individual portfolio holdings.

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Identify a list of your 'trusted advisors.'

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Explain why it is imperative to use 'trusted advisors' to navigate the investing process.

Decisions that you make today may have long lasting effects for you. Working with experienced trusted advisors can help you to gather and understand the information you will need to make wise decisions.

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Chapter 4 Check Understanding

Evaluate the pros and cons of investing your money in a Non-Roth retirement account.

Pros

- Money is invested BEFORE you pay taxes – therefore you defer paying taxes until you withdraw the money.
- Under current legislation, you do not pay capital gains taxes on your investments when they realize a gain.

Cons

- If you withdraw your money prior to age 59 ½, the IRS will assess a 10% penalty AND you will pay ordinary income taxes on the money you withdraw.* Money invested in a retirement account is typically a long-term investment, you should plan on leaving this money in your retirement account until you are at least 59 ½.
- Contribution limits apply.
- If your ordinary tax rate increases, you will actually pay more taxes later. *

* CONSULT a tax advisor.

Create a hypothetical retirement savings plan for someone who is making $ 40,000 in a 25% tax bracket.

Estimate how much you would like to save for retirement, starting from age 25 until age 62. Describe how you calculated that number.

Recalling that the article in the *Kansas City Star*® indicated that a 25-year-old needed to put away $ 286 a month, assuming 8% average earnings on that money for 40 years, to accumulate $ 1 million dollars. Do you imagine that: a) this goal is realistic, and b) that you personally could save that much a month? Elaborate on your answer.

Describe a 'tax-free' investment. A tax-free investment means the individual does NOT have to pay either state or federal taxes.

List some of the implications for withdrawing money from a non-Roth Retirement Account before you are age 59 ½.

- Incur 10% IRS Penalty
- Pay ordinary income taxes

Name two reasons why annuity products are sometimes perceived as 'complex.'

- Sometimes individuals do not understand the features of an annuity
- Fee structures
- Surrender schedules

In your own words, relate the impact of inflation to the cost of goods in 40 years.

Discuss what you believe to be the most important of the five 'Risks for Retirees' that are presented in the text.

Describe some of the differences between a defined benefit and a defined contribution plan.

- **Defined Benefit Plan** is an employer-sponsored retirement plan. A defined benefit plan is also referred to as a Pension Plan. These plans are different from other types of employer-sponsored retirement plans because they provide an 'income for life' feature, calculated on a pre-determined formula. The way they are funded can also be unique.

There are a couple of different ways to fund a Defined Benefit Plan, here are two:

a) Your employer contributes for you.
b) You also contribute (with your employer), either on a volunteer basis, or contributions can be mandatory.

- Employer **Defined Contribution Plans** are offered by for-profit companies and corporations.

You decide how much you will contribute, and your contributions are deducted from your reported gross income, thus lowering your taxes for that year. Typically, investment choices are offered by the retirement plan, and you select the options in which you want to invest. Some plans offer a 'match' on specified employee contributions. Each year the IRS determines the contribution levels for these types of plans. Vesting schedules generally apply for the employer 'match.'

Explain the implications of a ‘vesting schedule’ for a company ‘match.’

A vesting schedule describes when the ‘company match’ feature of a retirement plan will transfer the ownership of the match to the individual.

For example, if you are 20% vested you will receive 20% of the match if you leave the plan.

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Identify what type of retirement plan is typically utilized by a Not-for-Profit organization.

A 403(b), or TSA (Tax Sheltered Annuity) are generally the plans employed by non-profit organizations.

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Illustrate how a ‘surrender period’ might negatively impact a withdrawal from an annuity investment product.

- If you withdraw money in year 2 for a policy that has the following surrender schedule, you will pay a 4% penalty to do so:

Years /Penalty

1	5%
2	4%
3	3%
4	2%
5	1%

So, if you withdraw $ 5,000: 4% of $ 5,000 = $200 penalty.

If you need to withdraw some, or all, of your money prior to the ending of the ‘surrender’ period,

May be charged a fee to do so.

