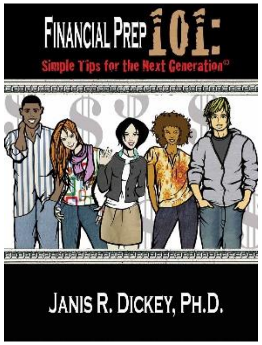

Course Description:

The primary course objective is to provide an experiential learning opportunity which complements and leverages students' in-class experience to provide them with hands-on approach that manifests in helping them to successfully manage their financial lives. The ultimate purpose of this financial literacy course is to equip the participating student with the knowledge to not only become familiar with a variety of critical financial terms and concepts, but to understand how to successfully employ them as well.

In contrast to other courses in Financial Literacy, this course presents content in an introductory format, using TURNKEY video modules to deliver curriculum, class activities to bring concepts to relevance, real-life case studies to attach to the learner memory, and assignments to extend learning. As a result, the participating student will accelerate his/her understanding of the financial world and be able to leverage that superior knowledge to his/her advantage.

In short, Financial Prep 101 will present students with both hypothetical and real-life financial challenges requiring analysis, consideration of practical strategies they may hypothetically employ, and exploration of various financial outcomes.

Strategies:

- Conduct a three-tiered approach to insuring an effective educational experience:
    1. Utilize classroom video modules and lectures, as well as discussions, to focus on the financial terms and concepts used in navigating financial situations.
    2. Utilize an anecdote approach to simulate financial learning conditions in advance of experiencing the actual financial scenario.
    3. Provide a hands-on learning opportunity via individual and group assignments which have meaningful and measurable impact on learners' financial outcome and significantly expands the students' financial acumen.
- Deliver interesting and engaging video lectures, which provide greater focus on consistent content proficiency achievement.
- Develop customized learning materials (*Financial Prep 101: How to Become Financially Strong*, financialprep101.teachable.com) and selected texts (*Financial Prep 101: Simple Tips for the Next Generation*) to provide the required level of learning and preparation for the successful execution of assignments.

Syllabus for Financial Prep 101

This course will focus on an experiential learning approach using classroom presentation of the critical success factors in creating a functional personal financial plan for the learner to assist them as they navigate the financial situations they may face throughout their adult life. As evidence of their learning, students will develop a culminating personal Financial Plan which they will share with the class.

The course pedagogy consists of discussions led by the course instructor, which will augment the prepared video modules, assignments and activities, and group sharing of experiences. In addition, video commentary and text anecdotes will provide context for curriculum topics.

Teaching Materials:

Learning materials utilized in this course are:

1) *Video: Financial Prep 101: How to Become Financially Strong*, financialprep101.teachable.com, and
2) *Textbook:* *Financial Prep 101: Simple Tips for the Next Generation* (Author Janis R Dickey, PhD).

Lesson Plans Guidelines

Use the following pages as a GUIDELINE – revise accordingly to craft your personal lesson plans

Overview & Purpose Introduction	Education Standards Addressed
In 2008 **President George Bush** signed an Executive Order 13455, creating the 16-member President's Advisory Council on Financial Literacy, here are the objectives … "The Council asserts that any individual completing a comprehensive financial literacy program should have an understanding of the following skills and concepts: o the capital market system and financial institutions; o the participant's household cash flow situation, and how to develop and maintain positive cash flow; o how to develop a spending plan that is consistent with their resources and priorities; o the reasons for having an emergency fund and how to establish an emergency fund; o the fundamentals of credit granting, including how to evaluate, select, and manage credit, and how to maintain a good credit rating; o the process of deciding when to rent and when to buy a home, and the process of home ownership; o the process of identifying various financial risks, including development of a risk management strategy to decide which risks they should take on and which should be transferred to an insurance provider; o how to identify and protect themselves from identity theft and various financial frauds, and what to know and do if they think they have been victimized; o basic investment products, the relationship between risk and return, and the what, when and why of choosing the best investments at the right time in their life; o how to evaluate and take advantage of employee benefits and tax-advantaged savings accounts; o the various components of retirement planning, and how to develop an appropriate plan for a secure retirement; and o how to develop a plan to assure financial security in the case of unexpected loss of income (disability or death) for those who depend on their earning power, and to assure the smooth transfer of assets to appropriate heirs." (Department of the Treasury)	**Jump$tart Coalition® National Standards in K-12 Personal Finance Education:** Financial Responsibility and Decision Making "Overall Competence: Apply reliable information and systematic decision making to personal financial decisions. Standard 1: Take responsibility for personal financial decisions. Standard 2: Find and evaluate financial information from a variety of sources. Standard 3: Summarize major consumer protection laws. Standard 4: Make financial decisions by systematically considering alternatives and consequences. Standard 5: Develop communication strategies for discussing financial issues. Standard 6: Control personal information."

Grade Level:	8-12	Subject:	Financial Literacy	Prepared By:	Janis R. Dickey, PhD

Introduction/Overview Day	Teacher Guide	Student Guide	
Objectives (Specify skills/information that will be learned – See Course Objectives in Syllabus/end of this information.)	Play promo YOUTUBE, Mod # 1 first ½ Background/Introduction to financial literacy concepts Review Bush Financial Literacy Objectives	Review Overall Course expectations and procedures Review Learning Objectives pg 2	**Materials Needed** Textbook/note taking/laptop
Information (Give and/or demonstrate necessary information)	Review the Course Objectives and “comprehensive financial literacy skills and concepts” in the BACKGROUND section of the Introduction in textbook Jump$tart Standards		
Verification (Steps to check for student understanding)	Group discussions / Websites Who Janis is JS Standards definition Financial Literacy Background	Activity: Groups – record answers to questions prosed	**Other Resources** (e.g. Web, books, etc.)
Activity (Describe the independent activity to reinforce this lesson)	Probe: What comes to mind when you think about the concept of Financial Literacy? How prepared to you think we are as a society to face financial challenges? What do you know about how our US economy works? How do you perceive your family works with money? Who would you classify as a ‘Trusted Advisor?”		
Summary	Review of Financial Literacy concepts Personal examples make information relevant	Homework: Read Introduction pages/complete activity pg 9	**Additional Notes**

Grade Level:	**8-12**	**Subject:**	**Chapter 1 Budgeting/Saving Review Day 1**	**Prepared By:**	**Janis R. Dickey, PhD**

After completing Chapter 1, you should be able to:	**Education Standards Addressed**
a. Identify the six financial literacy competency areas outlined by Jump$tart Coalition® National Standards in K-12 Personal Finance Education. **b. Articulate and demonstrate your understanding of the advantages of constructing a budget.** **• Explain a strategy for creating a budget.** **• Create both a short-term and long-term budget.** **c. Describe the differences between a savings and a checking account; the relevance for each.** **d. Identify the differences between a credit and debit card, provide examples for how you will use each type of card.** **e. Understand the different taxes imposed on your income; discuss how those taxes impact your 'net income.** **f. Consider what the costs associated with attending college might be; describe your plan for saving for college.**	**Jump$tart Coalition® National Standards in K-12 Personal Finance Education:** Financial Responsibility and Decision Making "Overall Competence: Apply reliable information and systematic decision making to personal financial decisions. Standard 1: Take responsibility for personal financial decisions. Standard 2: Find and evaluate financial information from a variety of sources. Standard 3: Summarize major consumer protection laws. Standard 4: Make financial decisions by systematically considering alternatives and consequences. Standard 5: Develop communication strategies for discussing financial issues. Standard 6: Control personal information."

DAY 1 Introduction	**Teacher Guide**		
Objectives (Specify skills/information that will be learned.)	Review Chapter Learning Objectives pg 2 Overview of financial literacy and economic policies	Learning Objectives pg 2	**Materials Needed** Textbook/note taking/laptop
Information (Give and/or demonstrate necessary information)	Probe: Describe how you perceive your family works with money? HS Report card	• Strict spending rules • No budget, 'willy-nilly' • Lots of conversation • Careful planning	
Verification (Steps to check for student understanding)	Discussions What parents should teach children pg 14 Definition of J$ 'Financial Literacy' pg 9	Group Discussion and report back to class Activity pg 9	**Other Resources** (e.g. Web, books, etc.)
Activity (Describe the independent activity to reinforce this lesson)	Discussion about economy: • Economic cycles • Free trade • Fiscal policies	Group Discussion and report back to class Activity pg 12	
Summary	Review discussion points	Assign reading homework: Introduction pg 1-15 Activity pg 15 Review Reasons for Budget Disconnect pg 13	**Additional Notes**

Day 2 Overview/Budgets	**Teacher Guide Mod #1 2nd half**	**Student Guide**	
Objectives (Specify skills/information that will be learned.)	the 6 Jump$tart Financial Literacy Competency areas pg 10 Info on Budgets pg 16	Read pg 16-24 Review Budget info and homework	**Materials Needed** Textbook/note taking/laptop
Information (Give and/or demonstrate necessary information)	Exposure to Chapter Learning Objectives Review the 6 Jump$tart Financial Literacy Competency areas pg 10 Discuss reading on pg 16-24	Activity: Groups – record a personal budget experience (use examples given) and share with group	
Verification (Steps to check for student understanding)	Group discussions about Budgeting Review websites pg 22-23		**Other Resources** (e.g. Web, books, etc.) See pg 46-48
Activity (Describe the independent activity to reinforce this lesson)	Visit 2 websites and review articles about Financial Literacy	List out examples of how a lack of financial literacy impacts individuals pg 8 Websites Complete activity on pg 19, 42-43	
Summary	Introduction to the 6 Jump$tart Financial Literacy Competency areas pg 10 Personal examples make information relevant	Homework: Visit two of the websites noted and record some new information to share Read pg 24 - 27	**Additional Notes**

Day 3 Budgets	**Teacher Guide Mod #2**	**Student Guide**	
Objectives (Specify skills/information that will be learned.)	the 6 Jump$tart Financial Literacy Competency areas pg 10 Develop a budget, and identify how to set up a budget pg 16 ASARR	Presentation of material found in homework – pg 24 - 27	**Materials Needed** Textbook/note taking/laptop
Information (Give and/or demonstrate necessary information)	Discuss reading on pg 16-24 and homework Budget Disconnect Reasons to Budget Teaching Kids About Money	Activity: Groups – record a personal interpretation of each of the 6 Jump$tart standards pg 10 Share Budget ideas	
Verification (Steps to check for student understanding)	Group discussions Sharing of general information regarding personal budgets developed Info on Budgets pg 11 Why Develop a personal budget	Read pg 19-28 Comment on pg 20-23, # 1-6	**Other Resources** (e.g. Web, books, etc.) See pg 46-48 and website sources at the back of the book
Activity (Describe the independent activity to reinforce this lesson)	Have each student (or group) prepare a list of items they can identify that would be in a budget, estimate expenses for each category Take the 6 steps on pg 20-23 and have students make their own list to share	See budget references in "sources" pg 46-48	
Summary	Review 6 Jump$tart Financial Literacy Competency areas pg 10 Review completed budgets Personal examples make information relevant	Homework: Complete activity on pg 24 Work on/complete a personal budget 42-44 Read pg 24-33 Complete Activity pg 33	**Additional Notes**

Day 4 Saving	Teacher Guide Mod #3	Student Guide	
Objectives (Specify skills/information that will be learned.)	the 6 Jump$tart Financial Literacy Competency areas pg 10 Introduction to Savings/ and Checking Account--Credit/Debit card features Help with Saving	Review homework activity on pg 33 And general review of pg 24-33	**Materials Needed** Textbook/note taking/laptop
Information (Give and/or demonstrate necessary information)	Discuss reading on pg 24-33 Discussion of 'longer-term' savings items pg 24 Savings/Checking account features Debit/Credit card features	Activity: Groups – record a personal interpretation of what students believe people save for… strategies students may employ; and realistic vs. unrealistic goals; stumbling blocks encountered	
Verification (Steps to check for student understanding)	Group discussions - why is savings important – provide examples of savings budgets (exhibit A or others)	Group discussion pg 26	**Other Resources** (e.g. Web, books, etc.) See pg 46-48
Activity (Describe the independent activity to reinforce this lesson)	Have groups develop a grid showing differences and similarities between checking/savings accounts Review pg 33 questions	Can students relate a credit card experience?	
Summary	Personal examples make information relevant – share several examples of experiences (yours or others you know)	Homework: Using pg 28- savings account outline- answer questions posed regarding Savings Accounts Read pg 34-41 Complete activity on pg 35	**Additional Notes**

Day 5 Taxes/College	Teacher Guide Mod #4	Student Guide	
Objectives (Specify skills/information that will be learned.)	the 6 Jump$tart Financial Literacy Competency areas pg 10 Introduction to Taxes – FICA/Income – tax law history How to calculate a tip pg 36 Explore 3 different types of College Savings Plans pg 38	Review homework - Pg 28 answers - activity on pg 35 - review of pg 34-41	
Information (Give and/or demonstrate necessary information)	Discuss reading on pg 34-41 Discussion of FICA and INCOME taxes – how they impact disposable income and 'saving' - tax law genealogy Discuss how to calculate a 'tip' (pg. 36) Explore cost of going to college	Activity: Groups – record a personal interpretation of what students believe college might cost - record answers and then research Challenges of Managing Your Money	
Verification (Steps to check for student understanding)	Group discussions - Probe --what do you know about income taxes… takes that are shown on your income stub? provide examples of an income stub to each group to review (several) Who has calculated a 'tip'?		**Other Resources** (e.g. Web, books, etc.) See pg 45-48
Activity (Describe the independent activity to reinforce this lesson)	Have groups demonstrate how to calculate a tip at a restaurant (pg 36) Develop a comparison grid for the 3 types of College Savings plans pg 38-39	Can students relate a tax/or "tipping experience?" What do students know about Grants? Pg 40	
Summary	Personal examples make information relevant – share a personal college cost experience Preview pg 49	Homework: Using pg 45 – review tax law genealogy Read pg 50-57 Have students research grants for homework pg 40	**Additional Notes**

Grade Level: 8-10	Subject: Chapter 1 REVIEW Day 6	Prepared By: Janis R. Dickey, PhD

Chapter 1 Check for Understanding **Complete the following:** **1. Prepare a list of areas that encompass your definition of Financial Literacy.** **2. Define Financial Literacy in your own words.** **3. Record some resources for developing a budget.** **4. Make a list of subject areas for your short and long-term budget goals. Offer at least 15 categories.** **5. Translate the 5 Steps of Developing a Budget into your own words – rename the steps to make them appropriate for you and your lifestyle.** **6. Discuss why individuals may procrastinate in creating a budget and sticking with it.** **7. Describe in your own words why you think a budget is hard to create and monitor.** **8. Find and employ a budget you have found through research. Record the website/source here.** **9. Illustrate how you, or someone you know, might be able to realistically reduce monthly spending.** **10. Calculate a tip for a $ 45.87 food bill, with a $ 3.21 tax.** **11. Compare the differences between a debit card and credit card.** **12. Contrast a checking account with a savings account, how are they alike or different?** **13. Examine your recent pay stub, how did taxes impact your 'net' verses 'gross' income?** **14. Select one of the following Jump$tart Coalition® National Standards in K-12 Personal Finance Education learning topics and report what you now 'know and understand.' Choose a standard that you didn't know before you read this section of the handbook.**	**Education Standards Addressed** **Jump$tart Coalition® National Standards in K-12 Personal Finance Education:** Financial Responsibility and Decision Making "Overall Competence: Apply reliable information and systematic decision making to personal financial decisions. Standard 1: Take responsibility for personal financial decisions. Standard 2: Find and evaluate financial information from a variety of sources. Standard 3: Summarize major consumer protection laws. Standard 4: Make financial decisions by systematically considering alternatives and consequences. Standard 5: Develop communication strategies for discussing financial issues. Standard 6: Control personal information."

Grade Level:	8-12	Subject:	Chapter 2 Borrowing/Financing	Prepared By:	Janis R. Dickey, PhD
			Day 7		

Overview & Purpose	Education Standards Addressed
After completing Chapter 2, you should be able to: a. Exhibit an understanding of what ‘credit’ is, and how and when you will use credit. b. Describe the differences between simple and compound interest; and the relevance for each. c. Demonstrate an understanding of various ways ‘finance’ charges can be calculated; and identify various finance terms. d. Understand what ‘credit scores’ are; and what factors affect your credit score. e. Identify behaviors to help establish ‘good’ credit. f. Learn the fundamental facts about mortgages; convey where you will find assistance when the time arrives for you to apply for a mortgage. o Outline and give details of some of the different mortgage rate options. o Be aware of some of the mortgage terms. o Understand and be able to describe the difference between specific use loans and mortgages. g. Comprehend and be able to describe what ‘bankruptcy’ is. h. Identify the six financial literacy competency areas outlined by Jump$tart Coalition® National Standards in K-12 Personal Finance Education.	**Jump$tart Coalition® National Standards in K-12 Personal Finance Education:** Financial Responsibility and Decision Making “Overall Competence: Apply reliable information and systematic decision making to personal financial decisions. Standard 1: Take responsibility for personal financial decisions. Standard 2: Find and evaluate financial information from a variety of sources. Standard 3: Summarize major consumer protection laws. Standard 4: Make financial decisions by systematically considering alternatives and consequences. Standard 5: Develop communication strategies for discussing financial issues. Standard 6: Control personal information.”

Day 7 Overview	Teacher Guide Mod #5 first 1/2	Student Guide	
Objectives (Specify skills/information that will be learned.)	the 6 Jump$tart Financial Literacy Competency areas pg 10 Introduction to Borrowing and Finance terms; collateral; Debt-to-income ratio/loan-to-asset ratio Monetary Policy	- Review pg 50-57 in class and discuss - Review homework about Grant research - Review Homework pg 45 - Read pg 63-70 in class and discuss	
Information (Give and/or demonstrate necessary information)	Discussion of 'Credit'/implications of using; when to use; what is involved in borrowing money Definition of 'collateral' – examples pg 66 Debt-to-income ratio/loan-to-asset ratio (pg 67)		
Verification (Steps to check for student understanding)	Discuss reading on pg 63-70 Group discussions - Probe --what do you know about using credit… what factors should you consider BEFORE attempting to borrow money Discussion of how to establish 'Good Credit' (pg 80)		**Other Resources** (e.g. Web, books, etc.) Web sources pg 113-115
Activity (Describe the independent activity to reinforce this lesson)	Report on an item students may purchase using credit – investigate and report credit details	Can students provide concrete examples of when they may borrow money/when family has borrowed money?	
Summary	Personal examples make information relevant – share a personal credit experience	Homework: Report on an item students may purchase using credit – investigate and report credit details Research a website that offers credit counseling – compile ideas to share Read pg 80-83	**Additional Notes**

Day 8 Borrow/Financing	Teacher Guide Mod #5 2nd half	Student Guide	
Objectives (Specify skills/information that will be learned.)	the 6 Jump$tart Financial Literacy Competency areas pg 10 Introduction to Interest rate terms and features Understand differences between complex/simple interest rates What factors are considered for issuing a credit score? (pg.77) Where to go to check a credit score Finance Terms	- Review homework: - Report on an item students may purchase using credit – investigate and report credit details - Research a website that offers credit counseling – compile ideas to share -	
Information (Give and/or demonstrate necessary information)	Identify how to check credit (pg.79)	Activity: Groups – Review the list of 'tips' on pg 81… add to the list?/ comment pg 80-81	
Verification (Steps to check for student understanding)	Discuss reading Group discussions - Probe --what do you know about simple/complex interest pg 71 - Calculation activity - Demonstrate knowledge of finance terms - grid	Read pg 71-83 Review Interest Rate activity pg 70 Review Financial Terms info pg 74 Discuss – What are credit scores and how are they used? Pg 77 -79 How to Safeguard your Credit	**Other Resources** (e.g. Web, books, etc.) See pg 113-115
Activity (Describe the independent activity to reinforce this lesson)	Report on an item students may purchase using credit – investigate and report credit details Develop grid of finance terms pg 75	Can students provide concrete examples of how to calculate simple vs complex interest (pg 72) Develop grid of finance terms pg 74 -75	
Summary	Personal examples make information relevant – share a personal credit score experience	Homework: Read pg 84-99 Complete Activities pg 89, 90	**Additional Notes**

Day 9 Mortgages	**Teacher Guide Mod #6**	**Student Guide**	
Objectives (Specify skills/information that will be learned.)	the 6 Jump$tart Financial Literacy Competency areas pg 10 Introduction to: - Types of Mortgages - Lines of Credit - What a Home sale 'Closing' is - HUD Statement Terms - Mortgage Shopping Worksheet - Reverse Mortgages - Special Use Loans - Bankruptcy and Credit Counseling	- Read pg 84-100 - Review Homework activities pg 89, 90	
Information (Give and/or demonstrate necessary information)	Discussion of activity on pg 89, 90 Fixed/ARM Mortgages Give examples of a Special Use Loans and have student calculate	Activity: calculate a special use loan at two different rates; show one at "NO INTEREST- if paid by X DATE (and another illustrating the implication of defaulting on that loan) pg 94 - 96	
Verification (Steps to check for student understanding)	Discuss reading on pg 85-86 Group discussions - Probe --what do you know about mortgage and special use loans? Demonstrate knowledge of mortgage - types (develop grid)		**Other Resources** (e.g. Web, books, etc.) See pg 113-115, 82
, 82Activity (Describe the independent activity to reinforce this lesson)	Develop a grid for features of: - Types of Mortgage loans - HUD terms (pg 104, 109)	Develop: Grid for types of Mortgage loans (pg. 87) Mortgage Shopping Worksheet activity (pg 111)	
Summary	Personal examples make information relevant – share a mortgage or special use loan experience; research a bankruptcy/credit counseling scenario and present to the class for critical review	Homework: Read pg 101-112	**Additional Notes**

Grade Level: 8-12 Subject: Chapter 2 Day 10	Prepared by Janis R Dickey
Chapter 2 Check for Understanding **Complete the following:** 1. **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.** 2. **List how an Adjustable Mortgage Rate is different from a Fixed Mortgage Rate.** 3. **Discuss how the Federal Reserve policies impact you.** 4. **Name two sources for obtaining your credit report- credit score.** 5. **Describe your plan for attaining a good credit score.** 6. **Explain some of the potential consequences of having a lower credit score.** 7. **Identify what you believe to be some of the reasons why individuals may not understand their credit card contracts/mortgage documents.** 8. **Evaluate what you believe your responsibility is for using credit; and does your philosophy coincide with current society trends? Explain.** 9. **Discuss a Home Equity Line of Credit, when might you use one?** 10. **Describe Private Mortgage Insurance (PMI).** 11. **Explain some of the fees that may be accessed during the process of buying or selling a home.** 12. **Identify an item you may obtain a loan to purchase. Identify and research the terms for a hypothetical loan.** 13. **Report your findings here.** 14. **Locate some of the agencies that are available to you for solving credit issues.** 15. **Select one of the following Jump$tart Coalition® National Standards in K-12 Personal Finance Education learning topics and report what you now ‘know and understand.’ Choose a standard that you didn’t know before you read this section of the handbook.**	**Education Standards Addressed** **Jump$tart Coalition® National Standards in K-12 Personal Finance Education:** Financial Responsibility and Decision Making “Overall Competence: Apply reliable information and systematic decision making to personal financial decisions. Standard 1: Take responsibility for personal financial decisions. Standard 2: Find and evaluate financial information from a variety of sources. Standard 3: Summarize major consumer protection laws. Standard 4: Make financial decisions by systematically considering alternatives and consequences. Standard 5: Develop communication strategies for discussing financial issues. Standard 6: Control personal information.”

Grade Level: 8-12 Subject: Chapter 3 Investing Day 11	Prepared by Janis R Dickey
After completing Chapter 3, you should be able to: **a. Describe an 'asset.'** **b. Explain what the 'stock market' and 'exchanges' are; and elaborate on how they operate.** **o Describe volatility in relationship to how the stock market behaves.** **o Name some of the attributes of a Bear and Bull market.** **c. Describe how investment products are the same or different from savings products.** **d. Identify the characteristics and differences between a stock, bond, and cash equivalent investment product; and provide examples of each.** **e. Identify the characteristics of a mutual fund:** **o Describe the differences between 'share classes' discussed in the text;** **o Identify some of the fees associated with mutual funds;** **o Define and express the differences between size and style;** **o Clarify what a 'value' vs. 'growth' equity product is;** **o Give an explanation of what a prospectus is; how you might utilize it;** **o Briefly describe how you might use a mutual fund index.** **o Articulate the differences between an Investment Account and a Retirement/Custodian Account.** **f. Demonstrate your understanding of how risk tolerance and time horizon impact you as an investor.** **o Define various types of risk.** **g. Define diversification and asset allocation; how are they alike or different? Provide examples to illustrate your point(s).** **h. Identify the six financial literacy competency areas outlined by Jump$tart Coalition® National Standards in K-12 Personal Finance Education.**	**Education Standards Addressed** **Jump$tart Coalition® National Standards in K-12 Personal Finance Education:** Financial Responsibility and Decision Making "Overall Competence: Apply reliable information and systematic decision making to personal financial decisions. Standard 1: Take responsibility for personal financial decisions. Standard 2: Find and evaluate financial information from a variety of sources. Standard 3: Summarize major consumer protection laws. Standard 4: Make financial decisions by systematically considering alternatives and consequences. Standard 5: Develop communication strategies for discussing financial issues. Standard 6: Control personal information."