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Calculate the ‘capital gain’ of a stock that is purchased for $ 10 a share and is sold @ $ 14.50 a share after a period of 2 years.

$ 10.00 original purchase
$ 14.50 current price

$ 4.50 gain

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Compare and contrast the characteristics of a ‘fixed’ and ‘variable’ annuity.

Here are a few of the facts about both the fixed and variable annuity:

The Fixed Annuity ***Advantages:***

a) Provides a guarantee of your investment, plus a fixed rate of return, similar to a certificate of deposit*;
b) There generally is a minimum interest rate guarantee provided for the annual interest rate reset;
c) Typically contract fees are low.

Disadvantages:

a) The guaranteed rate of return may be low;
b) The *reset rate* and *floor rates* of return may be low;
c) The growth of your money may not keep pace with inflation;
d) No FDIC insurance applies;
e) There is an insurance company risk because the insurance company is responsible for holding the account.

Unlike a bank deposit, which is guaranteed by FDIC insurance, when you invest in a fixed annuity it is guaranteed by the insurance company itself, the annuity is not FDIC insured. Therefore, if the insurance company becomes insolvent, your investment may be at risk.

The Variable Annuity

Advantages:

a) The growth of your money may keep pace, or may out-pace, inflation, based on the performance of the separately managed accounts you select;
b) The variable annuity provides you with an opportunity to invest in separately managed accounts which you can personally select with your advisor, similar to mutual funds, in an effort to ‘grow’ your assets at a more aggressive rate than a fixed-rate investment product.

Disadvantages:

a) A variable annuity DOES NOT provide a guarantee of a fixed rate of return – unless you have purchased a specific rider. No guarantee of return of principal may be offered;
b) The fund choices you select, like mutual funds, may lose value if your fund choices decline in value;
c) Investment management fees are assessed for the separately managed accounts and those fees reduce the performance of the accounts. Administration fees, mortality and expense expenses, distribution charges and the purchase of ‘riders’ can erode the performance gains as well.

* Riders and fixed annuity premiums are guaranteed by each insurance company and are subject to the company’s solvency.

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Contrast the characteristics of an IRA with the characteristics of a Roth IRA.

Traditional IRA

- ❖ The IRS sets limits on how much you can contribute to an **Investment Retirement Account (IRA)** each year based on your age, so consult your tax advisor for those amounts.
- ❖ ii. All of your contributions to your IRA are deducted from your reported gross income within the same year you contribute. This makes your contributions 'pre-tax' because you have not paid taxes on the contributed money yet.
- ❖ Once you put money in an IRA you can invest the money how you choose. The idea is to invest and let the money grow over time and at least reduce your payment of income taxes now.
- ❖ IRA money should not be taken out until you are 59 ½ years old because taking the money out early imposes an IRS 10% penalty.
- ❖ After you are age 70 ½ (current age/may be changing with new legislation) you will be required to take out **Retirement Minimum Distributions (RMDs)** (except in instances when the government waives withdrawals in a particular year or changes the ruling). The RMDs are simply money withdrawals that you will be required to take, and pay taxes on, during your retirement. The amount that you will be required to take out will typically be calculated for you by the financial institution where you have your account. When you take the money out of your account, you will pay your taxes at your current income tax rate.
- ❖ The money you withdraw is taxed at ordinary income rates for the year in which it is withdrawn. If you are paying taxes at a lower rate in retirement then you should be ahead… if you find yourself in a higher income tax bracket, then of course, you will not be ahead.
- ❖ IRA accounts require you to name a beneficiary as a part of the opening account documents. Therefore, in the event of your death, your assets will be distributed to your beneficiary.
- ❖ Accounts are held in custody by the financial institution where you opened your account.

The **Roth IRA** is similar to a Traditional IRA. However, there are a couple of critical exceptions which are important to note here. Remember, the IRS can change, and does change, legislation… however, under today's legislation:

- ❖ Contributions are made with 'after-tax' dollars (you pay taxes first before you contribute);
- ❖ Once the money is invested, you must have been invested for a minimum of 5 years to realize the tax-free compounding growth benefits;
- ❖ You NEVER pay taxes on the gains when you withdraw the money in the future, assuming you withdraw that money after age 59 ½;

Note: When you reach age 72 you are NOT required to take RMDs.

Chapter 5 Check Understanding

List some of the things you might do to protect your identity.

- ➢ Do not put any sensitive information in the trash can. Be sure any materials that have important information regarding your identity, accounts, etc. are shredded.
- ➢ Be sure you are not carrying vital identity information in your purse or wallet, which if misplaced or stolen, will provide identity information to the thief.
- ➢ Be sure to keep a copy of your credit cards and the emergency 800 numbers for each in a safe place at home.
- ➢ Be careful when you are purchasing an item on-line. Using your credit card on a 'non-secure' website is not recommended. If you are not sure you are in a secure site, attempt to call the merchandiser to purchase your item directly. Remember, the Fair Credit Billing Act guards you from billing errors and fraud.

Discuss why the FDIC and SEC were established. Relate your statement to how the two organizations are important in today's economic environment.

The FDIC was established to...

- Protect people who lost their money in the wake of the 1929 stock market crash. The FDIC was created by President Franklin D. Roosevelt in 1933 to insure thrift and bank deposits. Similarly, the National Credit Union Administration was also created to insure the deposits of credit unions.

Today, the FDIC insures each cash 'account' up to $250,000. * So, for example, when people purchase certificates of deposits, which are cash investment products, they are careful not to exceed $250,000 for each certificate of deposit. If a bank is unable to return your cash account investment, the FDIC is required to pay you the principal, plus any accrued interest prorated to the date of the closing of the relevant depository institution. **Of** course, the current applicable FDIC payment limitations would apply.

* Limits change periodically so be sure to check the websites regularly: Check: https://www.fdic.gov.

Here are the general cash instruments that are insured by the FDIC:

- Savings deposits
- Checking deposits
- Deposits in NOW accounts
- Christmas club accounts
- Certificates of deposit
- Cashiers' checks
- Officers' checks
- Expense checks
- Loan disbursement checks
- Interest checks
- Outstanding drafts
- Negotiable instruments are money orders drawn on the institution
- Certified checks, letters of credit and travelers' checks, for which an insured depository institution is primarily liable, also are insured when issued in exchange for money or its equivalent, or for a charge against a deposit account

The SEC was established...

in the 1930s, to help the economy to recover. When the Securities Act of 1933 and the Securities Exchange Act of 1934 was passed by Congress, it created the SEC. Both of these laws were designed to not only upgrade the level of oversight for investment practices, but to restore investor confidence in our capital markets. These goals were to be accomplished by furnishing more reliable information and "clear rules of honest dealing." **The SEC was charged with monitoring the following activities to ensure compliance:**

- "Companies publicly offering securities for investment dollars must tell the public the truth about their businesses, the securities they are selling, and the risks involved in investing.
- People who sell and trade securities – brokers, dealers, and exchanges must treat investors fairly and honestly, putting investors' interests first." (132)

Another vital oversight responsibility of the SEC is to supervise the disclosure of the security world participants (the securities exchanges, investment advisors, mutual fund companies and managers, and the securities brokers and dealers). **The SEC regulates the securities markets.** The SEC is also responsible for ensuring that your investment assets are **'segregated'. In other words, your investment accounts, and the investment holdings, cannot be co-mingled with those of the** *financial institution's assets.* Your money and investment holdings will always be held in a separate account called a *Depository Trust Account.* **A Depository Trust Company (DTC) holds your fully paid securities in a separate account.** The SEC monitors this process.

Describe, in your own words, why you might buy life and disability insurance in the future.

Explain the term 'face value' as it relates to a life insurance policy.

- **Face Value** – The original death benefit amount stated on the contract.

Ask someone you know well, if they will share how much insurance they have on themselves… and how they decided upon that amount.