Day 12 Intro Investing	**Teacher Guide Mod #7 and #8**	**Student Guide**	
Objectives (Specify skills/information that will be learned.)	the 6 Jump$tart Financial Literacy Competency areas pg 10 Introduction to: - 'Assets' (Current/Long Term) - Investing vs. Savings - Definition of the Stock Market - Indexes - DOW/S&P/NASDAQ - Types of Investment Accounts - Beneficiaries	- Read pg 116-124 in class - Read pg 126-139 - What story resonated with you?	
Information (Give and/or demonstrate necessary information)	Discussion of activity on pg 151 Give example of the difference between different types of Accounts (See activities below) pg 140 - 144	Activity: pg 136- what the stock market is; review list on pg 151 Compare - DOW S&P NASDAQ Pg 136-138	
Verification (Steps to check for student understanding)	Discuss reading on pg 126- 139, 140-145 Group discussions - Probe --what do you know about 'assets'...' investing' and the stock market? Making/Losing Money in Stock Market	Discuss How Stocks Behave, and Activity, pg 146	**Other Resources** (e.g. Web, books, etc.) See pg 204-205
Activity (Describe the independent activity to reinforce this lesson)	Develop a grid for features of: - Investment Account - Retirement Account - Roth Retirement Account - Savings Account - Checking Account	Calculate 'loss' or gain on an investment pg 139, pg 141-144 Develop list of the features of each: Investment Account Retirement Account Roth Retirement Account Savings Account Checking Account	
Summary	Personal examples make information relevant – share a list of some of your assets/or other'; an investment experience you may have personally had/heard (or research one)	Homework: Read pg 147-155 Complete Investor questionnaire on pg 151	**Additional Notes**

Day 13 Invest Accounts/Mkt Risk/Perm	Teacher Guide Mod #8 continued	Student Guide	
Objectives (Specify skills/information that will be learned.)	the 6 Jump$tart Financial Literacy Competency areas pg 10 Introduction to Investing: - Risk and Risk Tolerance - Behavior of the market - Volatility - Time Horizon	- Review homework: - Pg 147-155 - Questionnaire on pg 151	
Information (Give and/or demonstrate necessary information)	- Questionnaire on pg 151 - Read pg 147-161	Activity: pg 152 – develop continuum chart for 5 investor profiles noted pg 152 Read pg 155-161 in class/discuss	
Verification (Steps to check for student understanding)	Discuss reading on pg 159-174 Group discussions - Probe –why is it important to know about the stock market BEFORE you invest? and what types of information do you think you need to gather? Demonstrate knowledge of risk types pg 153	Groups develop list: why is it important to know about the stock market BEFORE you invest? and what types of information do you think you need to gather BEFORE you invest? Discuss Investor Profile Questionnaires pg 151-152	**Other Resources** (e.g. Web, books, etc.) See pg 204-205
Activity (Describe the independent activity to reinforce this lesson)	Develop a grid for features of: - Risk types - Investor types as they relate to risk types Activity on pg 154 – comparison between Bear and Bull Market behavior	Develop list of the features of each type of risk: pg. 153-154 – activity pg. 154	
Summary	Personal examples make information relevant – share a few examples (from pg 207-212 that you think are relevant	Homework: Re-Read pg 155-161 Complete activity pg 161 Read pg 156-158 - note BEAR mkt info	**Additional Notes**

Day 14 Types of Invest. RISK/ Types of products	Teacher Guide Mod #9	Student Guide	
Objectives (Specify skills/information that will be learned.)	the 6 Jump$tart Financial Literacy Competency areas pg 10 **MARKET RISK varieties** Introduction to Investment Products: - Fixed rate - Stocks - Mutual Funds	- Review homework: - Review pg 155-161 - Review pg 156-158 to note BEAR mkt info - Report on stock choice	
Information (Give and/or demonstrate necessary information)	- Discussion of homework activity pg 161 Brief discussion of RISKS/Bear/Bull markets Provide features for each of the products discussed in the reading	Activity: develop continuum chart OF THE DIFFERENT TYPES OF RISK What are the features of: the following products? pg 162-168 - Fixed-rate - Stocks - Mutual Funds	
Verification (Steps to check for student understanding)	Discuss reading on pg 155-168 Group discussions - Probe –what do you know about the 4 types of investment products discussed in the reading? Cash/Bonds/Mutual Funds/Stocks pg 162 Demonstrate knowledge of the 4 investment product types through lists	Groups develop list: features of each of the 4 investment products pg 162-168	**Other Resources** (e.g. Web, books, etc.) See pg 204-205
Activity (Describe the independent activity to reinforce this lesson)	Features list compilation If time allows, start homework reading pg 169-189		
Summary	Personal examples make information relevant – share a few examples of investment products you have used	Homework: Read pg 169-188 Have student research a mutual fund and bring a description to class	**Additional Notes**

<table>
<tr><th>Day 15 Mutual Funds</th><th>Teacher Guide Mod #10</th><th>Student Guide</th><th></th></tr>
<tr><td>Objectives
(Specify skills/information that will be learned.)</td><td>the 6 Jump$tart Financial Literacy Competency areas pg 10
Intro to Investment Products pg 169:
- Mutual Funds FEATURES
Size
Style
Growth
Value
Sector
Share class</td><td>- Review homework:
- Review pg 169-188
- Have students share their research --a mutual fund and description – use it for class activities</td><td rowspan="2"></td></tr>
<tr><td>Information
(Give and/or demonstrate necessary information)</td><td>- Discussion of homework activity
Students categorize the type of Mutual Fund they brought against the features noted above</td><td>Activity: develop continuum chart features of:
-- Mutual Funds</td></tr>
<tr><td>Verification
(Steps to check for student understanding)</td><td>Discuss reading on pg 169-188
Group discussions - Probe –what do you know about the additional features of mutual funds that were addressed in the reading? Why might this information be important to an investor?
Activity pg 184</td><td>Activity pg 184, 187</td><td rowspan="2">Other Resources
(e.g. Web, books, etc.)
See pg 204-205
Pg 181</td></tr>
<tr><td>Activity
(Describe the independent activity to reinforce this lesson)</td><td>Features list compilation – add size/style/growth/value/sector/share class
Activity pg 187</td><td>- Elaborate on Mutual Fund features list (pg 169-170)
- Briefly explain the difference between GROWTH and VALUE funds pg 174</td></tr>
<tr><td>Summary</td><td>Personal examples make information relevant – share a few examples of various mutual funds that fall into different features categories</td><td>Homework:
Review pg 183-187 for ALLOCATION discussion
Read pg 189- 198
Have students research a bond and bring a description to class,</td><td>Additional Notes</td></tr>
</table>

Day 16 Bonds	Teacher Guide Mod #11	Student Guide	
Objectives (Specify skills/information that will be learned.)	the 6 Jump$tart Financial Literacy Competency areas pg 10 Introduction to Investment Products and concepts: - What a bond is - Types of Bonds - Bond yield terms - Par/discount/premium - Indexes	- Review homework: - Review pg 189- 198 - Have student research a bond and bring a description to class,	
Information (Give and/or demonstrate necessary information)	- Discussion of homework activity Students categorize the type of bond they brought against the features noted in reading	Activity: develop continuum chart features of: - Bond yield terms/features pg 189-196 - Bond types pg 193 - 196	
Verification (Steps to check for student understanding)	Discuss reading on pg 189-198 Group discussions - Probe –what do you know about the types of bonds discussed in the reading? Activity pg 196	Activity pg 196 Review Indexes pg 197	**Other Resources** (e.g. Web, books, etc.) See pg 204-205
Activity (Describe the independent activity to reinforce this lesson)	Features of bond types Answer: What is the purpose of knowing what the appropriate INDEX is for an investment product? Provide a few examples of various bonds that fall into different features categories – compare/calculate yields Review Total Return performance	Group Activity: - Elaborate on par/discount/premium. relating to bonds - Provide an answer to: Why is it important to know what the appropriate INDEX is for an investment product? Pg 197-198	
Summary	Personal examples make information relevant – share a few examples of various bonds that fall into different features categories – compare yields	Homework: Read pg 199-203 Read Experiences pg 207-212	**Additional Notes**

Grade Level:	8-12	Subject:	Chapter 3 Review Day 17	Prepared By:	Janis R. Dickey, PhD

Chapter 3 Check for Understanding **Complete the following:** **1. Create a list of your assets.** **2. Organize a chart to capture your understanding of some of the investment choices in these three categories:** • **Equities/Bonds/Cash.** **3. Evaluate your answers to the Investor Profile Questionnaire. Does the evaluation accurately describe your current investment philosophy?** **4. Estimate what the return percentage is for an investment that you purchased for $400, and now has a market value of $482 two years later.** **5. In your own words define 'risk,' as it relates to investing.** **6. Name some of the differences between A, B and C Shares of Mutual Funds.** **7. Explain the differences between 'Small, Medium and Large Cap' stocks.** **8. Identify three mutual fund sectors.** **9. In simple terms interpret the differences between correlated and non-correlated investment products.** **10. Design a hypothetical portfolio for a moderate investor.** **11. Describe what the 'market indexes' are, and how you might utilize the index information.** **12. Identify a list of your 'trusted advisors.'** **13. Explain why is it imperative to use 'trusted advisors' to navigate the investing process.** **14. Select one of the following Jump$tart Coalition® National Standards in K-12 Personal Finance Education learning topics and report what you now 'know and understand.' Choose a standard that you didn't know before you read this section of the handbook.**	**Education Standards Addressed** **Jump$tart Coalition® National Standards in K-12 Personal Finance Education:** Financial Responsibility and Decision Making "Overall Competence: Apply reliable information and systematic decision making to personal financial decisions. Standard 1: Take responsibility for personal financial decisions. Standard 2: Find and evaluate financial information from a variety of sources. Standard 3: Summarize major consumer protection laws. Standard 4: Make financial decisions by systematically considering alternatives and consequences. Standard 5: Develop communication strategies for discussing financial issues. Standard 6: Control personal information."

Grade Level:	8-12	Subject:	Chapter 4: Retirement Planning Day 18	Prepared By:	Janis R. Dickey, PhD

After completing Chapter 4, you should be able to: **a. Articulate and demonstrate your understanding of the advantages and disadvantages of utilizing a retirement account.** **o Describe the characteristics of a retirement account;** **o Explain a strategy for utilizing a retirement account early in life;** **o Create both a short-term and long-term retirement plan.** **b. Describe the differences between an Individual Retirement Account and a group retirement account; provide examples for how you will use both types of accounts.** **o What are some of the group retirement plan options?** **o Be able to articulate the differences between a defined benefit and defined contribution retirement plan;** **o Be able to illustrate the 'matching' feature of a retirement plan;** **o Explain a 'vesting' schedule.** **c. Consider what the challenges and risks that you might face when you retire are; be able to list some of those challenges.** **d. Define 'tax deferral' and tax implications of retirement account contributions and withdrawals.** **e. Understand what an annuity (investment product) is; provide clarification to describe under what circumstances an annuity might be an appropriate product to purchase.** **o Describe the advantages and disadvantages of both a fixed and variable annuity.** **f. Identify the six financial literacy competency areas outlined by Jump$tart Coalition® National Standards in K-12 Personal Finance Education.**	**Education Standards Addressed** **Jump$tart Coalition® National Standards in K-12 Personal Finance Education:** Financial Responsibility and Decision Making "Overall Competence: Apply reliable information and systematic decision making to personal financial decisions. Standard 1: Take responsibility for personal financial decisions. Standard 2: Find and evaluate financial information from a variety of sources. Standard 3: Summarize major consumer protection laws. Standard 4: Make financial decisions by systematically considering alternatives and consequences. Standard 5: Develop communication strategies for discussing financial issues. Standard 6: Control personal information."

Day 19 Intro Retire Plan	Teacher Guide Mod #12	Student Guide	
Objectives (Specify skills/information that will be learned.)	the 6 Jump$tart Financial Literacy Competency areas pg 10 Introduction to Retirement Planning: - Traditional IRA - Roth IRA - 'Deferred' Taxes calculation - General retirement questions	- Review homework: - Read pg 199-203 - Pg 207-212 - Read pg 215-228 in class	
Information (Give and/or demonstrate necessary information)	- Discussion of homework reading- what story did you like the best/why? -Walt and Luke scenario	Activity: Start to develop continuum chart features of: - Traditional IRA pg 221-226 - ROTH IRA pg 227-228	
Verification (Steps to check for student understanding)	Review pg 215-228 Group discussions - Probe –what do you know about Retirement Planning? What can you best relate to pg 216-220, your goals for your life? FINANCIALLY Have you heard of IRA? A 'Roth'? A 401k?	Discuss examples pg 220, 222 Activity pg 224	**Other Resources** (e.g. Web, books, etc.) See pg 281-284
Activity (Describe the independent activity to reinforce this lesson)			
Summary	Personal examples make information relevant – share a few examples of the different types of RETIREMENT plan options	Homework: Read pg 229 - 240	**Additional Notes**

Day 20 Grp Retirement Pln	Teacher Guide Mod #13	Student Guide	
Objectives (Specify skills/information that will be learned.)	the 6 Jump$tart Financial Literacy Competency areas pg 10 - DEFINED BENEFIT/DEFINED CONTRIBUTION - 401k - 403b - Profit Sharing - SEP - Simple	- Review homework: - Read pg 229 - 240	
Information (Give and/or demonstrate necessary information)		What are different Retirement Plans? Pg 231-235 Make a list with general bullets	
Verification (Steps to check for student understanding)	Discuss reading on pg 229 - 240 Group discussions - Probe –what do you know about how contributions can be matched? Pg 236 What is Vesting? Pg 237	Group discussion: what do you know about how contributions can be matched? Pg 236 What is Vesting? Pg 237	**Other Resources** (e.g. Web, books, etc.) See pg 281-284
Activity (Describe the independent activity to reinforce this lesson)	Discuss reading on pg 237-239 Probe as to student thoughts on Group Retirement Plans	- Discuss reading on pg 237-239	
Summary	Personal examples make information relevant – share a few examples of the risks you have noted by friends and family.	Homework: Read pg 240- 256	**Additional Notes**

Day 21 Risks Retirement	Teacher Guide Mod #14	Student Guide	
Objectives (Specify skills/information that will be learned.)	the 6 Jump$tart Financial Literacy Competency areas pg 10 Introduction to Risks in Retirement: - 5 Risks/Challenges	- Review homework: - Read pg 240- 256 - Complete activity on pg 241	
Information (Give and/or demonstrate necessary information)	- Review Challenges in Retirement Outlive money Rising Health Care Costs Inflation Investing too conservatively Rate of withdrawal is too aggressive		
Verification (Steps to check for student understanding)	Discuss reading on pg 240- 256 Group discussions - Probe –what do you know about risks when you are retired, and you begin to withdraw some of the money you have saved in retirement accounts?	Group discussion: What do you see as the greatest risk? Why?	**Other Resources** (e.g. Web, books, etc.) See pg 281-284
Activity (Describe the independent activity to reinforce this lesson)	Provide an example of a retirement hypothetical withdrawal calculator on the internet Provide examples of short and long capital gains		
Summary	Personal examples make information relevant – share a few examples of the risks you have noted by friends and family.	Homework: Read pg 257-280	**Additional Notes**

Day 22 SS/Taxes	Teacher Guide Mod #15	Student Guide	
Objectives (Specify skills/information that will be learned.)	the 6 Jump$tart Financial Literacy Competency areas pg 10 Introduction to Taxes in Retirement: - Social Security - Taxes in retirement - Annuity basics pg 265-280	- Review homework: - Read pg 257-280	
Information (Give and/or demonstrate necessary information)	- Review reading pg 257-280		
Verification (Steps to check for student understanding)	Group discussions - Probe –what do you know about how social security when you are retired?	Group discussion: What do you think is going to happen to our Social Security System?	**Other Resources** (e.g. Web, books, etc.) See pg 281-284
Activity (Describe the independent activity to reinforce this lesson)	Provide examples of short and long capital gains Taxes in retirement Short Annuity discussion	Capital Gains pg 262 - Short - Long	
Summary	Personal examples make information relevant – share a few examples of the risks you have noted by friends and family.	Homework: Read pg 287-295 (stories)	**Additional Notes**

Chapter 4 Check for Understanding Day 23 Complete the following:	Education Standards Addressed

1. Evaluate the pros and cons of investing your money in a Non-Roth retirement account.
2. Create a hypothetical retirement savings plan for someone who is making $ 40,000 a year in a 25% tax bracket.
3. Estimate how much you would like to save for retirement, starting from age 25 until age 62. Describe how you calculated that #.
4. 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 save $ 1 million,
    a. Do you imagine that: a) this goal is realistic, and b) that you personally could save that much a month?
    b. Elaborate on your answer.
5. Describe a 'tax-free' investment.
6. List some of the implications for withdrawing money from a Non- Roth Retirement Account before you are age 59 ½.
7. Name two reasons why annuity products are sometimes perceived as 'complex.'
8. In your own words, relate the impact of inflation to the cost of goods in 40 years.
9. Discuss what you believe to be the most important of the five 'Risks for Retirees' that are presented in the text.
10. Describe some of the differences between a defined benefit and a defined contribution plan.
11. Explain the implications of a 'vesting schedule' for a 'match.'
12. Identify what type of retirement plan is typically utilized by a Not-for-Profit organization.
13. Illustrate how a 'surrender' period might negatively impact a withdrawal from an annuity investment product.
14. 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.
15. Compare and contrast the characteristics of a 'fixed' and 'variable' annuity.
16. Contrast the features of an IRA with the features of a Roth IRA.
17. Select one of the following Jump$tart Coalition® National Standards in K-12 Personal Finance Education learning topics and report what you now 'know and understand.' Choose a standard that you didn't know previously.
	Jump$tart Coalition® National Standards in K-12 Personal Finance Education:
	
	Financial Responsibility and Decision Making
	
	"Overall Competence: Apply reliable information and systematic decision making to personal financial decisions.
	Standard 1: Take responsibility for personal financial decisions.
	Standard 2: Find and evaluate financial information from a variety of sources.
	Standard 3: Summarize major consumer protection laws.
	Standard 4: Make financial decisions by systematically considering alternatives and consequences.
	Standard 5: Develop communication strategies for discussing financial issues.
	Standard 6: Control personal information."

Grade Level:	8-12	Subject:	Chapter 5 Protection Strategies Day 24	Prepared By:	Janis R. Dickey, PhD

After completing Chapter 5, you should be able to: **a. Articulate your understanding of the advantages of protecting your assets.** **b. Describe the safeguards put in place by our government to protect your assets; Securities Investor Protection Corporation and the Federal Deposit Insurance Corporation.** **O Illustrate how these agencies work; identify what the agencies oversee and protect.** **c. Explain the general differences between Term and Permanent life insurance.** **O Identify the general advantages and disadvantages for Term and Permanent life insurance;** **o List and demonstrate an understanding of the key terms associated with life insurance policies.** **d. Describe what long-term care is; how it is different from health care.** **O Exhibit familiarity with the terms related with long-term care insurance.** **e. Identify the differences between a Will and a Trust; identify the advantages and disadvantages of each type of document.** **f. Provide a list of activities that help individuals to safeguard themselves against Identity Theft.** **g. Identify the six financial literacy competency areas outlined by Jump$tart Coalition® National Standards in K-12 Personal Finance Education.**	**Education Standards Addressed** **Jump$tart Coalition® National Standards in K-12 Personal Finance Education:** Financial Responsibility and Decision Making “Overall Competence: Apply reliable information and systematic decision making to personal financial decisions. Standard 1: Take responsibility for personal financial decisions. Standard 2: Find and evaluate financial information from a variety of sources. Standard 3: Summarize major consumer protection laws. Standard 4: Make financial decisions by systematically considering alternatives and consequences. Standard 5: Develop communication strategies for discussing financial issues. Standard 6: Control personal information.”

Day 25 Intro to Protection	Teacher Guide Mod #16	Student Guide	
Objectives (Specify skills/information that will be learned.)	the 6 Jump$tart Financial Literacy Competency areas pg 10 Introduction to Protection Strategies: - Definition of 'Insurance' - Government Insurance for $$	Review pg 287-295 (stories) - Read pg 299 – 312	
Information (Give and/or demonstrate necessary information)	- Protection Strategies - Car Insurance - Government Insurance for $$	Complete Activity pg 310	
Verification (Steps to check for student understanding)	Discuss reading on pg 299-312 Review activity on pg 310 Group discussions - Probe –what do you know about MARGIN? Review Activities/grids/lists		**Other Resources** (e.g. Web, books, etc.) See pg 342-343
Activity (Describe the independent activity to reinforce this lesson)	Identify what type of insurance covers your checking account?	- Make a list of what is covered by either FDIC or SPIC - Complete activity on pg 317 - Develop a comparison grid for term vs. permanent life insurance (pg. 317-321)	
Summary	Personal examples make information relevant – share a few examples of the types of life insurance you have been exposed to…maybe your car insurance? .	Homework: Read pg 312- 328 Activity on pg 328 Review/finish terms for insurance and long-term care	**Additional Notes**

Day 26 Intro Life Insurance	Teacher Guide Mod # 17	Student Guide	
Objectives (Specify skills/information that will be learned.)	the 6 Jump$tart Financial Literacy Competency areas pg 10 Introduction to Protection Strategies: - Life insurance: Term and Permanent - Life Insurance Terms - Long-term Care	Read pg 312- 328 Activity on pg 328 - Review/finish terms for insurance and long-term care	
Information (Give and/or demonstrate necessary information)	- Protection Strategies - Life insurance: Term and Perm. - Life Insurance Terms - Long-term Care	Review Activity pg 328 as a group	
Verification (Steps to check for student understanding)	Review activity on pg 310 Group discussions - What do you know about how life insurance works? When do you think, one might need to purchase life insurance, long-term care insurance? Review Activities/grids/lists		**Other Resources** (e.g. Web, books, etc.) See pg 342-343
Activity (Describe the independent activity to reinforce this lesson)	Discuss charts for term vs permanent life insurance features How to\apply for Life Insurance/process Disability and Life Insurance terms	Create a chart for term vs permanent life insurance features	
Summary	Personal examples make information relevant – share a few examples of the types of life insurance you have been exposed to… and other types of insurance you are familiar with.	Homework: Read and Discuss pg 329 Activity on pg 329 Review/finish terms for insurance and long-term care	**Additional Notes**
Objectives (Specify skills/information that will be learned.)	- Start on Estate Planning terms	- Read pg 329- 341 - Find an Identity theft story in the news - Activity – bring relevant story to share	

Day 27 Estate Planning	Teacher Guide Mod #18	Student Guide	
Objectives (Specify skills/information that will be learned.)	the 6 Jump$tart Financial Literacy Competency areas pg 10 Introduction to Protection Strategies: - Features of Wills and Trusts - Identity Theft	- Review pg 329- 341	
Information (Give and/or demonstrate necessary information)	- Protection Strategies What is a TOD - Wills vs. Trust - Identity Theft		
Verification (Steps to check for student understanding)	Discuss reading on pg 329-341 Activity: bring relevant story to share Group discussions - Buy/Sell Agreements Probe –what do you know about Identity Theft? Review Activities/grids/lists	Group discussion: - Make list of pros/cons Wills vs. Trusts - List out/share Identity Theft stories	**Other Resources** (e.g. Web, books, etc.) See pg 342-343
Activity (Describe the independent activity to reinforce this lesson)	When might you use a will vs. a trust? Students: describe what Identity Theft is and strategies to avoid becoming a victim. Share Identity Theft news article	- Develop a comparison grid for a will vs. a trust	
Summary	Personal examples make information relevant – share a few examples of the types of long-term care insurance you have been exposed to. Share news Identity Theft story. **Check Understanding** **COURSE CONCLUSION/SUMMARY**		**Additional Notes**

Grade Level:	8-12	Subject:	Chapter 5 Review Day 28	Prepared By:	Janis R. Dickey, PhD

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Chapter 5 Check for Understanding
Complete the following:

1. **List some of the things you might do to protect your identity.**
2. **Discuss why the FDIC and SEC were established. Relate your statement to how the two organizations are important in today's economic environment.**
3. **Describe, in your own words, why you might buy life and disability insurance in the future. (If you haven't already.)**
4. **Explain the term 'face value' as it relates to a life insurance policy.**
5. **Ask someone you know well, if they will share how much insurance they have on themselves… and how they decided upon that amount.**
6. **Report on the criteria an individual might consider when they choose the amount of life insurance to purchase.**
7. **Interpret the difference between health insurance and long-term care insurance.**
8. **Compare and contrast a few of the characteristics of Term verses Permanent Life Insurance.**
9. **Identify the benefits of establishing a Will.**
10. **Who assists the maker in the creation of a Trust?**
11. **Evaluate the importance of naming a beneficiary for your assets.**
12. **Select one of the following Jump$tart Coalition® National Standards in K-12 Personal Finance Education learning topics and report what you now 'know and understand.' Choose a standard that you didn't know before you read this section of the handbook.**

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Education Standards Addressed

Jump$tart Coalition® National Standards in K-12 Personal Finance Education:

Financial Responsibility and Decision Making

"Overall Competence: Apply reliable information and systematic decision making to personal financial decisions.
Standard 1: Take responsibility for personal financial decisions.
Standard 2: Find and evaluate financial information from a variety of sources.
Standard 3: Summarize major consumer protection laws.
Standard 4: Make financial decisions by systematically considering alternatives and consequences.
Standard 5: Develop communication strategies for discussing financial issues.
Standard 6: Control personal information."