Report on the criteria an individual might consider when they choose the amount of life insurance to purchase.

- Family bills or debt
- Current income
- College expenses
- Estate and tax planning

Interpret the difference between health insurance and long-term care insurance.

- Health care is for health care issues that arise that require periodic treatment.
- Long-term care is when you need constant – on-going, care.
- "It [long-term care] differs from other types of health care in that the goal of long-term care is not to cure an illness, but to allow an individual to attain and maintain an optimal level of functioning…." (111)

Compare and contrast a few of the characteristics of Term verses Permanent life insurance.

Term Life Insurance

- ***Term*** life insurance pays your beneficiary a benefit if you die during a specific, **pre-stated** time period, assuming your policy is still 'in-force'; the pre-stated period is generally based on a 10, 20 or 30 year schedule that is elected at the time of purchase.

Here's a short list to provide you with a quick reference for the general advantages and disadvantages for term life insurance.

Advantages

a) Generally, a less expensive option when compared to permanent life insurance

b) Many policies can be converted to cash value life insurance if needs change

c) Simple to understand

d) May be used to fund financial obligations for a specific timeframe- to cover a mortgage, college expenses, etc.

e) Can provide coverage timing flexibility

Disadvantages

a) Typically, policies do not build cash value

b) The policy is only *in-force* for a limited period of time, not for life

c) If your health changes, you may not be able to increase or change your coverage later

d) Policies do not offer loan options

e) No cash is available for distributions

f) Premium costs are usually level for an initial period, so premiums may increase as you grow older, making planning more difficult

Permanent Life Insurance

- ***Permanent*** life insurance also pays your beneficiary a benefit when you die but is **generally** calculated to remain in-force over the length of your **life span, or for a long period of time.**

Here's a short list to provide you with a quick reference for the advantages and disadvantages for permanent life insurance.

Advantages

a) Builds cash value

b) Assuming premiums are paid, typically coverage is for life, or for a long time

c) Premiums can be designed to meet your financial needs; either flexible or fixed

d) May offer the opportunity to take out 'loans' against your cash / surrender value

e) If you have built up a cash value, you may surrender your policy for cash, or convert the policy to an annuity

f) It is not necessary to re-new the policy, so declining health is not an issue

g) Typically, the premiums are level so it is easier to plan your cash flow (however interest rate risk can cause premiums to rise)

h) The accumulated cash value can also be used to pay premiums or to buy more coverage under certain conditions

Disadvantages

a) Typically, coverage is more expensive than term life insurance

b) Higher fees may be assessed than term policies; both up-front fees and administrative fees

c) You may experience interest rate sensitivity; you may also find your premiums increasing when interest rates decline

d) If your health changes, you may not be able to increase or change coverage later (135, 136)

Identify the benefits of establishing a Will.

✓ Preparing a Will is usually less expensive than preparing a Trust.

✓ As with a Trust, a Will provides flexibility for income tax purposes because when you value the estate you can use either a fiscal year or a calendar year calculation for income tax purposes.

✓ Distribution can be settled through the probate court.

✓ The probate process can lessen the time allowed for creditors to make claims against your estate.

✓ Unlike a Trust which becomes effective at the time of execution, a Will is not effective until the Maker's death, and the Will is presented to probate

Advantages of distributing assets through a Trust

- ✓ A Trust is a private document that is not available for public review.
- ✓ A Trust provides direction in cases of incapacity.
- ✓ Consideration is given to estate shrinkage and taxes.

Who assists the maker in the creation of a Trust?

Generally, an Estate Attorney will assist you in designing your Trust and filing it.

Evaluate the importance of naming a beneficiary for your assets.

If you have named a beneficiary, you have directed your assets according to where you want them to go. If you do not address this important step you allow the government to direct the distribution of your assets for you. If you have named a beneficiary, you also save your loved ones the chore of trying to secure the assets you intended them to have in the first place.