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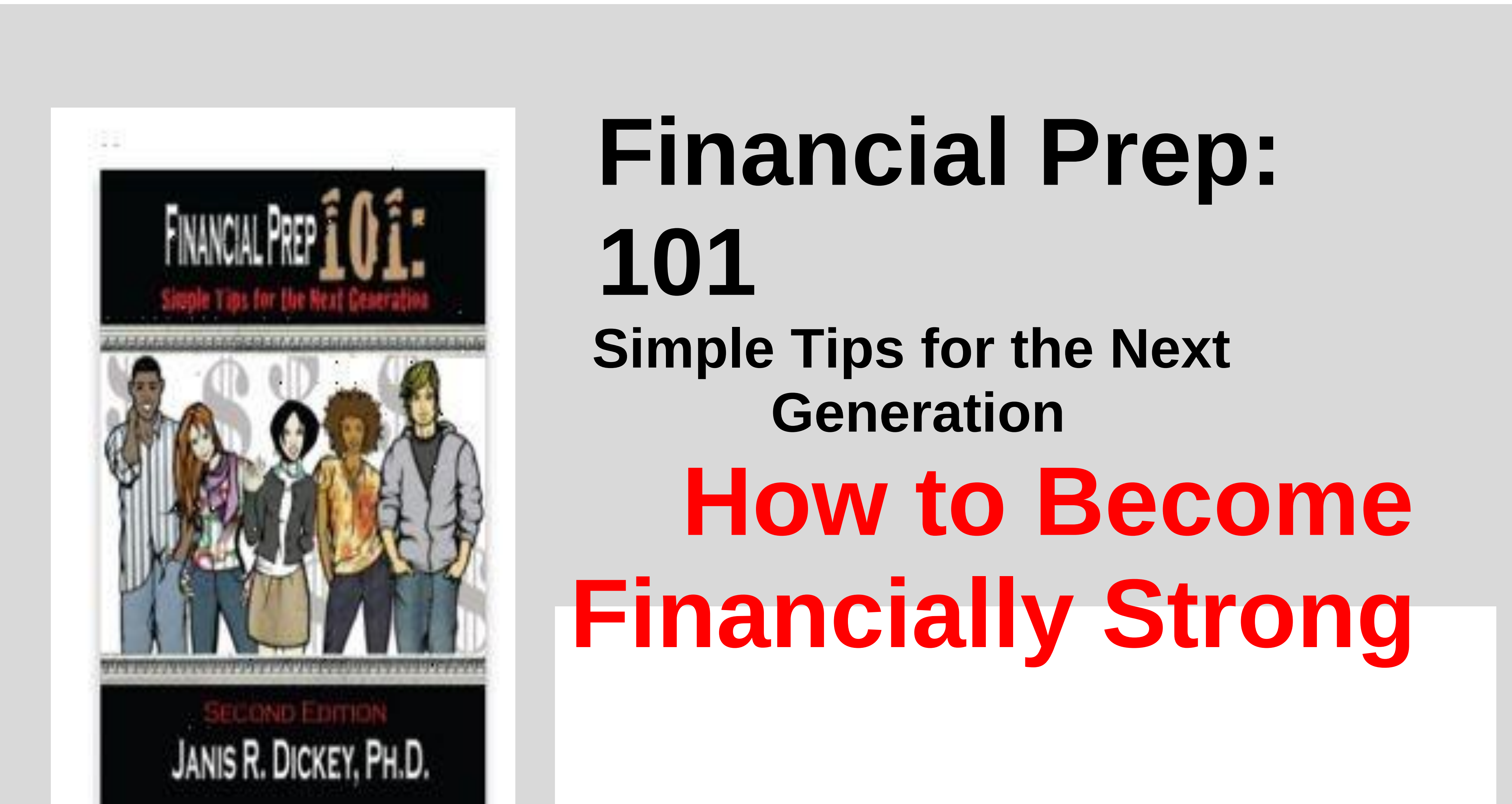
Follow Up:

Choose several terms from the glossary at the back of these lesson plans and have students provide definitions in a creative manner.

Find slides from online course here:



Course Description

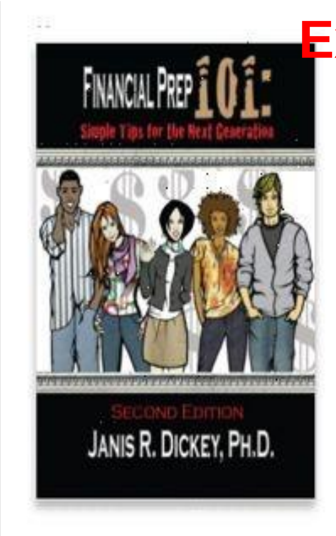
Financial Prep 101

How to Become Financially Strong

This course tracks along with the handbook: <u>Financial Prep 101: Simple Tips for the Next Generation</u>, and is designed to assist the learner in becoming equipped with the financial tools/terms /concepts they will need to navigate the Financial World they live in so that they can become financially successful in life.

WHO IS …. JANIS?

Janis has over 30 years of Financial and Business Experience.



After 15 years in corporate America working as a Sales and Marketing Manager,
Janis received her Doctorate in Public Affairs and Administration & Education from the University of Missouri, Kansas City. She then spent over 18 years as a Financial Advisor, holding Series 7, 63, & 65 Registered Representative and
Investment Advisor licenses, a KS Mortgage Origination License, Life, Health and Variable Contracts licenses. Janis previously held a Real Estate license; worked as a Real Estate Appraiser; and she also taught as an adjunct professor at UMKC.

Today, Janis continues to work with individuals and Business Owners to help them with their financial lives by creating insurance risk plans to assist in reducing financial exposure. Janis lives with her husband John; and together they have a blended family with six sons and a growing number of grandchildren. Janis and John enjoy working out, playing golf, and are avid sports enthusiasts.

Janis R Dickey, PhD

How to Become Financially Strong

COURSE OVERVIEW

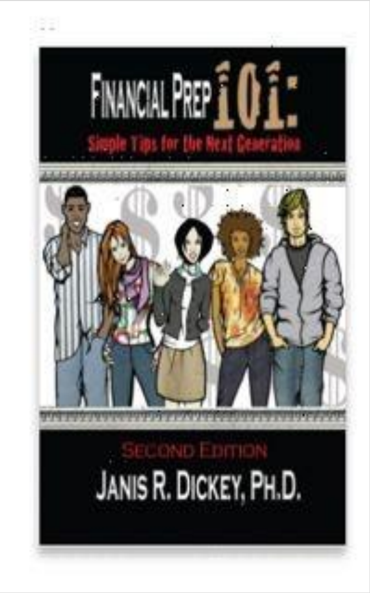
Chapter 1: The Warm-Up - budgeting and saving
Chapter 2: Setting your plan in Motion - borrowing and financing
Chapter 3: Crunch Time - Going to ‘afterburners’ - investing
Chapter 4: Planning for the Long-Haul - retirement planning
Chapter 5: Cool Down - wealth protection

ELECTRONIC DEVICE POLICY

Laptops are required to view course and complete assignments.

Cell phones should be silenced during course

COURSE DISCLAIMERS



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Investments are long-term, designed to help meet investment and retirement needs and goals. Account balances will fluctuate and are subject to market risk, including the possible loss of principal. Investors may receive less than their original amount they invest. Some investments have contingent deferred sales loads and tax penalties for withdrawals. Some insurance investment products and riders may be at risk, the contracts are subject to the ability and strength of the insurance company you invested with; i.e. contract guarantees are the responsibility of the insurance company issuing the contract and are based on the insurance company's 'claims-paying' ability.

None of the information presented in this handbook/course is intended to provide investment, tax, accounting, or legal advice. Any investment, tax or legal statements 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 this handbook/course.

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This document was not intended or written to be used, and cannot be used, to: (1) avoid tax penalties, or (2) endorse, advertise, or propose any tax plan o legal arrangement.

Most/some charts are for illustration purposes only.

Course Objectives

1. At the beginning of each chapter, ‘Learning Objectives’ are presented to clearly define content learning goals.
2. Activities are offered throughout the course chapters to fully engage the learner.
3. There are “Check for Understanding’ checklists at the end of each chapter to reinforce learning outcomes.
4. Each chapter presents Real-life stories for the reader - to further help them relate to the information/concepts.
5. A quiz is presented at the end of each chapter.
6. janisrdickey.com is the handbook website.

Please consult your outside professional advisors for specific investment, tax, accounting, or legal opinion regarding statements made in this handbook/course.

Jump$tart Coalition®

"Jump$tart Coalition ® is a national coalition of organizations dedicated to improving the financial literacy of pre-kindergarten through college-age youth by providing advocacy, research, standards and educational resources. Jump$tart Coalition® strives to prepare youth for life-long successful financial decision-making."

Jump$tart Coalition® National Standards in K-12 Personal Finance Education

Financial Responsibility and Decision Making

“Overall Competence: Apply reliable information and systematic decision making to personal financial decisions.

1: Spending and Saving: Apply strategies to monitor income and expenses, plan for spending and save for future goals.
2: Credit and Debt: Develop strategies to control and manage credit and debt.
3: Employment and Income: Use a career plan to develop personal income potential. **4: Investing:** Implement a diversified investment strategy that is compatible with personal financial goals.
5: Risk Management and Insurance: Apply appropriate and cost-effective risk management strategies.
6: Financial Decision Making: Apply reliable information and systematic decision making to personal financial decisions.” (6)

Financial Prep: 101

2008 President George Bush signed an Executive Order

“The Council asserts that any individual completing a comprehensive financial literacy program should have an understanding of the following skills and concepts:

o the capital market system and financial institutions; o the participant’s household cash flow situation, and how to develop and maintain positive cash flow;

o how to develop a spending plan that is consistent with their resources and priorities;

o the reasons for having an emergency fund and how to establish an emergency fund;

o the fundamentals of credit granting, including how to evaluate, select, and manage credit, and how to maintain a good credit rating;

o the process of deciding when to rent and when to buy a home, and the process of home ownership.

o the process of identifying various financial risks, including development of a risk management strategy to decide which risks they should take on and which should be transferred to an insurance provider;

o how to identify and protect themselves from identity theft and various financial frauds, and what to know and do if they think they have been victimized; o basic investment products, the relationship between risk and return, and the what, when and why of choosing the best investments at the right time in their life;

o how to evaluate and take advantage of employee benefits and tax-advantaged savings accounts;

o the various components of retirement planning, and how to develop an appropriate plan for a secure retirement; and

o how to develop a plan to assure financial security in the case of unexpected loss of income (disability or death) for those who depend on their earning power, and to assure the smooth transfer of assets to appropriate heirs.” (Department of the Treasury, 8)

DAY 1

The “Warm Up”

“Motivation gets you going and habit gets you there.”

Zig ZiglarRadio.com

LEARNING OBJECTIVES - Chapter 1

After completing Chapter 1, you should be able to:

a. **Identify the six financial literacy competency areas outlined by Jump$tart Coalition® National Standards in K-12 Personal Finance Education.**

b. **Articulate and demonstrate your understanding of the advantages of constructing a budget.**

- **Explain a strategy for creating a budget.**
- **Create both a short-term and long-term budget.**

c. **Describe the differences between a savings and a checking account; and the relevance for each.**

d. **Identify the differences between a credit and debit card, provide examples for how you will use each type of card.**

e. **Understand the different taxes imposed on your income; discuss how those taxes impact your ‘net’ income.**

f. **Recognize the differences in various payment methods, i.e.: checks. credit/debit cards, etc.**

g. **Consider what the costs associated with attending college might be; describe your plan for saving for college.**

Financial Prep 101 Activity

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:

Background - Financial Literacy

The Consumer Education Services Inc® reports that a 2011 Charles Schwab® survey reported, "teens between ages 16 and 18…

42% wanted their parents to talk more about finances and money. [And only] A mere 32% stated they knew how credit card interest and fees work."

AND..

"More than half of states don't require high school students to take an economic class.

- **Only 17 states require high school students to take a course in personal finance."** (1)

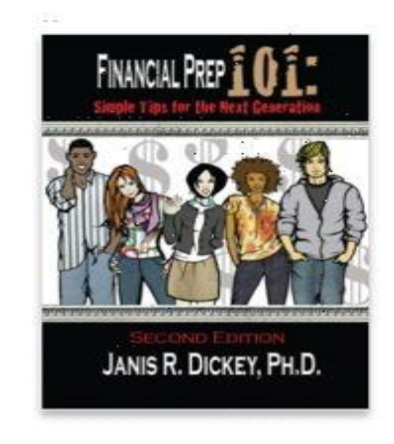
Bloomberg® reported that according to an Experian® study (9/2019),

"Three out of four recent high school graduates said they wish a class on personal finance had been a mandatory part of their education." (1)

➢ The Guardian®, US Edition (https://www.theguardian.com/money/2017/nov/11/schools-ignorepersonal-finance-lessons-fail-generation-debt?CMP=share_btn_link) reported this in a 2017 article, "Schools ignore personal finance lessons and fail Generation Debt – 2017 study,",

- **“Most students find the terminology of finance very confusing. They don’t, for example, understand the difference between a credit card and a debit card …**

- **…feedback from ex-pupils now at university suggested that a huge number wish they had left school with more financial awareness.”**



➢ “LAS VEGAS, Sept. 26, 2019 /PRNewswire/ -- Recent data indicate that people across the U.S..believe that financial literacy should be taught in schools. In a survey conducted between August 13th and August 15th, 2019, the National Financial Educators Council® asked 1,211 people,

(https://www.prnewswire.com/news-releases/survey-results-over-81-of-americans-agree-schools-should-teachhigh-school-students-fi nancial-literacy-coursework-300925844.html)

"Do you think high school students should take personal finance courses in high school?"

More than 81% responded that students should take financial literacy coursework."

➢ According to EverFi, Inc® (the education technology company that teaches, assesses, and certifies students in critical skills including financial literacy), **"Nearly half of U.S. high school students do not know how to establish good credit…"** (9) And the 2019 Money Matters ® on Campus Report/ EverFi® College student report indicated,

[Only] "53% [of college students] were prepared to manage money."

- **"When asked about specific financial behaviors they have engaged in recently, only 59% claimed that they had checked their account balances, and even fewer had created (40%) or used (38%) a budget to manage their personal finances." (file:///C:/Users/Dell/Documents/MoneyMatters-2019.pdf); and**

- **"…only 16% of the entire sample reported using a money management app or program to support their efforts and only 15% used a spreadsheet to generate a budget."**

Background - Financial Literacy

• Forbes.com (Dani Pascarella) presented 4/2018, “48 Stats that Reveal How Badly America Is Failing At Financial Literacy:”

1) “44% of Americans don’t have enough cash to cover a $400 emergency.

2) 43% of student loan borrowers are not making payments.

3) 38% of U.S. households have credit card debt.

4) 33% of American adults have $0 saved for retirement.”

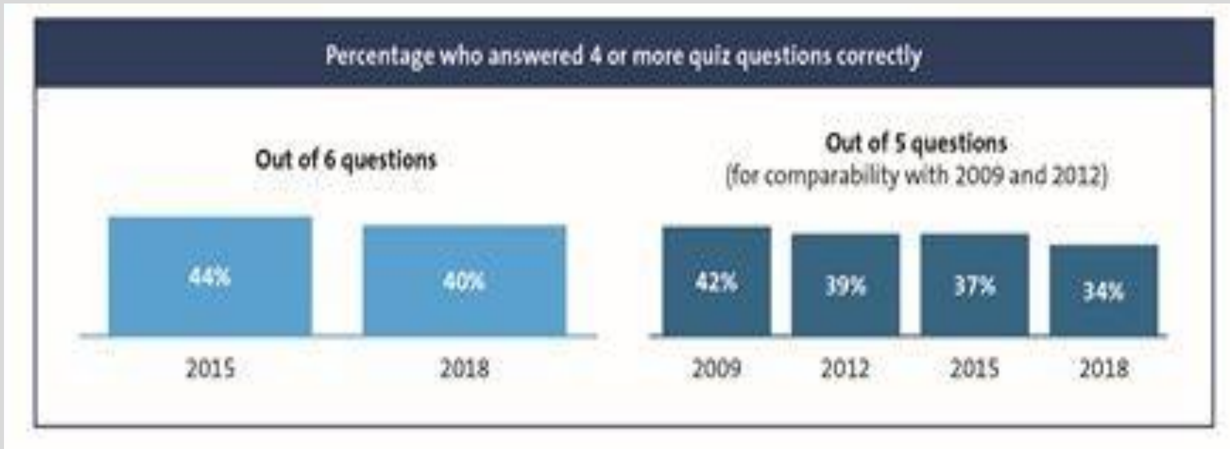
“Overall, people want to make good financial decisions that set them up for success both today and in the future, but most never had the opportunity to learn how to do it. …

two-thirds of American adults can’t pass a basic financial literacy test.” (1)

➢ The Organization for Economic Co-operation and Development®, published these statistics: (7):

- **“A survey of 15-year-olds in the United States found that 18% of respondents did not learn fundamental financial skills that are often applied in everyday situations, such as building a simple budget, comparison shopping, and understanding an invoice.”**

➢ The FINRA® Investor Education Foundation's 2018 Financial Capability in the US study reported: (2)



FINRA® Investor Education Foundation's *"2018 Financial Capability in the United States,"*

https://www.usfinancialcapability.org/downloads/NFCS_2018_Report_Natl_Findings.pdf., ©2019 FINRA.

Jump$tart Coalition(R) of Financial Literacy

Background and Overview

Financial Literacy

Jump$tart Coalition(R) of Financial Literacy defines Financial Literacy as:

> *"...the ability to use knowledge and skills to manage one's financial resources effectively for [a] lifetime [of] financial security. [Furthermore,] Financial literacy is not an absolute state; it is a continuum of abilities that is subject to variables such as age, family, culture, and residence. Financial literacy refers to an evolving state of competency that enables each individual to respond effectively to ever-changing personal and economic circumstances." (6)*

'The *"National Report Card on State Efforts to Improve Financial Literacy in* ***High Schools*** *" (Champlain College/Center for Financial Literacy ®)*

." Half of the states that earned B's, the Champlain College Center estimates, allocate less than one-quarter of a half-year course in high school to personal finance topics. That means that students in eight of those states get between seven and 13 hours of personal finance instruction in all of high school."

(https://www.champlain.edu/centers-of-experience/center-for-financial-literacy/reportnational-high-school-financial-literacy /fi le:///C:/Users/Dell/Downloads/Making-the-Grade-2017.pdf.)

Grade A – 5 States/Grade B – 19 States/Grade C – 12 States/Grade D – 4 States/Grade F – 11 States

**Does not equal 100% due to rounding.*

Financial Prep: 101

WEBSITES - Financial Program Resources

❖ **"Money Math®: Lessons for Life," is an educational tutorial published by The Curators of the University of Missouri to help promote financial literacy. (10)**

❖ **National Institute of Adult Continuing Education's® (NIACE) is an independent, non-government organization and charity devoted to the promotion and development of financial learning for adults. (11)**

❖ **The National Endowment for Financial Education® (NEFE) is a foundation that partners with others for the "financial well-being of the public." 'High School Financial Planning Program (HSFPP)' (12)**

❖ **Neighbor Works America's® website, https://www.nw.org, also presents "Financial Security/Health" programs to assist families and individuals in developing "sound money and management skills."**

❖ **The "Money Smart®" program was developed by The Federal Deposit Insurance Corporation (FDIC). The purpose of this program is to acknowledge, "…the importance of financial education, particularly for people with little or no banking experience. That's why we created Money Smart, a training program to help adults outside the financial mainstream enhance their money skills and create positive banking relationships." (14)**

❖ **"MONEY 101® educational program–A step by step guide to gaining control of your financial life." It is a series for educating individuals on a variety of financial literacy areas. The program is delivered in a simple and easy to understand format." (13)**

DAY 2

Budgeting

> *"A budget tells us what we can't afford, but it doesn't keep us from buying it."*
>
> William Feather

> *"A budget is telling your money where to go instead of wondering where it went."*
>
> John Maxwell

Financial Prep: 101

Why Develop Your Personal Budget?

- ✓ **Having a road map of where you want to go, and a plan to get you there can be invaluable. Having a plan can provide you with a sense of power and ownership over your financial affairs.**

- ✓ **Creating a strategy can help you to focus on the goals; can help provide a reason for you to stay the course; and can reduce stress regarding financial decisions.**

- ✓ **Watching your spending closely can help reduce the amount of money that is spent on 'impulse purchase' items.**

- ✓ **A budget should detail spending categories, and therefore highlight where your money is spent. This exercise may uncover areas of extravagance and produce 'extra' cash for savings.**

- ✓ **A budget helps to monitor your financial direction to ensure that you are not living beyond you means (you're not able to pay off credit cards each month or are neglecting to save money).**

- ✓ **A budget may help you STAY OUT OF DEBT; or at least help you plan to incur debt responsibly.**

Financial Prep 101 Activity

Take a minute this weekend and ask a few people if they actually have a WRITTEN budget. Record your findings.

____

____

____

Financial Prep 101 Activity

What are four reasons for budgeting that you feel are important to you?

Financial Prep 101 Activity

Budget Disconnect

1. It is, quite frankly, a pain to write down what you spend and then go back and add it up, month after month.
2. Devising a plan to TRACK – retaining receipts, etc. is just *NOT FUN!*
3. People just don't want to believe that they spend as much as they do.
4. People are averse to conflict and don't want to conduct 'budgeting' discussions.
5. Budgeting is typically an area where discipline to stay on track, and interest in the process, wanes over time.
6. A consensus on how much to spend is difficult to obtain.

Financial Prep 101 Activity

“Strategies for Budgeting and Saving Money.” (17) Reasons to Budget

- Having a road map of where you want to go, and a plan to get you there can be invaluable. Having a plan can provide you with a sense of power and ownership over your financial affairs.
- Creating a strategy can help you to focus on the goals; can help provide a reason for you to stay the course; and can reduce stress regarding financial decisions.
- Watching your spending closely can help reduce the amount of money that is spent on ‘impulse purchase’ items.
- A budget should detail spending categories, and therefore highlight where your money is spent. This exercise may uncover areas of extravagance and produce ‘extra’ cash for savings.
- A budget helps to monitor your financial direction to ensure that you are not living beyond your means (you’re not able to pay off credit cards each month or are neglecting to save money).
- A budget may help you STAY OUT OF DEBT; or at least help you plan to incur debt responsibly.

Financial Prep: 101

Teaching kids about Money

"Financial lessons that parents, schools should teach kids:

Money Matters," provides:

1. Save first, pay yourself first.

2. Learn how to budget and distinguish needs vs. wants.

3. Learn how bank accounts work, as well as checks, debit cards and credit cards.

4. Understand debt. Learn about loans and credit cards, and understand compounding interest and how to manage repayment of loans or credit cards…

5. Learn the importance of paying bills on time and building a solid credit history. Understand how a credit score affects not just your ability to qualify for loans or credit cards…

6. Understand the importance of protecting your personal information. This is huge.

7. Know how to make doctor's appointments, fill a prescription and make appointments for oil changes and other car maintenance.

8. Read what you sign and don't sign anything you don't read or understand.

9. Know when to ask for help.

10. Learn about income taxes and how to file tax returns.

11. Keep your receipts, car maintenance records, leases, bank statements, etc."

Excerpt) Posted Sep 15, 2019; https://www.cleveland.com/moneymatters/2019/09/11-lessons-that-parents-and-schools-should-teach-kids-money-matters.html.

Financial Prep: 101

Your Budget Process

ASARR

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

Financial Prep: 101

Your Sample Budget Worksheet

Exhibit A General Budget Worksheet

Item	Budgeted Spending	Suggested	Actual
Charitable Gifts		10-12%	
Saving		5-10%	
Housing		25-35%	
Utilities		5-10%	
Food		5-15%	
Transportation		10-19%	
Clothing		2-7%	
Medical/Health		5-10%	
Personal		5-10%	
Recreation		5-10%	
Debt		5-10%	
Other		5-10%	

Financial Prep 101 Activity

Review your Budget worksheet now. Start tracking what you spend... Complete the exercise for a minimum of two weeks and review where your money is going. Use the Budget Sheet as a Tracking Sheet for this exercise.

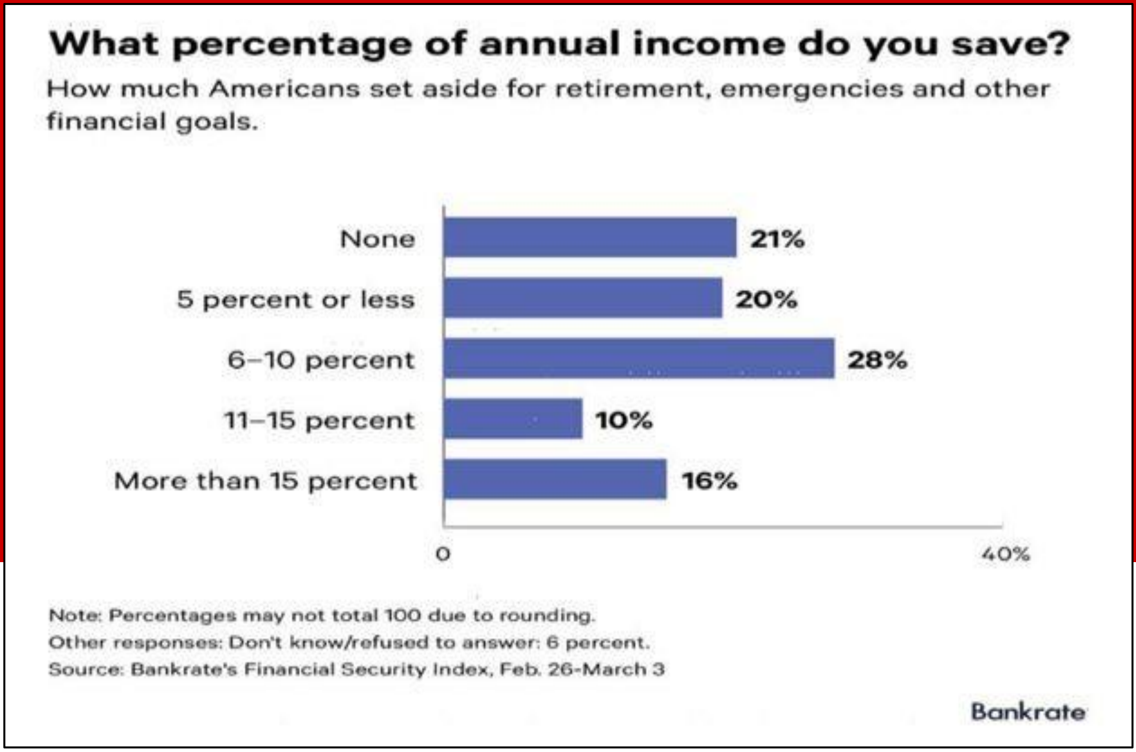
Financial Prep 101 Activity

Choose one item from your budget that you have identified that you would like to reduce. Monitor/write down what you spend in that area for one month. CHALLENGE YOURSELF!

Financial Prep: 101

"American's annual personal savings rate was 8.8% in 2018, compared to 10.4% in 1960."

https://www.statista.com/statistics/246268/personal-savings-rate-inthe-united-states-by-month/



https://www.bankrate.com/banking/savings/financial-security-march-2019/

DAY 3

Saving

"You cannot afford to wait for perfect conditions. Goal setting is often a matter of balancing timing against available resources. Opportunities are easily lost while waiting for perfect conditions."

Gary Ryan Blair

Financial Prep 101 Activity

Check with someone to discover how much they budget for savings. Do you have a goal in mind?

Financial Prep: 101

Help with Saving

1. Buy one item, make a smart purchase, and keep your item a long time.

2. Stick to a predetermined shopping list.

3. Stay out of the stores. Stay off the internet purchase sites. Do not watch the home-shopping channels or shop online.

4. Spend more time on activities that don't cost money.

5. Just reduce spending. Whatever strategy you employ to help you reduce your spending, set a goal for each month and review your spending against your objective on a timely basis. The ultimate goal is to reduce your spending and increase your saving habits.