Chapter 1 DISCUSSION POINTS

	Page
! Where, or from whom, have you received your financial guidance to-date? Are you interested in learning about finances? Do you worry about money? Please comment:	13
! Research and find 4 internet sites that provide financial terms, data, education, etc. Write those sites here for future reference.	15
! Take a minute this weekend and ask a few people if they actually have a WRITTEN budget. Record your findings.	18
! What are four reasons for budgeting that you feel are important to you?	21
! Refer to Exhibit A to determine if you have forgotten any items in the budget you created, and add items to it if necessary.	23
• Hint: Don’t forget any charitable contributions or tithing/donating that you do.	
! Use the following information to fill in a hypothetical budget. Talk to someone you know and use the following outline and record your observations for comparison.	25

Married couple with two children:	
Taxes	$ 235 a month
Home and car insurance	$ 178 month
Utilities	$ 199 a month
Car payment	$ 150 a month
Health & Beauty aids/haircuts	$ 72 a month
Gas for car	$ 75 a month
Food	$ 495 a month
Savings	$ 100 a month
College Savings	$ 125 a month
Entertainment	$ 75 a month
Misc.	$ 50 a month
Tithing	$ 150 a month
Vacation fund	$ 200 a month

Chapter **2 DISCUSSION POINTS**

Chapter **3** **DISCUSSION POINTS**

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!What assets do you have? 147

Stock Market Terms. 150-151

Types of investment accounts. 155

***
!Reviewing what we discussed here about titling and beneficiaries, note 2 differences between Investment and Non-Roth Retirement Accounts here. 158

***
!Research where the Dow Jones Industrial Average closed on the following dates: 160
12/31/2003
12/31/2005
12/31/2007
12/31/2008
12/31/2012
12/31/2018____________________________

Discuss Modern Portfolio theory® 164

Discuss Volatility 161, 165

!Take this test yourself. As you take the test, it will help you determine/become apparent to you as to what your risk tolerance is. When you are required to quantify your losses and objectives, you will note a trend in your answers. 166
!Which type of investor are you? Why? 167

Discuss the Types of Risk 168
!Which type of investment risk do you view as the most risk important to YOU? WHY? 169

Discuss chart - Past Performance Does NOT Guarantee Future Results 170

Discuss a 'Bear Market.' 171
Discuss a 'Bull Market.' 173-175

***
!Provide a brief comparison of the Bear and Bull Markets. 176

!Have you had experience with any of these investment products? If so, which ones? 178

Discussion about Mutual Funds. (Include Growth/Value page 190/ Share differences, page 193) 184-196

!If you were only going to invest your money for 2 years, in order to avoid fees and surrender penalties which of the 3 Share Classes that we have discussed would you consider? WHY? *** 197

*** !Explain the objective for asset allocation and diversification of an investment portfolio. 199

*** !Asset allocation divides the investment products into what 3 areas? 202

!Research two bond offerings, note if they are: at par, at a discount, at a premium. 206

Discuss Types of Bonds 208

!Research one tax-free bond and one corporate bond to identify yields: 212

Discuss Dollar-Cost Averaging 215

Chapter **4 DISCUSSION**

Discuss the Terms of Retirement questions.	234
Discuss the 'Magic of Compounding Chart.	238
Discuss Traditional IRAs vs. Roth IRAs	239-243
! Please complete: To avoid an IRS penalty. ***	239
! Please complete: Chart on page 243 ***	243
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! Retirement Plan Questions Chart ***	249
Vesting information.	251-252
!List here the financial risks that you think you face now, or may face later in life when you retire.?	255
Discuss Life Expectancy	256
!Research several websites that provide health-care cost information. Note the websites and pertinent data that you find.	259
Discuss inflation.	261
Where will you get the money to live on when you are retired?	266
!Find someone who is over the age of 70 years old and is already retired. Interview them to determine what they 'fear' most going forward in their retirement years. Elaborate on how they think they will cope or solve that problem.	269
!David's combined tax bracket is 25%. He is considering a State Municipal bond and qualifies for both Federal and State tax-free status. If the investment he is	273
considering is yielding 5% tax-free… how would that compare to a taxable investment yield? ***	273
!Calculate the tax equivalency of a 3.8% municipal bond if you are in the 25% tax bracket. ***	273
Annuity discussion… BRIEFLY cover annuity terms as they are complex, and investors need to check with both a financial advisor and a tax advisor when considering purchase.	273-287
!What are two features that are common to both fixed and variable annuities. !In what two ways are fixed and variable annuities different. ***	287

Chapter **5** **DISCUSSION POINTS**

!What are some of the safeguards you have put in place to help ensure that you do not become a victim of Identity Theft?