Getting Started

Savings Accounts

Checking Accounts

Debit Card

Credit Card

A Savings Account

Here are a couple of points to consider when you open a savings account:

- **Is there a required minimum balance?**
- **What interest rate does the account pay you for letting them hold your money?**
- **Will you receive simple or compound interest?**
- **How is the interest calculated? i.e. annually, semi-annually, quarterly, daily?**
- **Is there a monthly fee for the account?**

Financial Prep 101 Activity

Do you have a savings account? If not, date you will open one. ________

Check with two people you know and ask them how much they save each month for: emergencies, large purchases (like a car), college, retirement, etc.

____

Financial Prep: 101

A Checking Account

- Writing a check is just like reaching into your pocket and taking out ‘cash.’
- The checks are a replacement for your available ‘cash in your checking account.’
- Subtracting every check, every purchase, and every ATM withdrawal from your ‘cash’ balance is critical.
- Keep your checking account ‘balanced’ to insure you do not ‘overdraw’ what money you actually have in the account.
- Keep track of the checks you write. Record the check amount, the check number, and to whom you wrote the check for every check you write in your

Financial Prep: 101

ledger. Then subtract the amount of the check from your previous balance total and note your new balance in the ledger.

- Do not forget to subtract your ATM withdrawals or debit card purchases as well.
- It is crucial to be sure you never write a check for more than you have in the account.
- ‘Overdrawn’ accounts, may cause a processing fee or a ‘bounced’ check.
- A bounced check may: 1) require you to re-write the check at a later date or make the payment in cash or use your debit/credit card; 2) cost you extra money in the form of a penalty.

Financial Prep: 101

A Debit Card

- ★ A debit card is issued directly from your financial institution, like your bank, and permits you, the owner, to pay for purchases with a plastic card, 'same as cash.'
- ★ In a sense the debit card is a plastic check. The card provides you with instant access to your money.
- ★ When the debit card is swiped, it automatically and electronically pulls money directly out of your checking or savings account.
- ★ When you do not have enough money in your checking account to cover your purchase the transaction may be 'declined.'
- ★ If you don't have enough money in your account, one of two things can happen: 1) your purchase will not be approved and your transaction will be declined, or 2) if you have 'opted in' for 'overdraft protection' your purchase will he paid for – your purchase will not be declined.
- ★ You may have the ability to elect 'overdraft protection' for your debit card. To receive 'overdraft protection' you usually 'opt in' for this service. However, if you have 'opted in' for the 'overdraft protection,' and you need to use it, you typically will be charged a fee.

Financial Prep: 101

A Credit Card

- ★ When you use your credit card, money is not automatically taken from your account when it is swiped.
- ★ A credit card is NOT directly linked to your checking or savings account. The credit card stands alone.
- ★ When you swipe a credit card it records the purchase and sends it to your credit card company.
- ★ The credit card company then pays the vendor where you have used the card to make your purchase.
- ★ In a sense you ‘borrow’ the money from the credit card company.

Financial Prep: 101

- ★ At the end of the month the credit card company adds up the charges (the amount of money loaned to you that you charged on the credit card) and sends/emails you a bill to pay.
- ★ If you have a balance from the last month, interest will be added as well.

A Credit Card continued

- ★ When you receive the bill notice, you write a check or move money from your checking account online 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 (resulting in a NON ‘zero’ balance) each month results in a penalty, or interest charge added onto your account balance.
- ★ 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.

Financial Prep: 101

- ★ **MONITOR CHARGES ON-LINE every few days.**
- ★ **Remember that debit card purchases also need to be subtracted on your check ledger from your previous checking account balance.**
- ★ **Typically, you will open your first credit card at either a retail department store, or directly with a credit card company, like Visa® or MasterCard®.**

Financial Prep 101 Activity

Please complete: True or False

1. Credit cards have a monthly bill for you to pay. _______
2. Debit cards are more like "cash" than credit cards. _______
3. Debit cards have a monthly bill for you to pay. _______

Financial Prep 101 Activity

Ask someone you know how they are managing their credit card balances, report here:

____

____

DAY 4

Plan for Taxes and COLLEGE Planning

"The hardest thing to understand in the world is the income tax."

Albert Einstein

Financial Prep: 101

Consult a Tax Advisor

FICA

Social Security and Medicare/Medicaid programs disburse money to retirees after they turn a specific age. o Individuals are eligible for Social Security payments when they reach the age of 62.

- **Our Social Security program is funded by today's workers for a) current retirees, and b) disabled individuals and their dependents.**

Financial Prep: 101

FICA money also funds Medicare.

> Medicare is a health insurance benefit for the elderly and disabled; and Medicaid provides health and hospitalization benefits to individuals with low incomes.

Individuals are currently eligible for Medicare/Medicaid program benefits at age 65.

Consult a Tax Advisor

Financial Prep: 101

Income Taxes

- Income taxes are payments to the government, (federal and state) based on your income level.
- The state you live in may also receive money from most working citizens by deducting taxes from their income.
- Each state has a different income tax rate. Some states even waive the state income tax.
- In addition, most individuals who exceed the minimum income limits (minimum limits also can change from year to year) will likely pay federal income taxes
- The federal income tax is a ‘progressive tax’ structure. That means that in theory the more money you make, the more money you pay in taxes.

2020 NO State Income Taxes

Florida	Nevada
Texas	Alaska
So. Dakota	Wyoming
Washington	

Look at your pay stub (or someone else's) – note: FICA (Social Security, Medicare), State, Federal Tax Amounts here.

____

____

Calculating a Tip

Example: 20% Tip	Example: 15% Tip
$30.00 food 2.40 tax	$30.00 food 2.40 tax
$32.40 subtotal	$32.40 subtotal
$6.48 20% tip	$4.86 15% tip
$38.88 total	$37.26 total

Challenges of Managing Your Money

1. Peer pressure, the ‘everybody else has one’ syndrome.

2. You are in a store so what are you going to buy? Get something! Can you leave a store without making a purchase?

3. It’s very easy to make a purchase – there are so many options (i.e. internet, home sh)opping

4. There is a constant barrage of commercials influencing and suggesting purchases.

5. Your car needs to be really cool.

6. “I’ve worn/had this (item) for a long time and I need to get a new one (even if it’s still good/fits/works).”

7. “Why can’t I go/do (activity that costs a lot- or a little-), when everyone else is?”

8. Eating out again and again? “Bringing my lunch is NOT cool!”

9. “I don’t see why I need to establish a MANDATORY savings program.”

10. “Why can’t I use my credit-card? I was given one, FREE.”

11. “I earned this money, why can’t I do anything I want with it? (Even if your parents have different ideas.)”

Financial Prep 101 Activity

List the top 3 money management hurdles you face. What were your last 3 purchases?

___

___

___

Financial Prep 101 Activity

Are you interested in attending college? Do you already go to college? Or, do you plan on sending someone to college later? Research the cost of 2 colleges you may consider. Report your findings here.

Financial Prep: 101

Trends in How Much College can Cost

1. The College Board's Trends in College Pricing 2007" reported :

"56% of students attend four-year schools with annual tuition and fees below $ 9,000. However, planning to attend a private four-year college or university is substantially higher at about $23,712 a year.

2. The cost of a public four-year college is estimated to be $ 6,185." (26)

3. Compare that to current trends: PUBLISHED TUITION AND FEE AND ROOM AND BOARD CHARGES:

"The average net tuition and fees for full-time students at private nonprofit four-year institutions rose from $13,400 (in 2019 dollars) in 2011-12 to $14,400 in 2019-20; the net price remains below its level from 2001-02 through 2008-09. (Figure 10)" (26)

4. 2017-2020 trends:

"Average published out-of-state tuition and fees at public four-year Institutions rose by $620 (2.4%), from $25,670 in 2017-18 to $26,200 in 2018-19, and rose again to $ 26,820 in 2019-2020."

5. Average total charges in 2018-19 are $37,430. (Table 1)

Financial Prep: 101

Types of College Savings Accounts

The 529 College Savings Plan

A Coverdell Education Savings Account

UTMA or UGMA (Uniform Trust/Gift to Minor Account)

"Average published tuition and fees at private nonprofit four-year institutions rose by $1,130 (3.3%), from $34,700 in 2017-18 to $35,680 in 2018-19, and to $ 36,880 in 2019-2020." (27)

Types of College Savings Accounts

The 529 College Savings Plan

a) The ‘owner/participant’ (typically a parent) opens an account for a named beneficiary.

b) The contribution gifting limits are very generous; however, the limits can change each year.

c) The beneficiary of a 529 account can be changed during the lifetime of the account.

d) You do not pay federal taxes on the earnings if the earnings of the account (assuming the account value grows over time) are utilized for qualified higher-education expenses. e) The owner, not the beneficiary, retains control of the account.

f) Some states may allow you to deduct some amount of your contribution from your state taxes.

g) Age or income limits do not apply for your contributions.” (29)

Types of College Savings Accounts

A Coverdell Education Savings Account

a) Permits withdrawals to be applied to Kindergarten through High School (laws may change periodically), as well as college expenses, when used for educational expenses only.

b) gains and withdrawals are federally tax-free.

c) The account has a custodian, typically a bank or a financial institution, so control over the account and changes of beneficiaries can be different than with other college savings plans.

d) The contribution limits for a Coverdell account are considerably lower than those for a 529 plan, and income limits do apply.(29)

Types of College Savings Accounts

UTMA or UGMA (Uniform Trust/Gift to Minor Account)

a) Can also be utilized for college savings.

b) Have a less favorable tax treatment than the other two account types described here.

c) Do not permit a beneficiary change during the life of the account.

d) Have fewer restrictions for the use of the money than with the other two account types.

e) The money in these accounts must be used to benefit a Minor, and the Minor gains control of the assets at the age of majority (someone under the age of 18 or 21 is a Minor, depending on each state's definition of 'Age of Majority').

f) The account is actually owned by the Minor (the account is opened using the Minor's social security number). (29)

Financial Prep 101 Activity

Research and find 2 types of College Savings Plans. Given this information, project what type of College Savings Plan you may consider using.

Financial Prep: 101

Grant Opportunities Websites

1. **https://www.scholarships.com/**

2. **https://www.collegescholarships.org/grants**

3. **https://www.comparetopschools.com/grants-and-scholarships/default23.aspx?push=1&sid=C203 75F9-4248-4F15-9014-B90A4DB67FC1&aid=82639337921&subid=grants%20for%20college+e +c+g++399511697260+6497871351+82639337921+nvp&gclid=Cj0KCQiAmZDxBRDIARIs ABnk bYSmVBu7-94DvJxBQ58xqM8oensKLfhf75GvE0JI_9uklkc5ScLeoIkaAhI7EALw_wcB&gclsrc=aw.ds**

4. **https://www.financialaidfinder.com/financial-aid/financial-aid-programs/coverdell-educational-savings-account/coverdell-529-college-plan-comparison/**

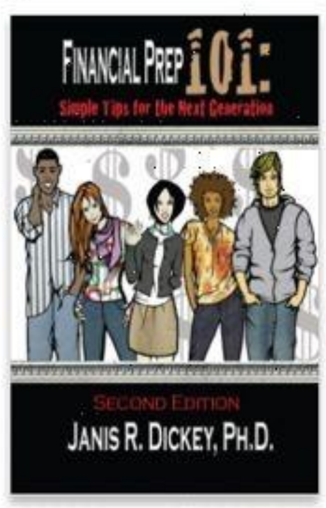
Financial Prep 101 Activity

Research two potential financial aid, scholarship or grant sources. Note them here.

____

____

Chapter 1 Check For Understanding



- Prepare a list of areas that encompass your definition of Financial Literacy.
- Define Financial Literacy in your own words. Record some resources for developing a budget.
- Make a list of subject areas for your short and long-term budget goals. Offer at least 15 categories.
- Translate the 5 Steps of Developing a Budget into your own words – rename the steps to make them appropriate for you and your lifestyle.
- Discuss why individuals may procrastinate in creating a budget and sticking with it.
- Describe in your own words why you think a budget is hard to create and monitor.
- Demonstrate your 'system' for keeping track of your income and spending.

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

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

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

· Compare the differences between a debit card and credit card. · Contrast a checking account with a savings account, how are they alike or different?

· Examine your recent pay stub, how did taxes impact your 'net' versus 'gross' income?

· Select one of the Jump$tart Coalition® National Standards in K-12 Personal Finance Education learning topics and report what you now 'know and understand.' Choose a standard that you didn't know before you read this section of the handbook.

Chapter 1 End

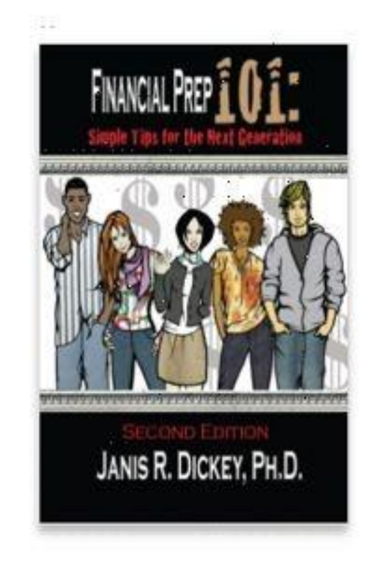
Complete Chapter Activities

Review Learning Objectives

Take Quiz

Financial Prep: 101

How to Become Financially Strong



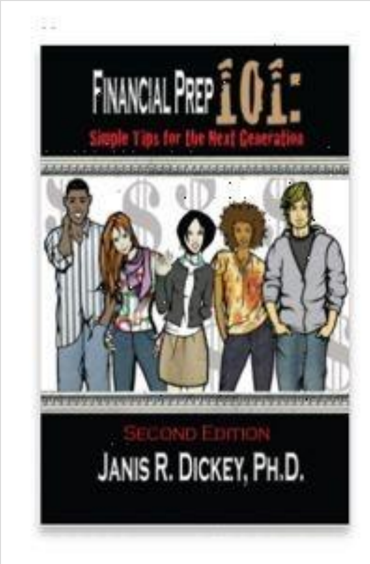
DAY 1

Set your Plan in MOTION

An Introduction to Borrowing/ Finance Options

"You won't always be motivated, so you must learn to be disciplined."

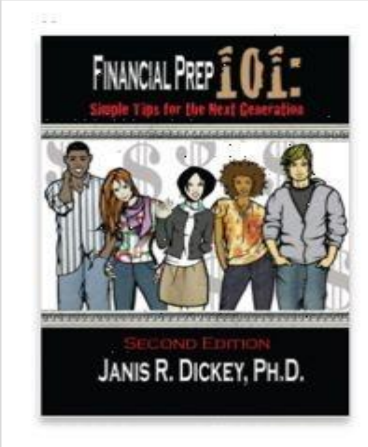
Fearlessmotivation.com (brainyquote.com)



DAY 1

Borrowing/Finance Options

> *"Remember that credit is money."*
>
> Benjamin Franklin



"Rather go to bed without dinner than to rise in debt."

Benjamin Franklin

"A bank is a place that will lend you money if you can prove that you don't need it."

Bob Hope

LEARNING OBJECTIVES - Chapter 2

After completing Chapter 2, you should be able to:

a. **Exhibit an understanding of what ‘credit’ is, and how and when you will use credit.**

b. **Describe the differences between simple and compound interest; and the relevance for each.**

c. **Demonstrate an understanding of various ways ‘finance’ charges can be calculated; and identify various finance terms.**

d. **Understand what ‘credit scores’ are; and what factors affect your credit score.**

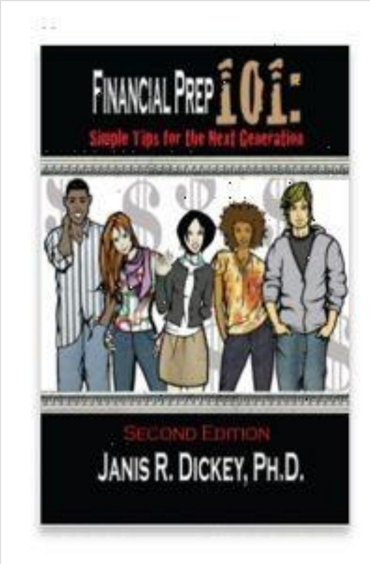
e. **Identify behaviors to help establish ‘good’ credit.**

f. **Learn the fundamental facts about mortgages; convey where you will find assistance when the time arrives for you to apply for a mortgage.**

   - **Outline and give details of some of the different mortgage rate options.**
   - **Be aware of some of the mortgage terms.**
   - **Understand and be able to describe the difference between specific use loans and mortgages.**

g. **Comprehend and be able to describe what ‘bankruptcy’ is.**

h. **Identify the six financial literacy competency areas outlined by Jump$tart Coalition® National Standards in K-12 Personal Finance Education.**



Jump$tart Coalition® National Standards in K-12 Personal Finance Education

Financial Responsibility and Decision Making

“Overall Competence: Apply reliable information and systematic decision making to personal financial decisions.

1: Spending and Saving: Apply strategies to monitor income and expenses, plan for spending and save for future goals.
2: Credit and Debt: Develop strategies to control and manage credit and debt.
3: Employment and Income: Use a career plan to develop personal income potential. **4: Investing:** Implement a diversified investment strategy that is compatible with personal financial goals.
5: Risk Management and Insurance: Apply appropriate and cost-effective risk management strategies.
6: Financial Decision Making: Apply reliable information and systematic decision making to personal financial decisions.” (6)

Financial Prep: 101

Consult your Banker

Collateral and Borrowing

- Collateral are the assets, or your items of value, that you can convert to cash in order to repay the loan if you run out of other available funds.

- You ‘pledge’ your collateral to the lender with the agreement that the lender may take your collateral if you do not repay the loan according to the agreed-upon terms of your loan contract.

- The value of your collateral can help to determine how much money you can borrow.

- There is a relationship between the amount of money you can borrow and the amount of assets, or collateral you pledge for the loan. This ratio is referred to as, the loan-to-asset ratio. Your cash, or capital, is also factored into the loan ratio equation and helps to determine the loan-to-asset ratio for your loan. The more collateral you own, typically the more money you can borrow…. Because, in theory, you can convert the collateral you own to cash to help repay the loan.

- Getting approved for a loan may require you to produce more collateral, creating a lower loan-to-asset calculation.

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· The debt-to-income ratio is calculated by dividing your outstanding loan amount by your income total. This ratio gives you an idea of how much of your income is being spent on servicing your debt. The lower your debt-to- income ratio, the more financially solvent you are.

· ’Capacity’ for repaying a debt is the income stream or available capital that the borrower possesses; it is a hypothetical mathematical calculation that projects whether or not you can pay back a loan. If you do not have the capacity for paying back a loan, in theory, the lender will deny your loan request.

· If you obtain a loan and cannot repay it, you ‘default’ on the loan. If you default on the loan, the bank, or lending institution takes your collateral in lieu of the loan payment.

Financial Prep: 101

Consult your Banker

Financial Prep 101

The value of your collateral can help to determine how much money you can borrow. **There is a relationship between the amount of money you can borrow and the amount of assets, or collateral you pledge for the loan.** This ratio is referred to as, the **loan-to-asset ratio.** Your cash, or capital, is also factored into the loan ratio equation and helps to determine the **loan-to-asset ratio** for your loan. The more collateral you own, typically the more money you can borrow.

Financial Prep: 101

Debt-to-income ratio…. **Your debt-to-income ratio is calculated by dividing your outstanding loan amount by your income total.**

This ratio gives you an idea of how much of your income is being spent on servicing your debt. The lower your debt-to-income ratio, the more financially solvent you are.

Financial Prep: 101

Are You Credit Card Savvy?

"Credit card debt now averages $8,500 per U.S. household." (October/2019) (30)

Ø If you get into trouble and overuse your credit card:

- **Make it a priority to pay off the cards as fast as you can. Cut back on other spending categories until you can get back to a '$ 0' balance.**

- **Consult a professional if you need to.**

- **Develop a plan to pay off those high interest outstanding credit card balances first. Believe it or not, calling your credit card companies and asking them to get involved may also prove to be worthwhile.**

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ü Sometimes you can secure a ‘rescheduling’ of payments, can extend your loan, refinance, or consolidate.

· The National Foundation for Credit Counseling® (NFCC) is a ready resource for you to work with (33).

There are several websites that offer tips for evaluating credit features and debt reduction options advice.

Financial Prep: 101

❖ **If you get into trouble and overuse your credit card:**

· Make it a priority to **pay off the cards as fast as you can.** Cut back on other spending categories until you can get back to a '$ 0' balance.

· **Consult a professional** if you need to.

· **Develop a plan to pay off those high interest outstanding credit card balances first.** Call your credit card company and ask them to get involved. ü Sometimes you can **secure a 'rescheduling' of payments,** can extend your loan, refinance, or consolidate.

Credit Counseling Resources:

- https://www.nfcc.org/ (National Foundation for Credit Counseling®)
- https://www.consumer.ftc.gov/articles/0153-choosing-credit-counselor (Federal Trade Commission Consumer Information®)

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Monetary Policy Affects The Interest Rate

Monetary policy is complicated - the monetary policies are directed through the efforts of one government agency, the Federal Reserve (the Fed). The Federal Reserve Act was passed in 1913.

- **"The U.S. Federal Reserve was designed to present the country with a more secure, more elastic, and more stable economic and financial structure… the Federal Reserve is in charge of the nation's monetary policy and oversees the regulation and management of banking institutions." (34)**

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- The 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 discount rates are set impacts how you can borrow money, and at what rate.** (33)

Understand that the actions of the Federal Reserve impact interest rates, the economy, and the job market.

Financial Prep: 101

What interest rate you pay at a particular time is determined by a number of factors:

1. **Do the markets offer a lot of 'loanable' money right now; or is money 'tight?'**
2. **What is the status of inflation? It is high or low?**
3. **What is a connection between the risk of the loan and the interest charged?**
4. **What is the duration or length of a loan?**
5. **Is the taxable interest higher than tax-free interest?**
6. **Can the lending institution 'use' your money?**

Financial Prep: 101

Simple Or Compound Interest

- **Simple interest:** **interest that is paid exclusively on the principal or borrowed amount – nothing else.**

Compound interest: interest that is paid both on the principal and accrued interest (interest amount that has already been added) amount. (https://www.investopedia.com/terms/c/compoundinterest.asp)

Compound and Simple Interest Examples

Here are the calculations for a 5 Year Loan calculated at 10% COMPOUND interest:

YEAR	LOAN AT START	INTEREST CALCULATION	LOAN AT YEAR END
1	$1,000.00	($1,000.00 X 10%)=$100.00	$1,100.00
2	$1,100.00	($1,100.00 X 10%)=$110.00	$1,210.00
3	$1,210.00	($1,210.00 X 10%)=$121.00	$1,331.00
4	$1,331.00	($1,331.00 X 10%)=$133.10	$1,464.10
5	$1,464.10	($1,464..00 X 10%)=$146.41	$1,610.51
	$1,610.51	INTEREST PAID $610.51	

Here is a simple formula for calculating the compound interest:

- Calculate the interest (what the original loan amount is $1000.00) x (the interest rate of 10%).
- Total the amount of interest plus principal at the end of each year times 10%. Add $1000.00 together with the $610 interest: you've paid $1,610.51 over the 5 year period. This equals 'pay-off.'

Here are the calculations for a 5 Year Loan calculated at 10% SIMPLE interest:

YEAR	LOAN AT START	INTEREST CALCULATION	LOAN AT YEAR END
1	$1,000.00	($1,000.00 X 10%)=$100.00	$1,100.00
2	$1,000.00	(($1,000.00 X 10%)=$100.00	$1,100.00
3	$1,000.00	($1,000.00 X 10%)=$100.00	$1,100.00
4	$1,000.00	($1,000.00 X 10%)=$100.00	$1,100.00
5	$1,000.00	($1,000.00 X 10%)=$100.00	$1,100.00
	$1,000.00	INTEREST PAID $500.00	

Here is a simple formula for calculating the compound interest:

- Interest = $1000.00 x 10% x 5 years = $500.00
- To calculate loan payoff, add $1000.00 together with the $500 interest: you've paid $1,500 over the 5 year period.

Financial Prep: 101

Finance Terms - <u>How are Credit Card Loan Balances calculated/then billed?</u>

a) Adjusted Balance: payments are subtracted daily from your outstanding balance (nets a lower balance).

b) Average Daily Balance: all daily balances added together and divided by the number of days, then the average daily balance is multiplied by the card's monthly periodic rate.

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c) Daily Balance: The daily balance calculation method uses the ending day's balance; then multiplies each by the daily rate; and adds each number together.

d) Ending Balance: your balance at the end of the month.

e) Previous Balance: beginning monthly balance, net of any additional charges during the current month. (36)

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More Finance Terms

- The annual percentage rate (APR) is the annual rate of interest that includes the fees and costs you pay for the loan. Lenders are required by law to disclose the APR. To calculate the rate, the compound interest rate is averaged over the term of the loan.

- Card-holder contract/agreement – The contract you sign to obtain your credit card. The contract is required by Federal Reserve regulations to have the following information: Annual Percentage Rate, the monthly minimum payment formula, annual fee if applicable, and the cardholder’s rights in billing disputes. With prior written notice, changes in the cardholder agreement may be made at any time by the issuer.

- Cash-advance fee – If you utilize your credit card to get a cash advance, you will be charged a fee by the financial institution. This fee can be assessed as a flat, per-transaction fee; or as a percentage of the amount of the cash advance.

- Finance charges are fees assessed for using a credit card, i.e. interest costs and other fees.

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- **Grace period** is the interest-free time between the transaction date and the billing date before interest is assessed on any balance in the account.
- **Interest rate floor** – The minimum interest rate that can be assessed, after any initial introductory rate period has passed.
- **Introductory rate** is the initial interest rate presented to attract customers to change credit card companies or lenders.
- **Minimum payment i**s the amount you can pay to keep the account from going into default.
- An **Over-the-limit fee** is charged for exceeding the credit limit on your card.
- **Variable interest rate** moves up or down periodically based on changes in other interest rates. (36-38)

Financial Prep 101 Activity

Interview someone who has a 'late-pay' or 'delinquent-pay' experience. Relate what they reported are the consequences of their actions:

____

____

Here is my story: One of my clients had open-heart surgery. She was the one in her family who paid the bills. She asked her husband to send in their credit card bill payment, and he did so. However, the payment arrived just a few days late to the credit card company. My client reported that their interest rate was then changed from 9.9% to @ 29%!