*** Find answers - next pages

None of the information presented in *Financial Prep 101: Simple Tips for the Next Generation* is intended to provide investment, tax, accounting, or legal advice. Any investment, tax or legal statement included in this handbook are not to be used for the purpose of avoiding the U.S. federal, state, or local tax penalties. Please consult your outside professional advisors for specific investment, tax, accounting, or legal opinion regarding statements made in the book. These materials are offered for education purposes only.

Chapter Activity Responses: Answer Key

Please complete: True or False

1. Credit cards have a monthly bill for you to pay. **TRUE**

2. Debit cards are more like "cash" than credit card **TRUE**

3. Debit cards have a monthly bill for you to pay. **FALSE**

Calculate a 15% and a 20% tip on a $ 47.00 food ticket.

$ 47.00 x 15% = $ 7.05

$ 47.00 x 20% = $ 9.40

What are 2 differences between Investment and Non-Roth Retirement Accounts?

Tax implications for withdrawing money
RMD requirements
Tax treatment for contributions

12/31/2019 28,538 Note: Numbers can vary slightly depending on source.

Research where the Dow Jones Industrial Average closed on the following dates:

12/31/2003	**10,454**
12/31/2005	**10,718**
12/31/2007	**13,265**
12/31/2008	**8,776**
12/31/2012	**13,104**

Can you provide a brief comparison of the Bear and Bull Market?

A Bear Market is defined loosely as a period of time when the stock market experiences a decline of 20% or more. Here are some additional definitions:

- **Since 1946 the U.S. stock market has had 10 Bear Markets [through 2008]. The average loss for those 10-year periods was -35.2%. (68c)**
- **"The study [undertaken by the Leuthold Group] traces 22 bear market lows over the past 100 years in the US, with a bear market being defined as a peak to trough decline in the market averaging 20 percent or more. The study points out that the average peak to trough bear market decline over the past 100 years is 37%, with the median decline being 34 percent.**
- **Eight of the 22 bear markets declined by more than 45%." (69)**
- **Declines of -20% or more have occurred about once every 3 ½ years since 1900 (through June of 2009.) (72)**

A Bull Market is a market with an upswing momentum; "A prolonged period in which investment prices rise faster than their historical average. Bull markets can happen as a result of an economic recovery, an economic boom, or investor psychology…. " (66)

If you were only going to invest your money for 2 years, to avoid surrender penalties which of the 3 Share Classes that we have discussed would youconsider? WHY?

Class C share would be the most appropriate choice. You would not be penalized by a CDSC penalty because you have invested for more than 1 year. The other 2 Share Classes (A & B) hove either front-end or-back-end loads that could cost you money.

Explain the objective for asset allocation and diversification of an investment portfolio.

- **Asset Allocation is generally thought of as the proportion (percentage) of each asset class that an investor has in their portfolio; how much money is invested in stocks, so much in bonds, and so much in cash.**
- **Diversification is a risk management practice to reduce the overall impact of any one investment choice within a portfolio.**

Asset allocation divides the investment products into what 3 areas?

1.Stocks
2.Bonds
3.Cash or cash equivalents

Retirement Plan Questions — Circle True or False

A 403B is appropriate for a Not-for-Profit	**True**	
A Vesting Schedule is used for *every* plan		**False***
Non-Roth Retirement plans generally tax-defer gains	**True**	
All Retirement Plans are kept in custody accounts	**True**	

*i.e. Not for Safe Harbor Retirement Plans

David's combined tax bracket is 25%. He is considering a State Municipal bond and qualifies for both Federal and State tax-free status. If the investment he is considering is yielding 5% tax-free… how would that compare to a taxable investment yield?

Take 100% and minus 25% = 75%

Calculate the tax equivalency of a 3.8% municipal bond if you are in the 25% tax bracket.

Take 100% and minus 25% = 75%

Divide .038 by .75 = 5.07% tax equivalency for someone in the 25% tax bracket

What are two features that are common to both fixed and variable annuities?

1) **Grow money tax deferred**
2) **Pay taxes on money when withdrawn (Other than in a Roth Retirement Account)**
3) **If you withdraw gains or pre-tax money prior to age 59 ½, you pay an IRS penalty**
4) **Both annuity types have 'death' benefit options**

In what two ways are fixed and variable annuities different?

1) **Fixed annuities have stated rate of return for money you invest**
2) **Variable annuities have 'separate' accounts that hold your money and have 'no stated rate of return' (An exception could be a 'fixed-rate' separate account)**

Complete this chart, Circle Yes or No

	Covered by FDIC		Covered by SPIC	
Savings Deposits	**Yes**			**No**
Money Market		**No**	**Yes**	
Mutual Funds		**No**	**Yes**	
Variable Annuities		**No**	**Yes**	
Cashiers' Checks	**Yes**			**No**
Stocks/Bonds		**No**	**Yes**	

What are some of the safeguards you have put in place to help ensure that you do not become a victim of Identity Theft?

a. **Do not put any sensitive information in the trash can. Be sure any materials that have important information regarding your identity, accounts, etc. are shredded in a cross shredder.**

b. **Be sure you are not carrying vital identity information in your purse or wallet, which if misplaced or stolen, will provide identity information to the thief (i.e. Social Security card).**

c. **Be sure to keep a copy of your credit cards and the emergency 800 numbers for each in a safe place at home.**

d. **Be careful when you are purchasing an item on-line. Using your credit card on a 'non-secure' website is not recommended. If you are not sure you are in a secure site, attempt to call the merchandiser to purchase your item directly. Remember, the Fair Credit Billing Act guards you from billing errors and fraud.**

e. **If you will be traveling overseas you may consider calling your credit card company and letting them know ahead of time where you will be.**

f. **Be cognizant of any visitors that come to your home. Workmen, babysitters, housekeepers and other individuals who might work for you are generally trust-worthy. However, by being sure your valuable information is located in a safe place and not easily assessable, you help protect yourself. Place important items and documents in a safety deposit box to guard against prying guests.**

g. **When you make purchases in stores and restaurants, guard against credit card/identity theft. Avoid letting your credit card out of your sight. Watch the transaction process whenever possible.**

h. **Monitor your bank and other account statements carefully.**

i. **Receive bank account and investment account statements on-line. Avoid paper-trails whenever possible. (Some financial institutions will provide you with a compact disk at the end of the year that captures all of your monthly statements.)**

j. **Employ a credit-report service to alert you to when new credit applications are made in your name.**

k. **Check your credit report at least once a year. You are entitled to one free credit report from each of the three major credit agencies. (See http://www. annualcreditreport.com. See the Finance Section.)**

l. **Carry only credit cards that you need, leave any additional cards at home.**

m. **Safeguard any PIN numbers. Never write them down or carry the numbers with you. (143)**

Please complete:

	IRA		ROTH IRA	
1. Pay taxes pre-contribution		No	Yes	
2. To avoid penalties, you need to be age 59 1/2 to withdraw your money	Yes		Yes	
3. At age 72 you MUST take RMD*	Yes			No

*The distribution age for RMD requirement change.

Please complete: To avoid an IRS penalty…

In my Investment Account: I can move money in and out of the account at any age and not incur a 10% IRS penalty. **True**

In my Retirement Account: I can move money in and out of the account at any age and not incur a 10% IRS penalty. **False**