Credit Scores

Credit scores are compiled by various sources and the ranges of scores vary.

- **For example: a FICO® credit score is a number from 350-850, and a VantageScore® scores credit between 501-990. (41)**
- **The lower the number, the higher the ‘credit risk.’ The higher the number, the less risk of default.**
- **The independent credit rating bureaus, like Equifax®, Experian®, and TransUnion® Corporation, credit karma®, keep a record of your credit history and provide your credit reports to you upon request.**
- **Some of the areas the reports consider in calculating your score are your debt-to-income ratios, public records, and payment history.**

- **According to Fair Isaac and Consumer Federation of America® (42), there are varying opinions of the average percentage of the components that make up your credit score.**

Financial Prep 101 Activity

Do you have a credit score? If so, do you know your credit score? __________

(Do not attempt to pull your score, only record what you may already know.) You should visit one of the three websites noted earlier to determine if you already have information recorded.

How To Establish Good Credit

A. Do not employ credit until you have money saved for the purchase…. With the exception of your mortgage, car purchase, an emergency, or a very large purchase which you have already budgeted.

B. ONLY use a credit card to make purchases when you have the money in your checking account to pay the balance off at the end of each and every month. In other words, pay your credit cards balances down to $0 each month. No exceptions.

C. Pay all of your bills on time. All types of payments are recorded, ‘Late-pays’ on ANY bill can be damaging to your credit.

D. Use the automatic bill payment options available.

ü Remember – if you have set up automatic ‘fixed’ bill payments to take money out of your account each month, you need to deduct those bill amounts first from your account balance, or you can overdraw your account and then your bills will not be paid.

E. Avoid using your credit card for a ‘cash advance.’ (42, 43)

➢ **If you get into trouble and overuse your credit card:**

- **Make it a priority to pay off the cards as fast as you can. Cut back on other spending categories until you can get back to a '$ 0' balance.**
- **Consult a professional if you need to.**
- **Develop a plan to pay off those high interest outstanding credit card balances first. Believe it or not, calling your credit card companies and asking them to get involved may also prove to be worthwhile. ✓ Sometimes you can secure a 'rescheduling' of payments, can extend your loan, refinance, or consolidate.**

Credit Counseling Resources:

- **https://www.nfcc.org/ (National Foundation for Credit Counseling®)**
- **https://www.consumer.ftc.gov/articles/0153-choosing-credit-counselor (Federal Trade Commission Consumer Information®)**
Consult your Banker/ Financial Advisor

Additional Tips to Safeguard Credit (42, 44)

- “Comparison shop to help you secure the ‘best’ credit terms.

- Carefully read the terms of the credit agreement to ensure that you understand the terms before you

apply for, and accept, a loan or credit card contract.

- Create a monthly budget for the credit charges and adhere to it.

- View your loan and credit card purchases as ‘cash’ and spend your money as carefully with credit as you do with cash.

- Budget for monthly credit payments and do not ‘borrow’ on credit unless you’re certain you can meet those monthly obligations.

- Pay your bills promptly and in full to keep finance charges low.

- Use a debit card for day-to-day expenses so you do not have a monthly credit balance for them… however, if you do use your credit card for day-to-day-expenses, pay the credit card balance in full each month.

- **Guard your credit cards against loss or theft. But, if your cards are stolen, be sure you have recorded your credit card information (including phone number of issuer) and have put that information in a safe place.**

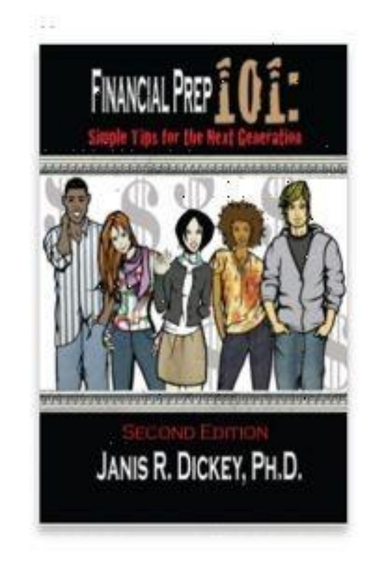
- **Save the copies of your sales slips and compare the charges against the when bill when it arrives."**

There is an excellent information brochure titled, "7 *Credit Card Tips Everyone Should Know" at* https://www.nerdwallet.com/blog/credit-cards/credit-card-tips-everyone-should-know/. (44)

I suggest you review that information, and list out the pertinent points here:

____

____



DAY 2

Borrowing/Finance Options

If money doesn’t grow on trees, then why do banks have branches?

Anonymous

"Mortgage: A loan to finance the purchase of real estate, usually with specified payment periods and
rates. The borrower (mortgagor) gives the lender (mortgagee) a lien on the property as collateral for

(49) The definition of a mortgage - http//www.investorwords.c

The Dictionary– defines a mortgage as:

"A legal agreement by which a bank lends money at interest in exchange for taking title of the de
property, with the condition that the conveyance of title becomes void upon payment of the debt."

1) *how much money you are borrowing from the lending institution? How much money are you committing to repay?*
2) *the interest rate you will be charged on the money you borrow... At what interest rate will you borrow the money?*
3) *the length of the contract... What is the length of the term of your loan? and*
4) *the fees involved in the transaction... What fees are assessed for other items associated with the mortgage?*

(50)

Supporting Mortgage Documents

The mortgage document and the Good Faith Estimate, which accompanies the mortgage document, registers the customer's name and address, as well as the lender's name and address; and the fees that the lender/investor/broker are charging for the loan transaction.

a. The mortgage is a contract that pledges a specific, named, property as security for the loan transaction.

b. The Good Faith Estimate itemizes all closing fees, including prepaid and escrow items, as well as lender charges; and the Good Faith Estimate must be made available to the borrower within three days after submission of a loan application.

The Truth in Lending is a federal law obligating a lender to give full written disclosure of all fees, terms, and conditions associated with the loan during both the initial period and the subsequent adjustable period when the loanrate changes to another rate. The Truth in Lending is also referred to as the **Consumer Credit Protection Act (Regulation Z)**, which demands that lenders disclose to borrowers the cost of financing during the life of the loan; and disclosure of the APR and the prepayment penalties, if any apply. Simply stated:

A mortgage document and the Good Faith Estimate identify the 'terms' under which the lender will give the loan to the borrower; these are, "document[s] signed by the borrower when a home loan is made that gives the lender a right to take possession of the property if the borrower fails to pay off the loan." (51)

Mortgage Types

- Ø Conventional loans are loans that are NOT insured or guaranteed by a government agency.
- Ø Non-conventional loans are guaranteed by a government agency.
    - ➢ FHA or VA loans are examples of non-conventional loans.

Mortgage Payment Example - Amortization Schedule for a 30 year fixed loan at a 6% interest

A $100,000 loan

Loan Summary	Payment Summary	
Principal: $100,000	Number of Payments:	360
Interest Rate: 6%	Monthly Payment:	$599.55
Loan Term: 30 years	Total Principal Paid:	$100,000.00
Total Interest Paid:		$115,838.19

Partial payment schedule

Yearly Amortization Schedule

Payments	Yearly Total	Principal Paid	Interest Paid	Balance
Year 1 (1-12)	$7,194.61	$1,228.00	$5,967.00	$98,771.99
Year 2 (13-24)	$7,194.61	$1,304.00	$5,891.00	$97,468.24
Year 3 (25-36)	$7,194.61	$1,384.00	$5,810.00	$96,084.07
Year 4 (37-48)	$7,194.61	$1,470.00	$5,725.00	$94,614.53
Year 5 (49-60)	$7,194.61	$1,560.00	$5,634.00	$93,054.36
Year 6 (61-72)	$7,194.61	$1,656.00	$5,538.00	$91,397.95
Year 7 (73-84)	$7,194.61	$1,759.00	$5,436.00	$89,639.39
Year 8 (85-96)	$7,194.61	$1,867.00	$5,328.00	$87,772.35
Year 9 (97-108)	$7,194.61	$1,982.00	$5,212.00	$85,790.17
Year 10 (109-120)	$7,194.61	$2,104.00	$5,090.00	$83,685.72
Year 11 (121-132)	$7,194.61	$2,234.00	$4,960.00	$81,451.48
Year 30 (349-360)	$7,194.61	$6,966.00	$228.00	$0.00
Totals	$215,838.19	$100,000.00	$115,838.19	

Mortgage Payment Options

- A. A fixed rate mortgage is the type of mortgage that:
  - § locks in a specific interest rate for the length of the mortgage
  - § the loan payment amount does not change over the course of the length of the loan
  - § the Amortization Schedule that is disclosed during the loan process 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.

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- **B. Adjustable Rate Mortgage (ARM)**

§ **ARMs have two rate periods:**

a. The first period is the time frame when the initial interest rate is fixed and locked-in. The length of this period is pre-determined when the contract is signed.

b. 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 schedule you pre-select.

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Find someone who has a mortgage and record the following:

1. Is it a fixed or adjustable mortgage? ____________________

2. What is the length of the mortgage? ____________________

3. How many years are remaining on the term of the mortgage? ____________________

4. What was the initial interest rate? ____________________

5. What is the current or adjustable interest rate? ____________________

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Terms for Purchase/Sale of a Home

- ➢ **Annual Percentage Rate (APR) identifies the rate, which includes: the interest rate, points, broker fees, and other credit charges.**

- ➢ **Application fees or Origination costs can be assessed at the time you apply for the loan to cover administration costs for initiating the mortgage.**

- ➢ **The Escrow Account is an account that holds the buyer's 'earnest money' that accompanies an offer to buy a home. The account is managed by an independent third party. At closing this earnest money is credited back to the buyer against his or her expenses.**

- ➢ **Appraisal fees are paid by you for the services of a third-party appraisal company. The appraiser provides information to the lender that is analyzed to verify that the property you are purchasing is 'valued,' or is worth the amount of money the lender is loaning you.**

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Terms for Purchase/Sale of a Home continued

- Prepayment penalties are fees that can be assessed if your mortgage contract does not allow you to pay your loan off early. Appreciate that people do pay off their existing mortgage early… they refinance to a lower rate, or they need to move, or circumstances change, and they want to terminate their contract early. Be ready and watch for this clause in your contract.
- Conversion fees are charged if your contract allows you to convert your loan from one mortgage type to another. An example would be if you want to convert your ARM to a fixed-rate mortgage.

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- Points is a fee paid by the borrower to lower your mortgage interest rate. For example, if your mortgage was $50,000 you might pay a 1% point to reduce the mortgage rate. A breakeven can be calculated to determine the length of time you need to stay in the home to warrant you paying the extra $500 at closing.
- The Down-Payment is the money you invest in the home at closing. The down-payment essentially equals your initial ‘equity’ in the home - until your home appreciates. (The home value grows.) The down-payment is generally referred to as a percentage of the mortgage.
- Lenders customarily require a percent of your money to be invested in the property before they would loan you any money. I call it having ‘skin in the game.’ The thinking was that if you stand to lose some of your own money, then you will be more serious about paying the loan back to the lender.

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- Private Mortgage Insurance (PMI) is insurance that the borrower normally pays for over- and-above the cost of the mortgage if the borrower does NOT put at least 20% down. It is added to the monthly payments for the loan.
- The Closing is referred to as the formal meeting when you and your lender assemble to sign the paperwork and you officially take possession of the home or sell the property.
- Transaction, settlement, or closing costs are a variety of fees associated with the transfer of the home from the seller to the buyer.
- The HUD Statement is a Good Faith Estimate that identifies the costs and fee details involved in the purchase of the home. This statement is generally available a day or so before the closing so that the borrower and the seller have time to review the fee details and understands exactly how much money he or she should bring to closing. (51, 52)

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Adding a Line of Credit

- **Adding a Line of Credit is sometimes offered when you obtain a mortgage. A Line of Credit allows the borrower to have access to additional money, over and above the mortgage amount, at a later date without having to re-qualify for a new loan.**

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- The Line of Credit typically can be accessed at any time after it is in place; money can then be borrowed and repaid. I have in the past sometimes added a line of credit at the time the mortgage was obtained because there was no cost to do so.

- Typically, the line of credit interest rate is higher than the mortgage rate.

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The Closing

- **You sign your mortgage contract and all of the other documents associated with the purchase or sale of your home. <u>Your responsibilities:</u>**

- **complete tasks assigned prior to the closing, (i.e.: securing property Home Insurance, moving/opening utility services, review of Hud Statements, obtain mortgage/financing, etc.) o bring requested legal documents to the closing**
- **understand/discern what documents you will be signing at closing**
- **identify and review the costs involved with purchasing or selling a home…**

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- **You may be asked to bring money… not only for your mortgage, but to pay for other expenses associated with the sale or purchase as well, i.e.: commission costs paid to the real estate brokers.**
  - **home inspection costs;**
  - **title searches;**
  - **up-front taxes and insurance costs;**
  - **‘pre-pays’ for homeowner association dues;**
  - **appraisal costs,**
  - **extra insurance charges, etc.**

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Ready To Sell Or Buy That Home?

> *"The first step to preparing a home for sale is to let go of your emotional attachment to it."*
>
> Elizabeth Weintraub

"As of 2018, the median duration of homeownership in the U.S. is 13.3 years," (150)…and "the average homeowner sells his or her home every 5 to 7 years." (151)

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"How to Prepare your House for Sale," by Elizabeth Weintraub, https://www.thebalance.com. Here are a few of the highlights of her article: (149)

- ➔ 1. Take your emotion out of the selling process – make the sale a business proposition. "Disassociate Yourself With Your Home."
- ➔ 2. Remove your very personal items – "De-Personalize."
- ➔ 3. Make your space look as big as possible by removing items you can live without for a short while – put them in storage. "De-Clutter." Remove your excess items in all of your rooms and storage areas– "Rent a Storage Unit" and put your 'over-load' items in storage.
- ➔ 4. Have someone help you stage your rooms, and – "Rearrange Bedroom Closets and Kitchen Cabinets" to make your space neat and orderly.

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- ➔ 5. Walk around your home and be sure everything is in good working order; does any room need a new coat of paint; "Make Minor Repairs" where necessary. Don't lose a sale because of burnt-out light bulbs or fingerprints on the walls!
- ➔ 6. Clean like you never have before! – "Make the House Sparkle!"
- ➔ 7. Ask a friend, or your real estate agent to be brutally honest with you, what do they see that could be improved? – "Scrutinize."
- ➔ 8. Don't forget the landscaping and outdoor appeal – "Check Curb Appeal."
- ➔ 9. Make sure visitors can clearly read your house number. (149)

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List as many activities as you can that are related to either buying or selling a home. Interview someone to have them help you.

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Consult your Banker/ Financial Advisor

Reverse Mortgages. **reversemortgage.org is an excellent resource.**

The reverse mortgage generally is used in very specific cases. If the individual(s) do not have enough income to live on, and they don't want to deplete their other assets, they can consider a reverse mortgage if they own at least 40% of their home. An oversimplified description of a reverse mortgage is this:

§ This type of mortgage is a "non-recourse" loan. (A loan secured by collateral and if default occurs - mortgagor cannot seek damages beyond recapturing the collateral itself to satisfy the loan amount. investopedia.com)

§ A reverse mortgage allows the homeowner to take out the equity, (the money paid into the home over the years}. This money will be paid by the financial institution that offers the reverse

Financial Prep: 101

mortgage and will be paid as a lump sum of cash, or in monthly payments, or through a line of credit.

§ As long as the owner continues to live in the home; they may never have to pay back the cash received by the financial institution.

§ The money received is tax-free.

§ To be eligible for a reverse mortgage the owner must be 60 years of age or older (in most states) with a recommended 40% equity in your home.

§ One owner must remain in the home. If all of the owners move out of the home, the owner, or their estate, has one year to repay the loan. If a profit is realized, the profit passes to heirs. (53)

! Check with a few *retirees* to see if they have heard of a *Reverse Mortgage;* or might know of someone who has used this strategy to the access equity (money) in their home in retirement.

‘Specific Use’ or ‘Special Use’ Loans

are another source of accessing credit.

A specific use loan is just that, a loan that covers a specific purchase.

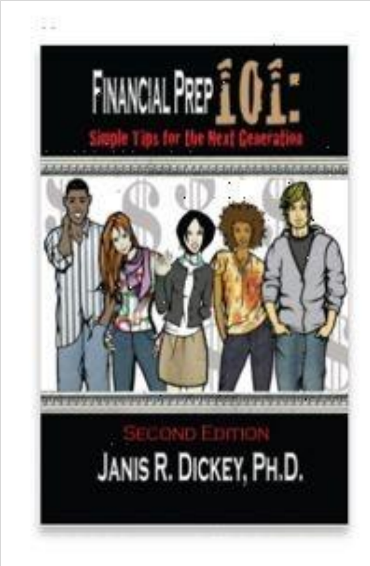
! Do you already have a special use loan? _______________ If yes, for what?

___

___

Bankruptcy Consult your Banker/ Financial Advisor

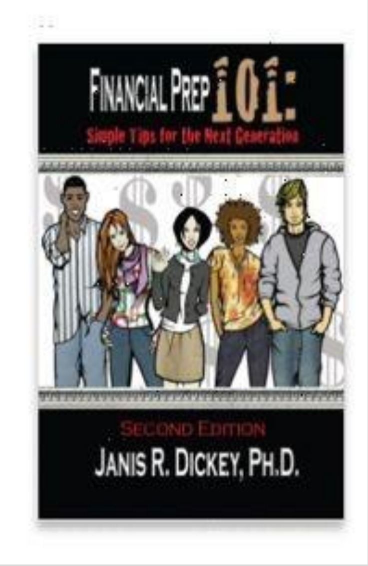
- **'Bankruptcy is a legal status designating you as unable to pay off your outstanding debts.' (56)**
  - **Filing for Bankruptcy protection under a federal bankruptcy code may save some of the filer's assets, keep creditors at bay, and provide the help of a professional…**
  - **Protection from creditors is one important benefit of bankruptcy filing." (57)**
- **There are a couple of different types of bankruptcy, be sure to investigate options fully before filing.**
- **There may severe repercussions for filing bankruptcy. There are many websites that assist individuals in becoming familiar with the consequences of filing bankruptcy.**
- **Before filing bankruptcy, one will be required to visit with a creditor counselor, and it is advisable to also consult with an attorney as well to determine what consequences someone may face if they file. The credit counselor will also help someone file if they decide to proceed.**



Financial Prep 101

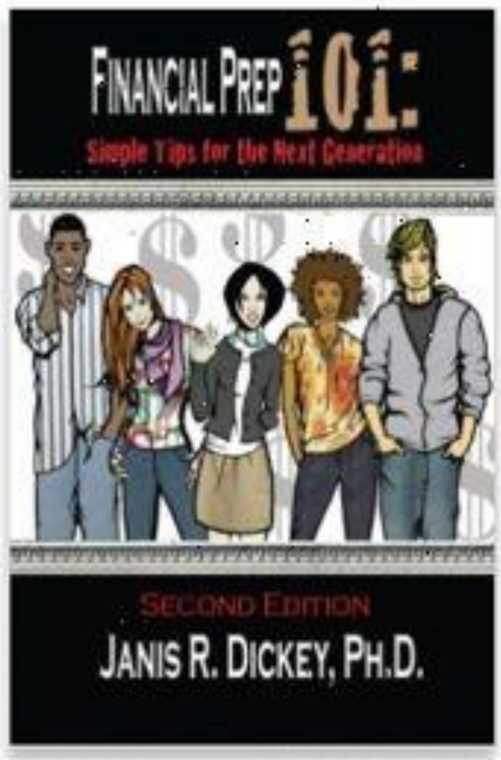
Check For Understanding Chapter 2

- **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.**
- **List how an Adjustable Mortgage Rate is different from a Fixed Mortgage Rate.**
- **Discuss how the Federal Reserve policies impact you.**
- **Name two sources for obtaining your credit report- credit score.**
- **Describe your plan for attaining a good credit score.**
- **Explain some of the potential consequences of having a lower credit score.**
- **Identify what you believe to be some of the reasons why individuals may not understand their credit card contracts/mortgage documents.**
- **Evaluate what you believe your responsibility is for using credit; and does your philosophy coincide with current society trends? Explain.**
- **Discuss a Home Equity Line of Credit, when might you use one?**
- **Describe Private Mortgage Insurance (PMI).**
- **Explain some of the fees that may be accessed during the process of buying or selling a home.**
- **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.**
- **Select one of the Jump$tart Coalition® National Standards in K-12 Personal Finance Education learning topics and report what you now 'know and understand.'**



Chapter 2 End
Review Learning Objectives
Complete Chapter Activities
Take Quiz

Financial Prep: 101

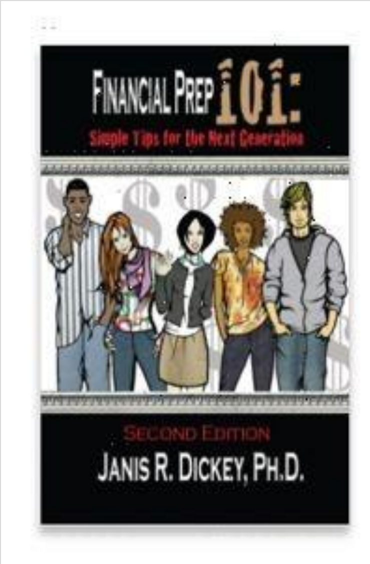
How to Become Financially Strong

DAY 1

"Crunch Time"

An Introduction to Investing

"An individual who commits money to investment products with the expectation of financial return. Generally, the primary concern of an investor is to minimize risk while maximizing return, as opposed to a speculator, who is willing to accept a higher level of risk in the hopes of collecting higher-than-average profits." (66)



Financial Prep 101

LEARNING OBJECTIVES - Chapter 3

After completing Chapter 3, you should be able to:

a. Describe an 'asset.'

b. Explain what the 'stock market' and 'exchanges' are; and elaborate on how they operate.

- **Describe volatility in relationship to how the stock market behaves.**
- **Name some of the attributes of a Bear and Bull market.**

c. Describe how investment products are the same or different from savings products.

d. Identify the characteristics and differences between a stock, bond, and cash equivalent investment product; and provide examples of each.

e. Identify the characteristics of a mutual fund:

- **Describe the differences between 'share classes' discussed in the text; o Identify some of the fees associated with mutual funds;**

e. Identify the characteristics of a mutual fund:

- **Define the differences between size and style;**

- **Clarify what a 'value' vs. 'growth' equity product is;**
- **Give an explanation of what a prospectus is; how you might utilize it; o Briefly**

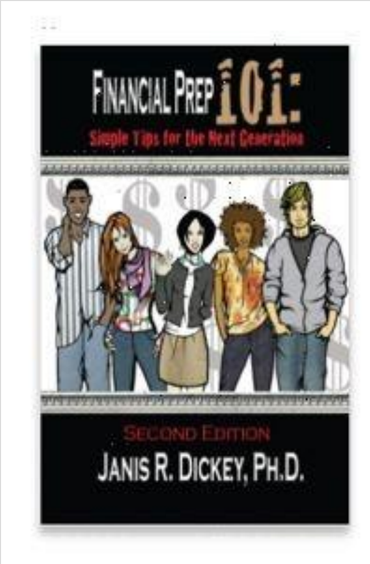
  describe how you might use a mutual fund index.
- **Articulate the differences between an Investment/Brokerage Account and a Retirement/Custodian Account.**

f. Demonstrate your understanding of how risk tolerance and time horizon impact you as an investor.

- **Define various types of risk.**

g. Define diversification and asset allocation; how are they alike or different? Provide examples to illustrate your point(s).

h. Identify the six financial literacy competency areas outlined by Jump$tart Coalition® National Standards in K-12 Personal Finance Education.



Jump$tart Coalition® National Standards in K-12 Personal Finance Education

Financial Responsibility and Decision Making

"Overall Competence: Apply reliable information and systematic decision making to personal financial decisions.

1: Spending and Saving: Apply strategies to monitor income and expenses, plan for spending and save for future goals.
2: Credit and Debt: Develop strategies to control and manage credit and debt.
3: Employment and Income: Use a career plan to develop personal income potential. **4: Investing:** Implement a diversified investment strategy that is compatible with personal financial goals.
5: Risk Management and Insurance: Apply appropriate and cost-effective risk management strategies.
6: Financial Decision Making: Apply reliable information and systematic decision making to personal financial decisions." (6)

Financial Prep 101 Activity

What assets do you have?

The Dictionary offers us the following definition of ‘as-set:’ “noun plural noun: assets:

- a useful or valuable thing, person, or quality,
- property owned by a person or company, regarded as having value and available to meet debts, commitments or legacies.” (61)

In economics an asset can be identified as:

“Any form in which wealth can be held.” https://books.google.com (62)

One of the most accepted accounting definitions of asset is presented by Wikipedia: (62)

In the financial accounting sense of the term, it is not necessary to be able to legally enforce the asset’s benefit for qualifying a resource as being an asset, provided the entity can control its use by other means.

The accounting equation is the mathematical structure of the balance sheet. It relates assets, liabilities, and owner’s equity:

Financial Prep: 101

ü Assets = Liabilities + Capital (which for a corporation equals owner’s equity) ü Liabilities = Assets – Capital ü Equity = Assets – Liabilities

Financial Prep: 101

Current Assets are classified as cash and other assets that are anticipated to be converted to cash, sold, or consumed within a short period of time. Here are six different types of current assets:

1. Cash and cash equivalents are liquid assets like currency, deposit accounts, and negotiable instruments like money orders and checks.

2. Short-term investments are securities that are bought with the anticipation of selling them within a one-year period to generate a gain.

3. Receivables are payments due for the sale of products or services and are net of allowance for uncollected accounts.

4. Inventory are the items held and reported as value, either on a company or individual's balance sheet.

Financial Prep: 101

5. Prepaid expenses are expenses that are paid in advance and are recorded as assets before they have been collected or used.

6. The phrase net current assets (also called working capital), refers to the total of current assets, minus the total of current liabilities.

Long-term Assets- investments that are to be held for many years, usually consisting of four types of investments:

1. Investments in securities: such as bonds, common stock, or long-term notes.
2. Investments in fixed assets not used in operations (e.g., land held for sale).
3. Investments in special funds (e.g., sinking funds or pension funds).

Different forms of insurance may also be treated as long term-investments. **Fixed Assets** are referred to as Property and Equipment. This type of inventory is bought by the business for use in the operation of the business and

Financial Prep: 101

to assist in the generation of profits. These fixed assets can include land, buildings, machinery, furniture, tools, and certain wasting resources e.g., timberland and minerals. These types of assets are depreciated expenses for the business (with exception of land). These fixed assets are also called capital assets in management accounting.

Intangible Assets include items, like: patents, copyrights, franchises, goodwill, trademarks, trade names, etc. and, with the exception of goodwill, and are amortized to be expensed over a 5 to 40 year period. Websites are treated differently in different countries and may fall under either tangible or intangible assets.

Tangible Assets are assets that have a physical matter: such as equipment and real estate. (63)

Consult a Financial Advisor

Financial Prep: 101

Who is this investor? • An investor is anyone who buys and holds property to achieve some form of gain.

★ **Another definition, from http//www.investorwords.com is:**

"An individual who commits money to investment products with the expectation of financial return. Generally, the primary concern of an investor is to minimize risk while maximizing return, as opposed to a

Financial Prep: 101

speculator, who is willing to accept a higher level of risk in the hopes of collecting higher-than-average profits." (66)

Financial Prep: 101

Investing Is It Different From Saving

★ **Investing:**

- **Puts money at greater risk.**
- **‘May sustain losses.’ (64)**
- **Longer time horizon.**
- **Anticipates an increase in value. (65)**

Financial Prep: 101

★ **Saving:**

- **Generally considered to be short-term.**
- **Employs safety measures.**
- **Typically delays spending.**

Financial Prep: 101

The Financial Markets

“The financial markets generally are unpredictable... The idea that you can actually predict what’s going to happen contradicts my way of looking at the market.” “Markets are constantly in a state of uncertainty and flux and money is made by discounting the obvious and betting on the unexpected.”

George Soros (73)

Financial Prep: 101

Write your own definition of what you think the *stock market* is:

____

____

Consult a Financial Advisor

Financial Prep: 101

Stock Market Definitions

➢ **"The stock market refers to the collection of markets and exchanges where regular activities of buying, selling, and issuance of shares of publicly-held companies takes place. Such financial activities are conducted through institutionalized formal exchanges or over-the-counter (OTC) marketplaces which operate under a defined set of regulations."**

https://www.investopedia.com/terms/s/stockmarket.asp

➢ **"A stock market, equity market of share market is the aggregation of buyers and sellers (a loose network of economic transactions, not physical facility or discrete entity) of stocks (also called shares), which represent ownership claims on businesses; these may include securities listed on a public stock exchange, as well as stock that is only traded privately."**

https://en.wikipedia.org/wiki/Stock_market

Financial Prep: 101

- **"The stock market refers to public markets that exist for issuing, buying and selling stocks that trade on a stock exchange or over-the-counter. Stocks, also known as equities, represent fractional ownership in a company, and the stock market is a place where investors can buy and sell ownership of such investible assets."**

https://corporatefinanceinstitute.com/resources/knowledge/trading- investing/stock-market/

- **"… These markets streamline the purchase and sales activities of investors by allowing transactions to be made quickly and at a fair price."** https://opentextbc.ca/businessopenstax/chapter/securities-markets

Consult a Financial Advisor

Financial Prep: 101

The Dow® And S&P® and MORE Indexes

1. The Dow Jones Industrial Average (DJIA)® is an INDEX. The DJIA® is made up of only 30 stocks (30 individual companies).

2. The S&P 500® is comprised of the five hundred companies that have their common stock included in this INDEX.

3. A third barometer, the NASDAQ®, is a computerized market trading and surveillance network that provides daily quotes on equities.

Financial Prep: 101

MORE INDEXES

- Large Growth – represented by the Russell 1000® Growth Index
- Large Value - represented by the Russell 1000® Value Index
- Small/Mid Growth - represented by the Russell 2500® Growth Index
- Small/Mid Value - represented by the Russell 2500® Value Index
- International - represented by the MSCI® Index (Morgan Stanley Capital International®)
- Bonds - represented by the Barclays® Capital Aggregate Bond Index
- Cash - represented by the 3-month Treasury Bill, published by the Federal Reserve. (68)

Financial Prep: 101

Making or Losing Money in the Stock Market

Individuals make money in the stock market when...

- Their investment appreciates (has a gain in value) because:

1. Consumers perceive that the company they invested in performs better than others in the same type of business, increasing demand for the products or services;
2. The company they invested in is currently experiencing higher profits, either through cost cutting efforts, higher sales volume, price increases, etc.;
3. Other investors believe the company they invested in will make greater profits in the future; and
4. Other investors are eager to buy the investment; the demand causes the investment to appear more attractive.' (67) Consult a Financial Advisor

Financial Prep: 101

Making or Losing Money in the Stock Market

Individuals lose money in the stock market when…

- The investment experiences a decline in value because:

1. 'The company one invested in produces inferior products or services, compared to competitors;
2. Demand for the company's products or services declines;
3. Company managers make decisions which negatively impact the profits/bottom-line;
4. Company personnel commit fraud: deceptive business practices;
5. Market brokers manipulate the stock price through unethical business practices; and
6. The investment is sold when stock prices are depressed.' (67)

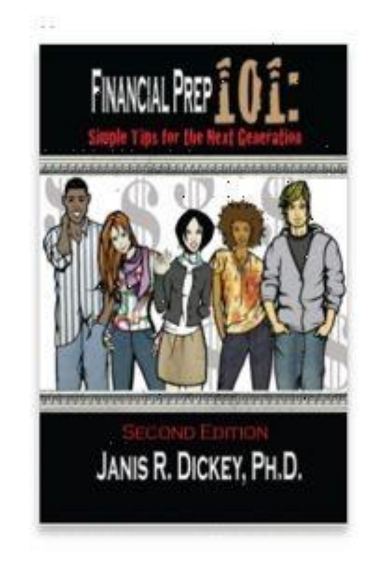
Financial Prep: 101

"When stocks are attractive, you buy them. Sure, they can go lower. I've bought stocks at $12 that went to $2, but then they later went to $30. You just don't know when you can find the bottom."

Peter Lynch

DAY 2

Types of Investment Accounts



"October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February."

Mark Twain

Financial Prep: 101

The discussion of Investment Accounts

CONSULT YOUR TAX ADVISOR AND YOUR FINANCIAL ADVISOR FOR FURTHER
INFORMATION AND CLARIFICATION - THE FOLLOWING TOPICS ARE FOR INFORMATIONAL PURPOSES ONLY AND ARE NOT DEEMED TO PROVIDE ANY INVESTMENT, TAX OR LEGAL ADVICE.

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The questions may include, but are not limited to providing:

1. **Name**
2. **Date of Birth**
3. **Address**
4. **Phone Number**
5. **Social Security or TIN (for business) number**
6. **Information about your spouse if you are married**
7. **Employment history**

Financial Prep: 101

8. Assets you hold
9. Investment Experience
10. Current banking relationships

Financial Prep: 101

Opening Accounts Factors That Dictate the Type of Account You Open?

1) The tax-status of the money you plan to place into the account,

    The tax status identifies the fact that either you have, or have not, paid ordinary income taxes already on the money before you place it into your account.

2) Do you want your money to be readily accessible for near-term withdrawals without IRS penalties?

3) Contribution Amounts: Custodian/Retirement Accounts have annual contribution limits.

Financial Prep: 101

The 2 Types of Tax Status Accounts:

- **After Tax Account --**
  - **Brokerage Investment and Roth Retirement/ Custodial Account**
- **Before Tax Account -**
  - **Non-Roth Retirement/Custodial Account**

Financial Prep: 101

- <u>A 'Custodial Account' is one that is held by a Financial Instutition for YOUR BENEFIT</u> **Consult a Tax Advisor**

Financial Prep: 101

1. How you Title your Investment/Brokerage Account:

Your account can be titled in several ways. Here are three common ways you can title the account:

- ❖ In a single name (yours) (i.e.: Joe Smith Investment Account);
- ❖ The account might be titled jointly with another person. There are various kinds of joint account arrangements, we will review three here:
  - ❑ o Joint Tenants with Rights of Survivorship (JTWOS): Upon the death of one of the account owners, the assets pass to the other account owners.

Financial Prep: 101

- ❑ o Tenants in Common (TIC): The assets are held in 'shares'/separate interest for each of the account owners; at death the shares pass to the heirs of the owners.

- ❑ o Community Property (COMM): Assets acquired after marriage are considered joint property.

❖ In the <u>name of your Trust</u> (for example: Joe Smith Revocable Trust dated 09/08/2014).

Financial Prep: 101

2. Beneficiary considerations ... Investment/Brokerage Accounts

Name a BENEFICIARY

- If you have a single name account, you might consider adding a TOD (transfer on death). To add a beneficiary there MAY BE A SEPARATE FORM.

- If you open an joint account - each person is a beneficiary… passes directly to the survivors in case of one account owner's death.

Financial Prep: 101

- Another titling option that DOES (more directly) provide you with the option to name one or several beneficiary designations is: **Titling your account in a Trust (a Trust names beneficiaries).**

Financial Prep: 101

Consult a Tax Advisor

1. How you Title your Retirement/Custodian Account:

a) If you have NOT paid taxes already on the money you are placing into the Account, then the money is placed into a 'pre-tax' Retirement/Custodian Account.**

b) If you have paid taxes already on the money you are placing into the Account, then the money is placed into an 'after-tax' Retirement/Custodian Roth Account.***

The ABC Financial Institution FBO John Doe

Financial Prep: 101

2. Beneficiary considerations for your Retirement/Custodian Accounts

For your Retirement/Custodian Account you DO specifically designate a beneficiary on the Retirement/Custodian Account documents.

** Examples: Individual Retirement Accounts, 403B, SEP, SIMPLE, Rollover, etc. – *** These examples may allow for Roth. (Rules can change)

Consult a Tax Advisor

Financial Prep: 101

2. Beneficiary considerations for your Retirement/Custodian Accounts

For your Retirement/Custodian Account you DO specifically designate a beneficiary on the Retirement/Custodian Account documents.

o It is a good idea to name both a primary and contingent beneficiary.

- **[If your primary beneficiary(s) pass(es) away, the Account will be awarded to whomever you have named as your contingent beneficiary(s)].**

Financial Prep: 101

RECAP

1. After Tax Account -- Brokerage Investment and Roth Retirement/Custodial Account
2. Before Tax Account - <u>Non-Roth</u> Retirement/Custodial Account

Financial Prep 101 Activity

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

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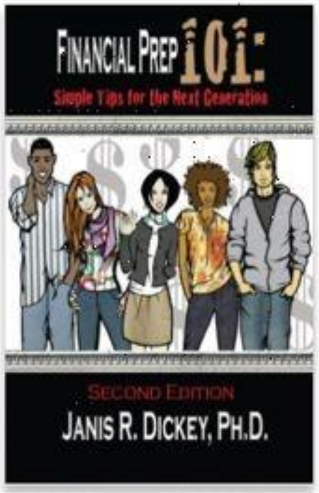
Financial Prep: 101



"The financial markets generally are unpredictable... The idea that you can actually predict what's going to happen contradicts my way of looking at the market."

"Markets are constantly in a state of uncertainty and flux and money is made by discounting the obvious and betting on the unexpected."

George Soros (73)

Financial Prep: 101

Advisors - at a minimum:

1. understand and document the risk tolerance and investment profile of an investor;

2. carefully determine each investor’s objectives and financial circumstances;

3. discuss investment products that are appropriate for each investor’s risk tolerance, time-horizon and objectives;

4. share information around the history of how the market behaves, market performance;

5. discuss historical returns of a specific asset allocation model, both positive and negative; (at no time will a financial advisor predict, or guarantee returns);

Financial Prep: 101

6. **develop a diversified asset allocated portfolio tailored to each individual investor's objectives and needs;**

7. **provide focus on a long-term strategy recommendation, if appropriate;**

8. **give support to the investor regarding discipline to adhere to the pre-stated investment strategy unless there is a change in the investor's objectives, risk tolerance, or circumstances;**

9. **work with the client to modify the asset allocation, and re-balance a portfolio when a change in the market dynamics, investor's risk tolerance, circumstances, or objectives occurs;**

10. **set up a schedule to review account and product performance with the client, revise as appropriate.**

Financial Prep: 101

Research where the Dow Jones Industrial Average® closed on the following dates: 12/31/2003________________________

12/31/2005_____________________________

12/31/2007_____________________________

12/31/2008_____________________________

12/31/2012_____________________________

12/31/2019_____________________________

Financial Prep: 101

Consult a Financial Advisor

Volatility

Volatility can be defined as:

- **The standard deviation of the return of the investment; a measure of the variation in an investment's price.**

- **In simple terms... volatility is the constant variation of an investment's offering price.**

Financial Prep: 101

Volatility is price movement, calculated over time:

- Fluctuation in stock prices occurs and is reported every few minutes if the stock is publicly held and reported on one of the Exchanges.
- Daily value of the stock is reported at the 'open' and at the 'close' of the stock market exchange.
- To calculate the volatility of the stock, the mathematical formula for the standard deviation of the value of the investment is applied, and a volatility calculation number is produced and reported. That number represents the volatility of a specific investment product over time.

Financial Prep: 101

The Modern Portfolio Theory®

Investopedia.com explains Modern Portfolio Theory® – MPT:

*"According to the theory, it's possible to construct an "efficient frontier" of optimal portfolios offering the maximum possible expected return for a given level of risk. This theory was pioneered by Harry Markowitz in his paper "Portfolio Selection," published in 1952 by the **Journal of Finance®**."*

There are four basic steps involved in portfolio construction:

-Security valuation

-Asset allocation

-Portfolio optimization

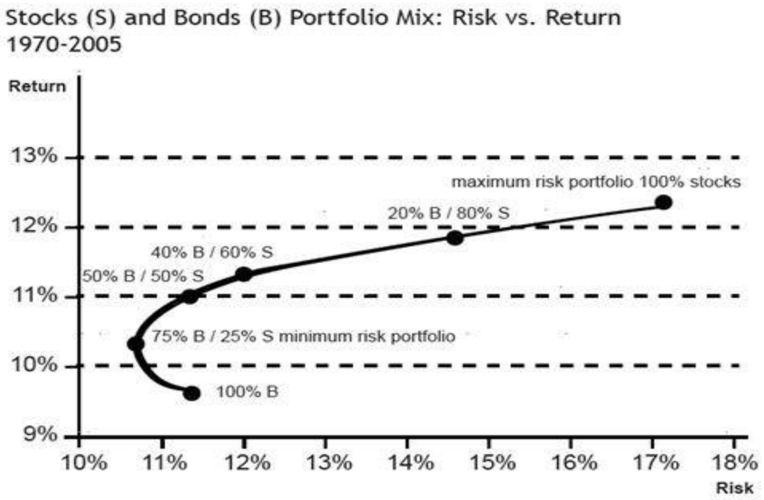
-Performance measurement."

https://www.investopedia.com/terms/m/modernportfoliotheory.asp

Financial Prep: 101

The Efficient Frontier(r)

This graph is provided as a visual illustration and does NOT represent any actual returns.



Risk and return are hypothetically calculated based on data over the period 1970-2005.
Risk is measured by standard deviation, and return is measured by arithmetic mean.

Illustration depicts hypothetical depiction of the Modern Portfolio Theory®.
Past performance does not guarantee future results.

Financial Prep: 101

Investor Profile Worksheet

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.

1) How much loss can you accept in your investment or retirement account?
   - ❖ No more than a small decline.
   - ❖ Occasional losses might be okay if there is opportunity for my account to grow over time.
   - ❖ Some losses are fine if I have an opportunity for my account to realize higher gains over time.
2) In relationship to 'keeping up with inflation:'
   - ❖ Safety is the ultimate goal, even if I do not keep up with the pace of inflation.
   - ❖ I want my investment gains to at least keep pace with inflation, even if I have an occasional short-term loss.
   - ❖ My investments should grow much faster than inflation; I am willing to risk a considerable short-term loss in order to outpace inflation over time.
3) Thinking in terms of realizing LOSSES in 1 year, quantify what amount of loss you would be willing to accept before you would make a change in your portfolio: (Circle One)

Less than 5%	15% - 25%
5% to 10%	more than 25%
10% to 15%	

4) Determine your Time Horizon: I plan to keep my money invested; I do not plan to withdraw money for income needs for: (Circle One)

1- 5 years	10- 20 years
5- 10 years	More than 20 years

Financial Prep: 101

- **Capital Preservation** - Keep what I have – NO risk please; I realize I might not keep up with the rate of inflation.

- **Income** - I need to generate income each month so I can withdraw it to pay expenses; I can withstand a little risk, but I have a shorter time horizon; I would like to keep up with the rate of inflation.

- **Moderate** - I want both income and growth; I can withstand a moderate level of risk; I have a longer time horizon; I want to outpace inflation.

- **Growth** - I don't need the income now, I primarily want my money to appreciate, but don't go too aggressive please; I have a longer time horizon before I need to access any money to cover expenses; I absolutely want to outpace inflation; I can withstand some short-term losses if there is potential to gain over time.

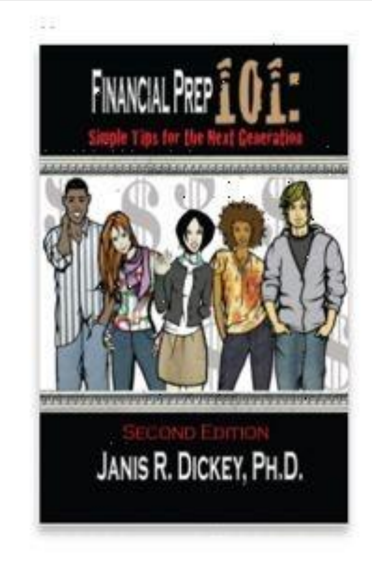
- **Aggressive Growth** - I want to rock and roll - give me all growth potential; I am a risk taker and believe over time my investments will appreciate at a greater rate with this type of investment strategy; outpacing inflation is a must; I can withstand short-term losses for the potential to realize gains over time.

Financial Prep 101 Activity

Which type of investor are you? Why?

Financial Prep: 101

DAY 3



- "No one can predict consistently when market declines will happen. (72)

Market Risk and Market Performance

Financial Prep: 101

Types of Investment Risk

- ★ • Principal Risk
- ★ • Inflation Risk
- ★ • Foreign-exchange Risk
- ★ • Interest-rate Risk
- ★ • Liquidity Risk

Financial Prep: 101

- ★ • **Credit Risk**
- ★ • **Reinvestment Risk**
- ★ • **Market Risk**
- ★ • **Call Risk**
- ★ • **Volatility Risk** (74)

Financial Prep: 101

Financial Prep 101 Activity

Which type of investment risk do you view as the most risk important to YOU? WHY?

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Financial Prep: 101

Past Performance Does Not Guarantee Future Results

The Macrotrends® "*Dow Jones – DJIA – 100 Year Historical Chart,*" pictured below indicates "the current price of the Dow Jones Industrial Average® as of October 22, 2019 as 26,788.10." (Chart courtesy of StockCharts.com, 68)

Financial Prep: 101

The Bear and Bull Market - No one can predict Performance

A **Bear Market** is generally defined as a stock market decline of 20% or more from peak to trough.

Stock market total returns, 1926-2018

DR. BILL CONERLY BASED ON DATA FROM STANDARD AND POOR'S

https://seekingalpha.com/article/4231716-stock-market-in-2019-last-years-decline-not-good-forecast

Financial Prep: 101

Austyn Whittenburg, CFP®, CBEC®, August 9/2019, presents a chart in his article:
"What Should You Do About Market Volatility?"

A History of Declines (1949 - December 2018)

Type of Decline	Average Frequency[1]	Average Length[2]	Last Occurrence[3]
-5% or more	About 3 times a year	44 days	December 2018
-10% or more	About once a year	114 days	December 2018
-15% or more	About once every 4 years	270 days	December 2018
-20% or more	About once every 7 years	431 days	December 2018

Source: RIMES, Standard & Poor's.

[1] Assumes 50% recovery rate of lost value.
[2] Measures market high to market low.
[3] The average frequency and average length rows exclude the most recent decline in December 2018 because the 50% recovery of lost value occurred after 12/31/18.

https://www.whittenburgwealth.com/blog/what-should-you-do-about-market-volatility

Financial Prep: 101

Bull Market

A <u>Bull Market</u> is a market with an upswing in momentum:

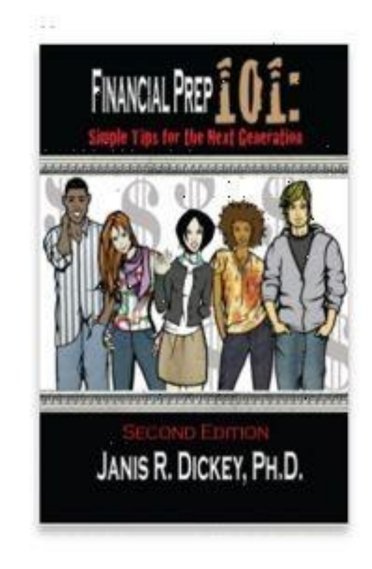
"Past performance does not guarantee future results, but since 1926 [through 2010], 'the good news is that for every two years that the market has lost ground, there have been three years with returns of 18% or more — a 3:2 ratio of great years to lousy ones!" (68)

"The current bull market that started in March 2009 is the longest bull market in history. It topped the bull market of the 1990s that lasted 113 months (10/10/2019).

https://www.investopedia.com/market-milestones-as-the-bull-marketturns-10-4588903

Financial Prep 101 Activity

Provide a brief comparison of the Bear and Bull Markets.



I never attempt to make money on the stock market. I buy on the assumption that they could close the market the next day and not reopen it for five years." (73)

Warren Buffet

Financial Prep: 101

Time Horizon

“Time horizon measures the length of time you will be invested. This means the length of time, in years, that you plan to leave your money invested, with no plans to withdraw the money from your account.”

Financial Prep: 101

Some Investment Products

- **Fixed Products**
  - <u>"Cash Equivalents"</u>
    - Checking/Savings Accounts
    - Money Market
    - Certificates of Deposit
  - <u>Bonds</u>
    - U.S. Treasuries
    - Municipal Bonds
    - Government-sponsored Bonds
    - Corporate Bonds
    - International Bonds

Consult a Financial Advisor

Financial Prep: 101

- Mutual Funds
- Stocks

Consult a Financial Advisor

Financial Prep: 101

Activity

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

____

____

Financial Prep: 101

CDs -- Review these terms:

- ❖ A non-callable CD cannot be 'called away' or forced to mature early. The CD will pay interest as originally stated.

- ❖ A callable CD can be 'called away,' by the financial institution. When the CD is called away it matures, and your principal is returned to you early. You lose future interest payments.

- ❖ A step-up CD will have 'laddered' interest rates… the interest rates for a step-up CD will change according to a predetermined schedule. Step-up CDs pay different interest rates for different years.

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- **A step-up CD** will have 'laddered' interest rates… the interest rates for a step-up CD will change according to a pre-determined schedule. Step-up CDs pay different interest rates for different years.

Here is an example of a 'step-up' CD:

Years	Interest Percent Paid
1-2	1.5 %
3-4	2.0 %
5-6	2.5 %

Financial Prep: 101

Stocks

- **Common Stocks** are actual ownership stakes, or ownership shares of a company.
- **Preferred Stocks** are ownership in a public company and have no voting rights; generally issued with a stated dividend that is paid prior to dividend payment to common stockholders.

https://www.investopedia.com/ask/answers/difference-between-preferredstock-and-common-stock/

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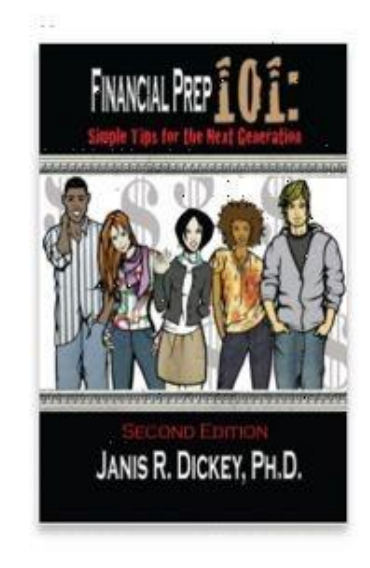
DAY 4



"Our favorite holding period is forever."

Warren Buffett

Financial Prep 101 Activity

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?

____

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Fees for Mutual Funds

- **The 12b-1 fees are assessed to cover the cost of distribution of the mutual fund;** expenses incurred for commissions and managing dealers, underwriters, brokers, registered representatives; and for advertising and sales literature costs, selling, promoting, or related fund marketing expenses.

‘Expense Ratios’ are calculated as a percentage/ratio of expenses that are subtracted from the fund value.

- **Turnover fees - ‘Turnover’ denotes the amount of buying and selling a manger does within the mutual fund.**

Again, the details of share class costs and fund expenses and fees, as well as the fund manager’s objectives and the legal details of the mutual fund are found in the mutual fund ‘prospectus.’

Asset Allocation

- **Asset Allocation is generally thought of as the proportion (percentage) of each asset class that an investor has in their portfolio.**
  - **"Asset allocation is an investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance, and investment horizon"**
    (https://www.investopedia.com/terms/a/assetallocation.asp)

So much money is invested in stocks, so much in bonds, and so much in cash.

❑ **Simple asset allocation is accomplished by dividing up the investment product purchases into the areas of:**

- **Stocks**
- **Bonds**
- **Cash or cash equivalents**

❑ **In other words – allocation means that you do not put all your eggs in one basket.**

Diversification

- **Diversification is a risk management practice to reduce the overall impact of any one investment choice within a portfolio.**

➔ **"Diversification is a technique that reduces risk by allocating investments among various financial instruments, industries, and other categories."**

➔

Lifestyle, or Target funds = Asset Allocated funds. Two of the characteristics that makes these types of funds a little different is that the mutual fund manager:

1. actively manages the portfolios through asset allocation and rebalancing activities, based on two primary criteria: a) the age of the investor, and b) a specific 'target date,' usually the investor's retirement date.

2. virtually does the rebalancing and asset allocation for you, based on industry norms, ‘age- appropriate’ asset allocations.

(https://www.investopedia.com/investing/importance-diversification/)

“Uncorrelated” assets

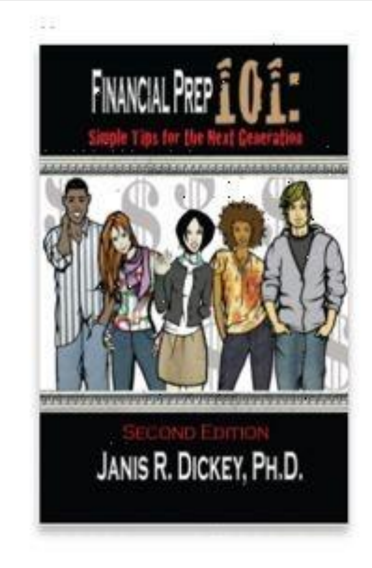
“Uncorrelated” assets should have an inverse objective. Non-correlated investment strategies are employed to counterbalance, or neutralize, overall portfolio risk. (81)

Financial Prep 101 Activity

Explain the objective for asset allocation and diversification of an investment portfolio. Search for a fund on the internet and name it here.

Financial Prep 101 Activity

Asset allocation divides the investment products into what 3 areas?



DAY 5

Bonds

The bond **yield** will be affected by the price paid for the bond.

- For example, if the bondholder pays a premium for the bond, even though the coupon for the bond is 5%, because a **premium** was paid, the net effective yield would be less than 5%. If you purchased the bond **at a discount**, your yield will be greater than the 5% coupon.

(https://www.investopedia.com/terms/b/bond-yield.asp)

(https://www.merrilledge.com/article/terminology-of-bonds; https://www.dummies.com/personal-finance/investing/bonds/what-is-the-yield-of-a-bond/)

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Bonds ...Features/Definitions:

- ★ **Bonds are loans that you make with your money. You loan your money to corporations, municipalities, governments, or other issuers when you purchase a bond.**
- ★ **In return you are typically paid 'interest' income over some stated period of time.**
- ★ **Bonds represent an obligation or debt that the issuer has to you.**
- ★ **Bonds are unique in the fact that they have a stated maturity date and a stated 'interest rate.' On the maturity date your original investment, or principal, should be returned to you.**
- ★ **During the time you 'hold' the bond you receive the interest payments according to the predetermined schedule identified at the time of your purchase.**

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- ★ When you buy a bond, you do not purchase a share or a portion of any stock or company. Unlike equity purchases, where you own a share or a portion of a company, when you buy a bond you lend your money for a stated, fixed interest rate, or ‘coupon.’
- ★ There is no dividend payment for bondholders, you receive a ‘stated rate of return,’ the interest payment, paid to you in cash.
- ★ Some of the reasons that issuers offer bonds to investors are to raise money for projects or for expansion; to finance specific programs; or to pay operating expenses.

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Financial Prep: 101

a) **Coupon** – The percent interest rate the debt issuer pays you for an explicit time period; paid on a specific predetermined schedule.

b) **Yield** – The rate of return on your investment; rate of interest paid on a bond or note.

c) **Yield to maturity** – The performance of an investment, measured from the time of purchase to the maturity date.

d) **Yield to call** – The performance, or rate of return, of a callable investment, measured from the time of purchase to the first call date.

e) **Modified duration** - The measurement of how much the value of a bond will change, given a change in interest rates in the marketplace.

f) **Yield to worst** - Identifies the yield that will be paid if the bond is called on the earliest stated date. When you purchase a callable bond, this yield percentage should be communicated to you.

Financial Prep: 101

More Bond Terms:

Purchase bonds either:

1. **'At par' – New bonds are issued at a par price of $1000 increments.**
2. **'At a premium' – The Secondary market offers investment products for a second time.**

The products are not an original issue, they are not purchased from the issuer. A bond that is offered 'at a premium' is above par, * meaning you pay more than the 'at par'

Financial Prep: 101

price, and therefore your interest yield is reduced, vs. what the 'par' stated interest rate is.

3. 'At a discount' - On the secondary market, a bond can be offered below par,* meaning you pay less than the 'at par' price and therefore you get more yield than you would realize when you purchase the bond at the 'at par' rate.

* The secondary markets buy and sell investment products after they have been issued. The primary market initially issues the products.

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The Math…So, if you purchase a bond that was originally issued ‘at par’

($1,000) for $1,200, you are paying ‘a premium.’

If the coupon of the original bond was 5%, because you paid more for the bond, your yield will be reduced (divide $ 50 coupon by $ 1200 premium price).

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On-the-other-hand, if you paid $950 for the bond (purchased the bond at 'a discount') you will realize a slightly higher yield than the 'at par' coupon of 5% (divide $ 50 coupon by $ 950 discount price).

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The bond **yield** will be affected by the price paid for the bond.

- For example, if the bondholder pays a premium for the bond, even though the coupon for the bond is 5%, because a **premium** was paid, the net effective yield would be less than 5%. If you purchased the bond **at a discount**, your yield will be greater than the 5% coupon.

Financial Prep 101 Activity

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

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Types of Bonds

- **Government Bonds**
- **Municipal Bonds**
- **Corporate Bonds**
- **International Bonds**
- **Savings Bonds**

Types of Bonds

★ Government Bonds

- **T-Bills are sold at a discount and mature in one year or less (1, 3, or 6 months); T-Bills do not pay interest prior to maturity; T-Bills are sold at a discount of the par value to create a positive yield to maturity. • A T-Note is issued in terms of 2, 3, 5, 7, and 10-year maturities; T-Notes pay interest semi-annually. • T-Bonds are debt obligations that have maturities of ten to thirty years; T-Bonds pay interest semi-annually.**
- **Government Federal Agency bonds are sponsored by government federal credit agencies. These bonds are fully backed by the U.S. government guarantee. But GSE (Government Sponsored Enterprise) Agency bonds do not carry the same 'full faith and credit' protection. Typically, these debt instruments are issued for the purpose of loaning money to specific groups of borrowers. An example would be loans made by Fannie Mae to homeowners. Agency issue maturities range from overnight to 30 years.**

★ **Municipal Bonds …..** **issued by state or local government or U.S. territories or authorities.**

Municipal bonds are typically:

§ **issued to fund public projects, like building schools or highways**

§ **purchased by investors that are in higher tax brackets**

§ **the interest paid on these types of bonds is generally exempt from federal income tax (can vary, depending on income bracket)**

§ **these bonds are usually purchased in an Investment Account (not purchased in a Retirement Account)**

§ **a municipal bond that is also issued in the state you live in, then you may not be required to pay any state income taxes on the interest received as well.**

Types of Bonds

★ **Municipal Bonds ….. issued by state or local government or U.S. territories or authorities.**

There are two common types of municipal bonds:

1) **<u>Revenue bonds fund projects that produce revenue</u>. This revenue generates income for the issuer (like an airport or toll road).**

2) **<u>General Obligation bonds</u> (G.O.s) are bonds that are supported by the tax revenues generated by the issuing municipality (fund public works projects).**

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Types of Bonds continued

★ **Municipal Bonds .....** **issued by state or local government or U.S. territories or authorities.**

<u>Municipal bond ratings:</u> **Municipal bond ratings are generally provided by two independent sources: Moody's® and Standard and Poor's®. The ratings are offered to help you evaluate the strength of the bond.**

<u>Municipal bond insurance:</u> **Municipal bonds can also be insured by an insurance agency. Insurance can further strengthen the bond quality.**

Types of Bonds

★ Corporate Bonds ….. issued by corporations.

With the purchase of a Corporate bond you loan money to a specific company or corporation, like GE® or Citigroup®. These corporations can then use your money for acquisitions, expansion, operating expenses, etc.

There are two types of Corporate Bonds:

1) Secured – the issuer names a specific asset to be held as collateral 2) Unsecured – no collateral **Consult a Financial Advisor**

Types of Bonds

★ **International Bonds** ..... **debt instruments that are issued by a foreign government or corporation.**

★ **Savings Bonds** .... **a type of certificate that signifies an individual has loaned money to the U.S. Government for a 'return of your principal' at a later date, along with a stated 'interest payment.'**

There are two popular types of savings bonds:

- 1) I bonds (indexed for inflation); and - 2) Series EE bonds.

Types of Bonds

★ 1) I bonds (indexed for inflation)

- **The interest is calculated monthly/compounded semiannually.**
- **I bonds are state and local income tax exempt.**
- **The federal income tax on I bond earnings can be deferred until the bonds are cashed in or when they stop earning interest after 30 years.**
- **Investors cashing in an I bond before five years are subject to a 3-month earnings penalty.**
- **Interest rates for I bonds change every May and November, based on either current market rates or inflation.**

Types of Bonds

★ 2) Series EE bonds

- ➢ **Pay a fixed interest rate which is equal to 90 percent of the average 5-year Treasury securities yield for the preceding six months. Therefore, the interest rates for Series EE bonds can also fluctuate.**
- ➢ **Series EE bonds purchased after May 2005 now earn a fixed rate of return.**
- ➢ **Rates are based on interest rates set by the large government bond trading market.**
- ➢ **Series EE savings bonds are bought at only half the denomination that they will eventually be valued.**

Financial Prep 101 Activity

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

Note: the coupon identifies the interest rate that the bond paid when it was issued; the yield identifies what the interest rate will be in the *future, depending on the new bond price.*

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Performance of Investment Accounts Simplified

"How much money am I losing or making?"

Components of performance

- **Yield:** As discussed, often this term is used to describe the interest rate paid on an investment product.

This description is only partly correct.
  - **Yield also is impacted by the cost of the investment product.**
  - **Bond Mutual Funds have many holdings, so the yield is calculated on each of those holdings and is then averaged.**

- **Capital appreciation:** The difference of what your investment products are worth, minus what you paid for them. The difference is your gains (appreciation).

- **Total return:** Add up both the yield and the capital appreciation of the investment product.

- **Dividend:** The earnings that are paid, either in cash or in stock, by an equity investment product.

Financial Prep: 101

Dollar-Cost Averaging Fact Sheet

Here's how dollar-cost averaging works:

- **Because prices of investments fluctuate, an investor can devise a plan to make periodic, systematic investment purchases of an investment product over time.**
  - **The purchases are made on a predetermined schedule; no matter what the cost for your investment product is on that day.**

Financial Prep: 101

Cash

"Cash and cash equivalents — Certificate of deposit (CD), marketable security, negotiable financial instrument (such as a cashier's check), etc., that has a very high degree of convertibility into cash (liquidity)."

(86) https://www.businessdictionary.com/definition/cash-equivalent.html

Checking Accounts, Savings Accounts, Money Markets, and Certificates of Deposit are terms used for 'cash-like' money.

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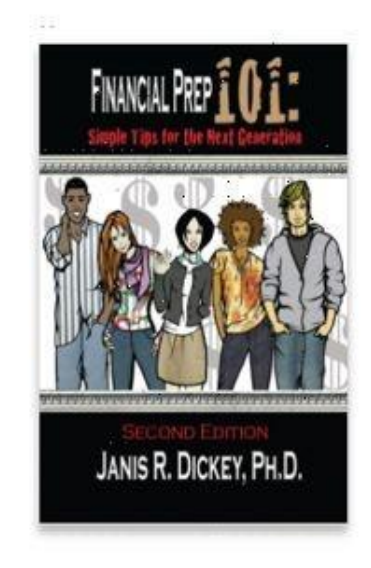
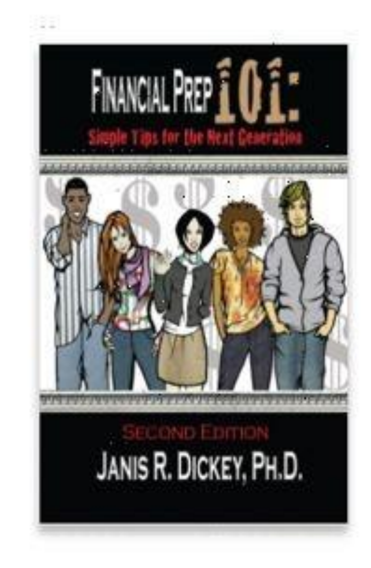


Chapter 3 Check For Understanding

Complete the following:

- **Create a list of your assets.**
- **Organize a chart to capture your understanding of some of the investment choices in these three categories: o Equities/Bonds/Cash.**
- **Evaluate your answers to the Investor Profile Questionnaire. Does the evaluation accurately describe your current investment philosophy?**
- **Estimate what the return percentage is for an investment that you purchased for $400, and now has a market value of $482 two years later.**
- **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.**

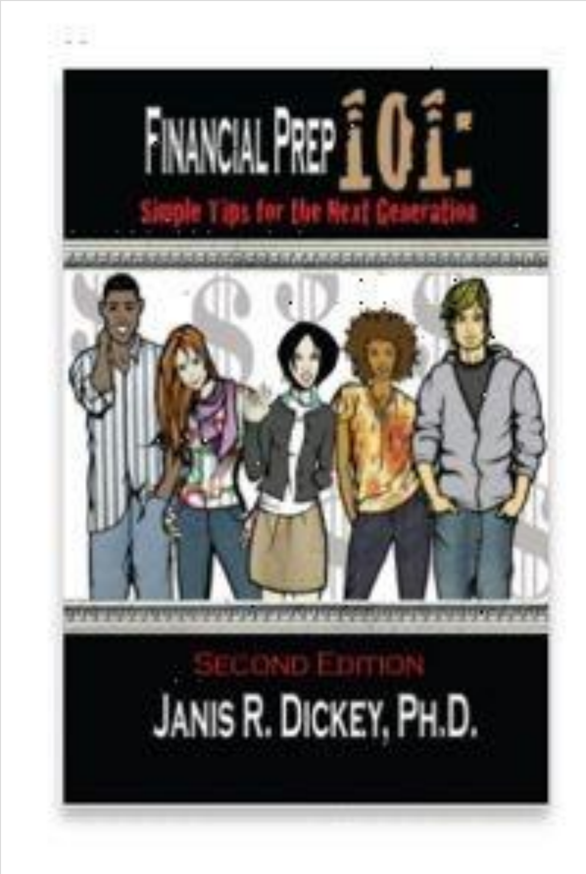
Financial Prep 101



Chapter 3 Check For Understanding continued

Complete the following:

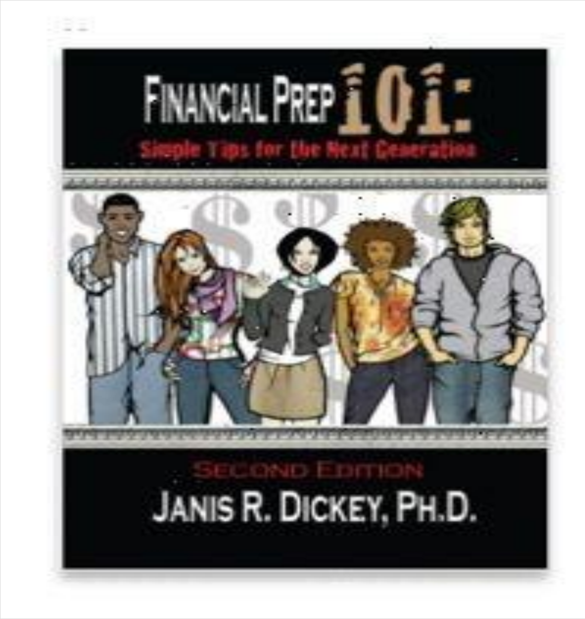
- **Explain the differences between 'Small, Medium and Large Cap' stocks.**
- **Identify three mutual fund sectors.**
- **In simple terms interpret the differences between correlated and non-correlated investment products.**
- **Design a hypothetical portfolio for a moderate investor.**
- **Describe what the 'market indexes' are, and how you might utilize the index information.**
- **Identify a list of your 'trusted advisors.'**
- **Explain why it is imperative to use 'trusted advisors' to navigate the investing process.**
- **Select one of the Jump$tart Coalition® National Standards in K-12 Personal Finance Education learning topics and report what you now 'know and understand.' Choose a standard that you didn't know before you read this section of the handbook.**



Chapter 3 End
Review Learning Objectives
Complete Chapter Activities
Take Quiz

Financial Prep: 101

How to Become Financially Strong



DAY 1

Plan for the Long-Haul

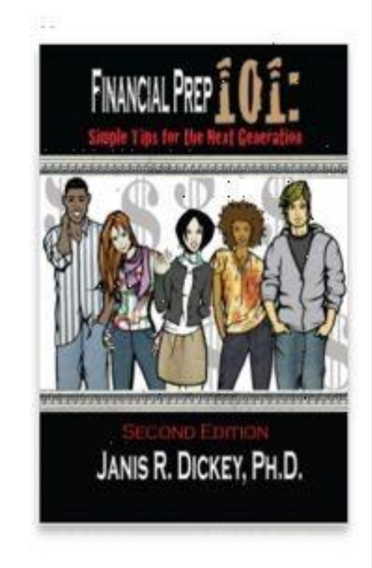
"Don't dream of winning...Train for it!"

An Introduction to Retirement Planning

redheadontherun.wordpress.com (Nike(r))

"The question isn't at what age I want to retire, it's at what income."

George Foreman

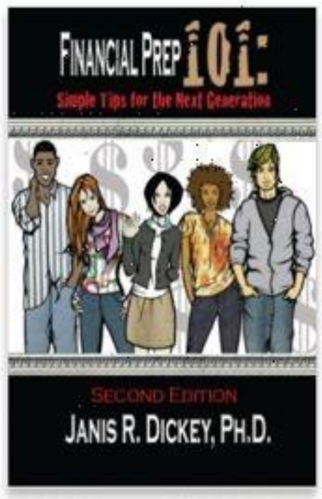


Jump$tart Coalition® National Standards in K-12 Personal Finance Education

Financial Responsibility and Decision Making

"Overall Competence: Apply reliable information and systematic decision making to personal financial decisions.

1: Spending and Saving: Apply strategies to monitor income and expenses, plan for spending and save for future goals.
2: Credit and Debt: Develop strategies to control and manage credit and debt.
3: Employment and Income: Use a career plan to develop personal income potential. **4: Investing:** Implement a diversified investment strategy that is compatible with personal financial goals.
5: Risk Management and Insurance: Apply appropriate and cost-effective risk management strategies.
6: Financial Decision Making: Apply reliable information and systematic decision making to personal financial decisions." (6)



Financial Prep 101

LEARNING OBJECTIVES - Chapter 4

a. Articulate and demonstrate your understanding of the advantages and disadvantages of utilizing a retirement account.

o Describe the characteristics of a retirement account;

o Explain a strategy for utilizing a retirement account early in life;

o Create both a short-term and long-term retirement plan.

b. Describe the differences between an Individual Retirement Account and a group retirement account; provide examples for how you will use both types of accounts.

o What are some of the group retirement plan options?

o Be able to articulate the differences between a defined benefit and defined contribution retirement plan;

o Be able to illustrate the 'matching' feature of a retirement plan;

o Explain a 'vesting' schedule.

c. Consider what the challenges and risks that you might face when you retire are; be able to list them.

d. Define 'tax deferral' and tax implications of retirement account contributions and withdrawals.

e. Understand what an annuity (investment product) is; provide clarification to describe under what circumstances an annuity might be an appropriate product to purchase. o Describe the advantages and disadvantages of both a fixed and variable annuity.

f. Identify the six financial literacy competency areas outlined by Jump$tart Coalition® National Standards in K-12 Personal Finance Education.

Financial Prep: 101

Popular Retirement Questions

- ❖ When can you retire?
- ❖ How much money do you need to save for retirement?
- ❖ How will inflation affect you in retirement?
- ❖ How will medical expenses impact your expense projections?
- ❖ Where should you invest your money now to maximize potential growth?

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- When should you rebalance to help insure you maximize your income for retirement?
- How exactly will you distribute/withdraw your money in retirement?
- How will you plan for the impact of paying taxes?
- What protection measure should you have in place to prepare for retirement and beyond?

Some strategies to help:

Financial Prep: 101

1) Be fiscally responsible,

2) Think long-term – save money every day to prepare yourself financially for your future and your retirement,

3) Live within your means – don't spend more than you earn,

4) Plan for a rainy day – save for emergencies,

5) Continue to abide by these principles when you are in retirement – don't outspend your retirement income, and,

6) Consider protection solutions along the way.

Financial Prep: 101

Financial Prep 101 Activity

What do you think you can afford to set aside for your retirement savings each month? ______________

Even $20 or $25 is a start.

Financial Prep: 101

On August 8th, 2008, USA Today® published, *"Retirement pop quiz! How well do you know your finances?"* Here is one of the questions the quiz posed:

- *"If you start at age 25 and want to accumulate $1 million dollars by the time you turn age 65, earning 8% on the money you save over those 40 years, how much money will you need to save each month to accomplish your goal?*
- *The answer was:*

o If you are 25 years old, you need to put aside $286 a month to accomplish this goal.

- *If you start earlier, the amount to save each month is slightly less: $205 a month for a 21-year-old, and*
- *If you wait until you are 55 years old, you will need to put $5500 a month away for the 10 years."* *(https://abcnews.go.com/amp/Business/story?id=5537958&page=1) (100)*

Retirement Plans

§ Retirement accounts must be funded with earned income. This means that

the money you can put into a retirement account will come from your

paycheck. (Except Spousal IRA)

§ You can either open a retirement account by yourself - alone, or you can open an account that is offered through your place of employment (if one is available) - group.

§ With both types of plans, you have a couple of tax-options to consider (other choices may be available). For example:

1) A Traditional IRA or 401k account allows you set pre-tax money aside in a 'tax-deferred' account. The money you place in these types of accounts grows tax-deferred until the time of withdrawal; which should be after you are at least age 59 1/2 (to avoid IRS penalties). At the time you withdraw the money, you will then pay taxes at your ordinary income tax rate on the

withdrawal amount.

2) In a ROTH IRA or Roth 401k account you pay the taxes FIRST, then you place the money in your account. The investments in these types of account grow tax-free; but you must wait until you are 59 1/2 (and have held the account for a minimum of 5 years) to be able to withdraw the money without penalties; after which you do NOT pay taxes on withdrawals.

TRADITIONAL IRA:

Individual Retirement Accounts (IRAs) are just that – for individuals. The purpose of a Non-Roth IRA* is for you to be able to:

Set aside money today for tomorrow's expenses, those expenses incurred in retirement;

Reduce your current gross income, dollar for dollar—to potentially pay fewer taxes on the money you make today; and

Postpone paying taxes on your 'deferred money' until a later date when you withdraw the money — after you are age 59 ½ — to let a larger nest-egg grow.

A. The IRS sets limits on how much you can contribute to an Individual Retirement Account (IRA) each year based on your age, so consult your tax advisor for those amounts.

B. As shown in the previous example, 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.

C. Once you put money in an IRA [account] (cash only can be contributed) you can invest the money in investment products like stocks, bonds, mutual funds, etc. (not items like cars, gold, jewelry, etc.). The idea is to invest and let your investment values grow (no guarantee) over time; and reduce your payment of income taxes now.

D. IRA money should not be withdrawn until you are 59 ½ years old because taking the money out early imposes an IRS 10% penalty.

E. After you are age 72 (1/1/2020) you will be required to take out Retirement Minimum Distributions (RMDs). (Exceptions occur.)

The RMDs are simply money withdrawals that you will be required to take, and pay taxes on, after you turn 72 years old. 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 (remember Retirement Accounts are held in custody by the financial institution). When you take the money out of your account, you will pay your taxes at your current income tax rate.

o Like your RMDs, money withdrawn from your (non-Roth) retirement account 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… However, if you find yourself in a higher tax bracket than when you contributed to this before-tax account, when you reach retirement age and begin withdrawals, then of course, you might not be ahead.

F. With IRA accounts you should name a primary (and contingent) beneficiary as a part of the opening account documents. Therefore, In the event of your death, your assets will be distributed to your beneficiary.

G. Accounts are also held in custody by the financial institution where you hold your account.

H. For IRAs, income and participation in a group-sponsored retirement plan can affect deductibility and contribution amounts.

*A Roth IRA has different features. ** Age and other requirements may change through legislation.

"Let's consider the case of two investors, Luke and Walt, who would like to become wealthy...

Luke:

a) put $2,000 per year into the market between the ages of 19 and 26 (only) 8 years (total of $ 16,000),

b) earned a 12% after tax return, and

c) continued to earn 12% per year until he retired at age 65.

Walt:

a) also invested $2,000 per year,

b) earned the same 12% return,

c) (but) waited until he was 27 to start investing, and

d) continued to invest $2,000 per year for 39 years (total of $ 78,000).

Result:

In the end, both men would end up with about $1 million. However, Luke had to invest only $16,000 (i.e. $2,000 for eight years), while Walt had to invest $78,000 ($2,000 for 39 years) or just about six times the amount that Luke invested. Seems like Walt was severely penalized just for waiting eight years to start his investing."

A word of caution: Don't expect an average 12% return in today's ***investing environment.***

https://www.daveramsey.com/blog/how-teens-can-become-millionaires

Financial Prep 101 Activity

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 /False**

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

Roth IRAs: Consult your Tax Advisor

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 for your withdrawals;**
- **Accounts are held in custody of the financial institution where you have your account;**

- You NEVER pay taxes on the gains when you withdraw the money in the future, assuming you withdraw that money after age 59 ½ (and have waited 5 years from the date of your first contribution); and
- When you reach age 72* you are NOT required to take RMDs (Retirement Minimum Distributions).

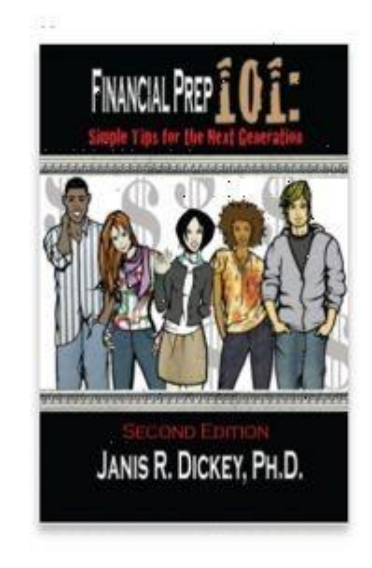
*Age and other requirements may change. I am NOT a Tax Advisor, consult yours for clarification.

Financial Prep 101 Activity

Please complete:

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

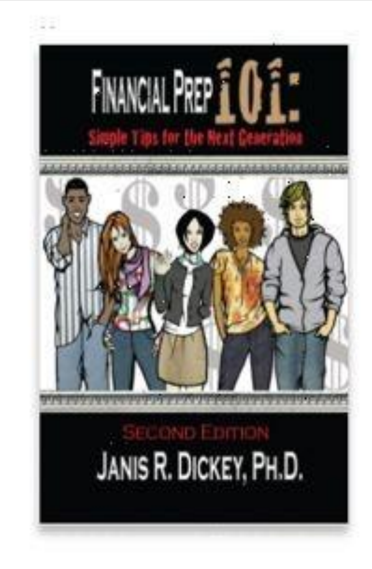
*The distribution age for RMD requirement may be changing



DAY 2

Group Retirement Plans

> *"Retirement at sixty-five is ridiculous. When I was sixty-five, I still had pimples."*
>
> George Burns



Americans go back to work

In one survey by the Rand Corporation(r), a whopping 39% of workers age 65 and older who were currently employed said they had previously retired at some point. They join a growing number of boomers who are spending their golden years in the workplace. According to Bloomberg(r), 32% of Americans 65 to 69 and 19% of those ages 70-74 are still employed.

https://www.aplaceformom.com/blog/reasons-retirees-are-going-back-to-work/

Employer-Sponsored Group Plans

The Defined Benefit Pension Plan, and the Defined Contribution Retirement Plan

Focus on two categories of employer-sponsored group plans: The Defined Benefit Pension Plan, and the Defined Contribution Retirement Plan.

1) Defined Benefit (pension) Employer-Sponsored Plans

A defined benefit plan is an employer-sponsored retirement plan. A defined benefit plan is also referred to as a Pension Plan.

- Generally provide an 'income for life' feature
- Commits the employer to provide the qualifying employee with a specified monthly benefit (income) at retirement
- Retirement income is based on a predetermined formula. This formula is based on the employee's salary history, length of service, and age

- The employee's **benefit is NOT determined by the performance or earnings of the investments** in the plan
- The way the plans are funded can also be **unique**

Pensions Plans Today

Between 1940 and 1980 the number of private-sector employees who were covered by a pension plan grew from 15% of the American workers to 46% of the workers.

The U.S. Bureau of Labor Statistics reported that,

"From 1980 through 2008, the proportion of private wage and salary workers participating in DB pension plans fell from 38 percent to 20 percent." (94)

Additionally, in November 2019, Barron's® reported, "Just 13% of people working for Corporate America have a defined-benefit pension plan these days, down from 76% in the mid-1980s, according to data from the Bureau of Labor Statistics."

(91, 93, 94)

Employer-Sponsored Group Plans

Consult your Tax Advisor

2) Defined Contribution Employer-Sponsored Plans

A (Non-Roth) Defined Contribution employer-sponsored plan qualifies for special tax handling under Section 401(a) of the Internal Revenue Code.

- **Money placed in a non-Roth employer-sponsored pre-tax retirement plan is also referred to as ‘qualified’ money**
- **There are several types of qualified (pre-tax) Defined Contribution employer-sponsored retirement plans that employers can offer**
- **Do not offer a stated ‘end benefit’ like a Defined Benefit plan**

- **Characteristically, allows participants to decide how much they will contribute**
- **Non-Roth contributions are deducted from reported gross income, thus lowering taxes in the year the contribution is made**
- **Typically, investment choices are offered by the retirement plan, and participants select the options in which they 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’ To avoid IRS penalties, participants should be 59 1/2 years old before they withdraw the money from these types of accounts**

Employer-Sponsored Group Plans Recap

Features and Characteristics of a Non-Roth Defined Contribution Employer-sponsored Retirement Plan

- in exchange for the tax advantages, the participant is expected to leave their money in the retirement accounts until they are 59 ½ years old; early withdrawal (prior to age 59 ½) could mean a 10% IRS penalty;
- the money is held in a custodian account;
- each account holder names a primary (and the participant also can name a contingent) beneficiary;
- if the participant's account is not a Roth IRA or Roth employer-sponsored retirement account, Retirement Distributions (RMDs) should be taken after the participant turn age 72* (age

requirement just changed for 1/1/2020, /except in years with the government changes the rules);

■ the plans have contribution limits; contribution limits for these plans can change annually;

■ certain plans require 'testing' to meet IRS regulations; special IRS document filing may also be required;

■ contributions are made 'pre-tax;'

■ taxes on Non-Roth contributions and investment gains are paid at ordinary income tax rates at the time the money is withdrawn;

■ vesting schedules document when employees receive the employer's contributions (if employers do contribute);

■ some types of group retirement plans protect participant's assets from creditors;

■ eligibility requirements apply. (94, 95)

❖ The 401k Retirement Plan (Non-Roth) is one of the most well-known types of Defined Contribution retirement plan choices.

The plan:

- allows participants to defer taxes on the money they contribute to their account
  - o provides that participants are fully protected by federal law from creditors

o is offered by for-profit companies and corporations; however, it is reported only 50% of Americans have access to a 401k today (3/2019) (99)

•

o participants determine the amount they will contribute each year

- contributions are deducted from the participant's reported gross income in the year they contribute
- o contributions lower the participant's taxes for that year

- o investment choices are offered by the retirement plan, and participants typically select the options in which they want to invest.

(However, some plans can have pooled investment accounts; the employer directs the investment selections for the employees.)

o has a Plan Document that specifies how the plan is administered and outlines when withdrawals can be made.

More Retirement Plan Options

*These comments do not constitute legal advice, and a lawyer should be consulted to clarify.

<u>401k plans</u> can offer these additional features:

o An employer 'match' on specified percentage limits of employee contributions.

Note: Not all plans offer a match, and if the plan does offer a match, each plan's match percentage may be different.

- **o Vesting schedules generally apply for the employer 'match.'**
- **o Participants may be able to access loans from their account.**
- **o Hardship withdrawals may or may not be allowed.**
- **o Annual nondiscrimination and participation tests must be met.**

✓ Participation discrimination between different types, or classes, of employees might be allowed under certain circumstances (for example leased employees may be excluded); however, discrimination of other types is generally prohibited. * o May also offer Roth option.

More Retirement Plan Options

- ❖ A 403(b) is an employer-sponsored retirement plan that is offered by Not-for-profit organizations. public schools and certain associations.

- ❖ A Profit-Sharing Plan is the sharing of company profits, re-calculated annually, with employees.

- ❖ A SEP IRA Retirement Plan is typically offered by smaller businesses.

- ❖ Owner-only 401k plans (also known as a Solo 401k) are for single owners and their employed spouses who also work in the business.

- ❖ SIMPLE (Savings Incentive Match Plan for Employees) IRA Retirement Plans are for smaller businesses, who have one hundred or fewer employees that earned $ 5,000 or more in the previous year; and for businesses who want a lower cost retirement program in exchange for easier administration.

Financial Prep 101 Activity

Retirement Plan Questions

Circle True or False

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

The Match

Some retirement plans offer a company 'match' for your contributions, up to a specific, stated percentage.

If the company you work for does offer a match, carefully determine what percentage you can defer from your salary to enjoy the full advantage of the match.

The money you contribute is ALWAYS yours… see vesting schedule for more information.
Consult a Financial or Tax Advisor

Life 167

In the following example, both companies' 'match' is 4%.
(Your company could match a greater percentage, or a lower percentage.)

	Scenario A		Scenario B	
	You Defer	Company Match	You Defer	Company Match
	3.0%	3.0%	4.0%	4.0%
	1.0%	0.5%	0.0%	0.0%
	1.0%	0.5%	0.0%	0.0%
	1.0%	0.0%	0.0%	0.0%
TOTAL	6.0% deferral	4.0% match	4.0% deferral	4.0% match
More Deferrals		0%		0%

This means that in Scenario A you will need to contribute 5% to get the full 4% employer match; and in Scenario B your total match is dollar for dollar up to a maximum match of 4%.

Check with your employer, each plan document will identify the match calculation, if there is one.

Vesting

Here are the two commonly used vesting schedules for *Defined Contribution Employer Retirement Plan contributions.**

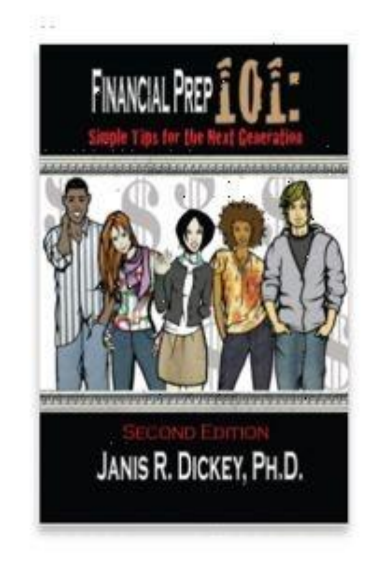
Graded vesting: With this vesting schedule, the vesting begins after the 2nd anniversary date of your employment. After year 2, you are 20% vested, and then you vest an additional 20% each year thereafter. Therefore, if you are with your employer for 6 years and 1 day you are fully vested on all past and future employer contributions. (95)

Years of Employment	Percent Vested
2	20%
3	40%
4	60%
5	80%
6	100%

Cliff vesting: With this vesting schedule no benefit is offered until after the third year of employement, and then the employee is 100% vested

Years of Employment	Percent Vested
1	0%
2	0%
3	100%

*As previously noted, some retirement plans do not require a vesting schedule for employer contributions to your account. Additionally, the money you defer from your salary is always 100% vested to you upon contribution (no waiting period).



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DAY 3

Risks in Retirement

"Dare to live the life you have dreamed for yourself. Go forward and make your dreams come true." –

Ralph Waldo Emerson

Financial Prep 101 Activity

List here the financial risks that you think others face now, or may face later in life when you retire.?

Challenges in Retirement

Bank of America®'s Better Money Habits® 2019 reported The Top 4 retirement concerns:

a) "Paying for health care,

b) Maintaining an income stream,

c) Saving enough money, and

d) Having too much debt"

https://bettermoneyhabits.bankofamerica.com/en/retirement/top-retirement-concerns

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Here are some common concerns for current and future retirees:

➢ What are the investment strategies you need to employ to help ensure you can achieve your financial long-term goals?

➢ What additional costs might you incur in retirement? How can you plan for those costs now?

➢ Will you be able to retire on schedule and live in the manner you expect?

➢ How can you plan to manage taxes and, if appropriate, minimize estate taxes when you pass assets others? (95, 96)

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Challenges/5 Risks in Retirement

Risk #1. **The potential to outlive your money by underestimating your life span.**

Risk #2. **The increasing cost of health care can have a devastating effect on your retirement income plan.** **Risk #3.** **The dramatic effects of rising inflation on the costs of future goods and services erode savings and investment portfolios.**

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Risk #4. **In an effort to reduce their portfolio risk, retirees can become more ‘conservative’ in their investing behavior. This behavior further exposes you to inflation risk.**

Risk #5. **Withdrawing your portfolio assets at an overly aggressive rate.**

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Challenges/5 Risks in Retirement

Risk #1. **The potential to outlive your money by underestimating your life span.**

Here are a few statistics the Social Security Administration represents ("Probability of a 65-Year-Old Living to a Given Age, by Sex and Year"):

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- **“ …a man who reaches age 65 in 2015 [has] a 90% chance of reaching age 70, a 62% chance of reaching age 80, and a 22% chance of reaching age 90.”**

(https://www.hamiltonproject.org/charts/probability_of_a_65_year_old_living_to_a_given_age_by_sex_and_year)

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Challenges/5 Risks in Retirement

Risk #2. The increasing cost of health care can have a devastating effect on your retirement income plan.

Michael S Fischer provided these statistics (5/10/21):

- **"It is estimated that the average couple will need $300,000[1] in today's (2021) dollars for medical expenses in retirement, excluding long-term care.**
- **Health care continues to be one of the largest expenses in retirement."**

(https://www.fidelity.com/viewpoints/personal-finance/plan-for-rising-health-care-costs-will-need-for-medical-costs-fidelity// thinkadvisor.com/2021/05/10/heres-how-much-a-souple-retiring-in-2021)

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Financial Prep 101 Activity

Research several websites that provide health-care cost information. Note the websites and pertinent data that you find.

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Consult a Financial Advisor

Risk #3. The dramatic effects of rising inflation on the costs of future goods and services erode savings and investment portfolios. Inflation makes goods and services more expensive and decreases the value of your money in the future.

The Fourth Edition of the American Heritage Dictionary® of the English Language provides this definition of inflation:

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"A persistent increase in the level of consumer prices or a persistent decline in the purchasing power of money, caused by an increase in available currency and credit beyond the proportion of available goods and services." (116)

Stamp cost in 2020 is $ .55

	In 1979	In 1999	In 2010	In 2016
Average Cost of a Car	$6,848	$20,686	$24,899	$25,449
Average Cost of a Gallon of Gas	$.86	$1.14	$2.79	$2.14
A Movie Ticket	$2.52	$5.08	$7.89	$8.65
A Stamp to Mail a Letter	$.15	$.33	$.44	$.47

(115) https://www.amazon.com/American-Heritage-Dictionary-Century- Reference/dp/0440237017

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Risk #3. The dramatic effects of rising inflation on the costs of future goods and services erode savings and investment portfolios. Inflation makes goods and services more expensive and decreases the value of your money in the future.

"At a Conservative 2.5% Inflation Rate:………..a $ 1.00 Today will be worth:

$ .78 in 10 years

$ .61 in 20 years

$ .48 in 30 years" (115a)

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Risk #4. **In an effort to reduce their portfolio risk, retirees can become more 'conservative' in their investing behavior. This behavior further exposes you to inflation risk.**

Jack K. Riashi, Jr.'s, CFP® (Financial Advisor, Bloom Asset Management®), writes,

"Becoming too conservative with your investment portfolio could mean you will run out of money during retirement" ….

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Mr. Riashi summarizes:

“While having a conservative approach for your portfolio certainly eliminates the risk factor, it also increases the long-term risk that you will run out of money.”

(https://www.bloomassetmanagement.com/bloom-university/investing-and-financial-planning/retirement-issues-part-2.aspx#.XZta8EZKjct).

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Risk #5. Withdrawing your portfolio assets at an overly aggressive rate.

If your monthly expenses require you to withdraw from your investment accounts, you will want to fully understand how long your money will last, . Consider that for every $200,000 in investment assets, at a projected 7% after tax rate of return, and using a 3.5% rate of inflation, your money will generate about $10,000 of annual income (assumes 25 years in retirement). (119)

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Some analysts suggest that taking 4% per year income from savings and investment accounts may provide a reasonable (about 95%) chance for staying on pace with income needs in retirement. But this calculation assumes that you have a sizable retirement account from which you can withdraw. On top of that, poor investment or market performance, overspending, withdrawing too aggressively, or other unforeseen factors, may dramatically <u>increase your odds of outliving your money in retirement</u>.

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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.

____

____

____

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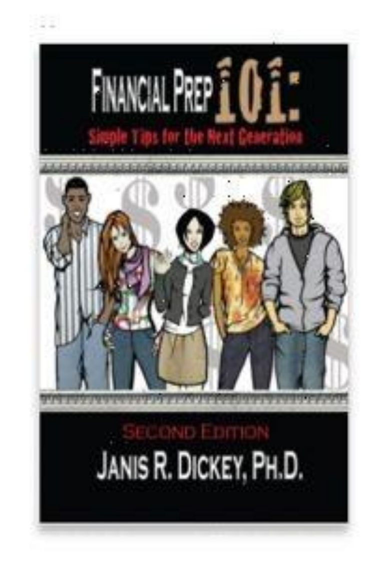
DAY 4



Social Security and Taxes in Retirement

It [Social Security] assures the elderly that America will always keep the promises made in troubled times a half century ago."

President Ronald Reagan (April 20th, 1983)

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Income in Retirement

The Social Security Administration, 'Income of the Aged Chartbook,' 2014 (https://www.ssa.gov/policy/docs/chartbooks/income_aged/2014/iac14.pdf) reports that **on average, 66.8% of retirement income comes from your 'own sources,' (investments, earned income, pension, other) and 33.2% will come from Social Security.**

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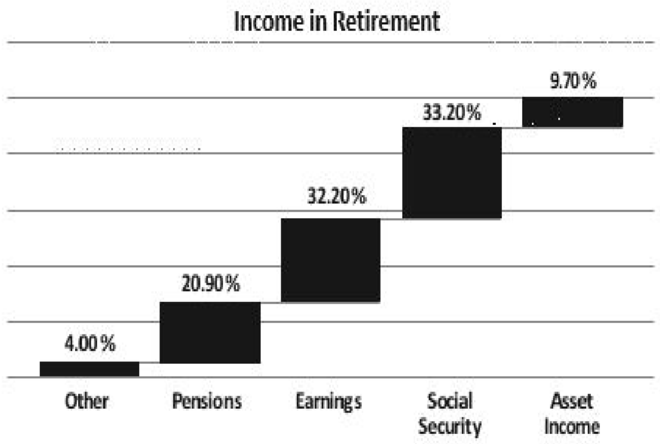
"Social Security provides the largest share of aggregate income for units aged 65 or older."



Note: totals do not necessarily equal the sum of the rounded components.

Consult a Tax Advisor

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Social Security Benefits - Income in Retirement

Full Retirement Age (FRA) - may receive:

- “Reduced benefits as early as the first month you reach [age] 62,
- Full benefits at [your] FRA,
- Increased benefits if you wait beyond FRA to collect, up to age 70.”

(https://www.justfacts.com/index.asp; https://www.aarp.org/retirement/social-security/info-2018/12-fact-about-ss.html)

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Social Security

Here are a couple of reasons to refrain from taking your social security benefits until you reach your Full Retirement Age (FRA), or older.

1. If you are still working (presently, there are “earning limits” that may reduce your benefits):
    i. you continue to contribute to social security so you are in a sense increasing what you will receive when you do begin withdrawing;

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ii. “you are required to pay taxes if you have income in addition to Social Security.” (ssa.gov) so, adding social security benefits may case you to realize adverse tax consequences; or

2. If you need as much money as you can get every month to live on.

(119)

Consult a Tax Advisor

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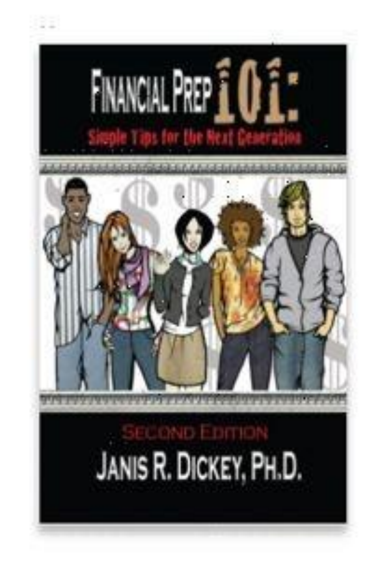

It [Social Security] assures the elderly that America will always keep the promises made in troubled times a half century ago."

President Ronald Reagan (April 20th, 1983)

Taxes In Retirement Talk to a Tax Advisor (I am not one) about:

● Tax treatment of investment products in an investment account, ● The tax implications of withdrawals from retirement accounts, and ● Tax-deferred or tax-free investment products.

Tax-free or tax-deferred investment products: may provide tax benefits.

Consult a Tax Advisor

Taxes In Retirement

Talk to a Tax Advisor (I am not one) about:

<u>Capital Gain</u> (occurs when the sale price exceeds what you initially invested, or initially paid for the asset) and loss in a Non-Retirement Account may cause a tax event:

- **<u>Short-term capital gain tax rates</u>; currently are taxed at your ordinary income tax rate.**

- Long-term capital gains are taxed at a rate that is determined by the IRS. The long-term capital gain rates, like ordinary tax rates, can, and do, change.

Financial Prep 101 Activity

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?

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

Annuities Are Different From Other Investment Products …

Annuities Can Be Complicated **Consult a Tax Advisor**

Unlike a stock, bond, or mutual fund, an annuity is an insurance product, offered by an insurance company. An annuity is a legal contract between an insurance company and the owner of the annuity. Some of the reasons an annuity product may be utilized:

a) an investor wants to purchase an annuity product with a 'guarantee' rider (insurance company must be solvent);

b) an investor wants to set up an income stream for themselves at a later date (maybe when they retire);

c) someone is interested in a Death Benefit feature, i.e. leave money for heirs, or

d) a more aggressive investor wants to select an aggressive investment model but use a 'rider' as a protection aspect.

Annuity Types, Annuity Terms, Annuity Characteristics, and 'Riders' can be found in the textbook

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Annuities Are Different from Other Investment Products …

Annuities Can Be Complicated

Unlike a stock, bond, or mutual fund, an annuity is an insurance product, offered by an insurance company. An annuity is a legal contract between an insurance company and the owner of the annuity.

Focus on 2 Types of Annuities: Fixed and Variable Annuities

- **The Contract Owner:** The person or entity that purchases the contract and is responsible for paying the premiums.
- **The Annuitant:** The individual on whose life an annuity contract calculates the payout.
- **The Beneficiary:** The individual(s) or entity (e.g., Trust) that is elected to receive the policy cash distribution.

Consult a Tax Advisor

Annuities Are Different from Other Investment Products …

Annuities Can Be Complicated

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Annuity Types, Annuity Terms, Annuity Characteristics, and ‘Riders’ can be found in textbook

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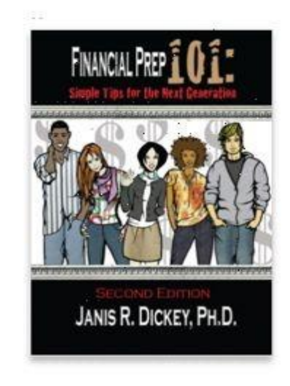
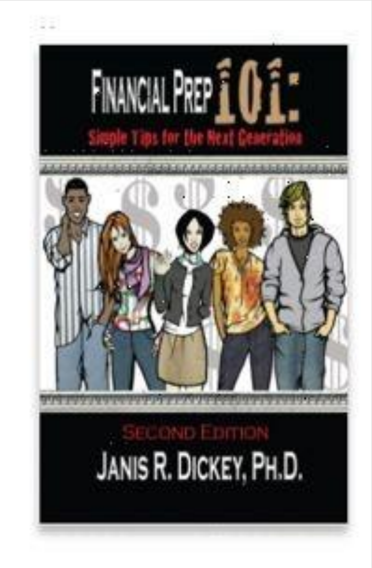


Chapter 4 Check For Understanding

Complete the following:

- **Evaluate the pros and cons of investing your money in a non-Roth retirement account.**
- **Create a hypothetical retirement savings plan for someone who is making $ 40,000 a year 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,**
    - **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.**
- **List some of the implications for withdrawing money from a Non-Roth Retirement Account before you are age 59 ½.**



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- Name two reasons why annuity products are sometimes perceived as ‘complex.’ What do you perceive as the primary benefit for each?

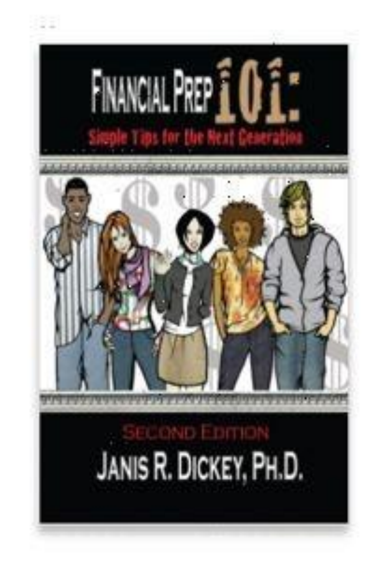
- In your own words, relate the impact of inflation to the cost of goods in 40 years. Choose 2 items, state the current cost, and hypothetically calculate the cost in 40 years.

- Discuss what you believe to be the most important of the five ‘Risks for Retirees’ that are presented in the text. Elaborate on your reasons.

- Describe some of the differences between a defined benefit and a defined contribution plan. Which type of plan, on the surface, seems more attractive to you.

- Explain the implications of a ‘vesting schedule’ for a company ‘match.’ With this information in mind, do you imagine you might consider the ‘vesting schedule’ prior to a job change?

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



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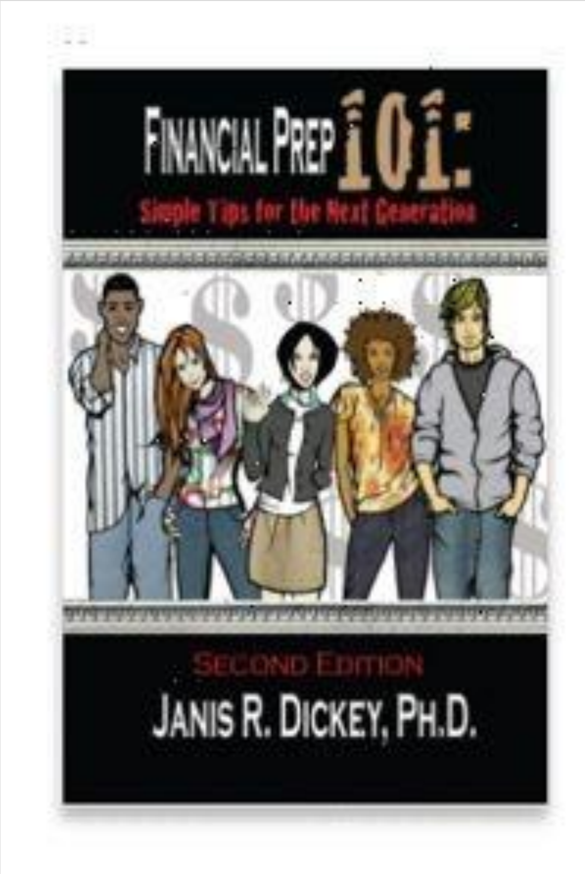
- Illustrate how a 'surrender' period might negatively impact a withdrawal from an annuity investment product. Given what you know about 'surrender' periods, what would you do before you considered buying an Annuity?

- 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.

- Compare and contrast the characteristics of a 'fixed' and 'variable' annuity.

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

- Select one of the Jump$tart Coalition® National Standards in K-12 Personal Finance Education learning topics and report what you now 'know and understand.' Choose a standard that you didn't know before you read this section of the handbook.



Chapter 4 End
Review Learning Objectives
Complete Chapter Activities
Take Quiz

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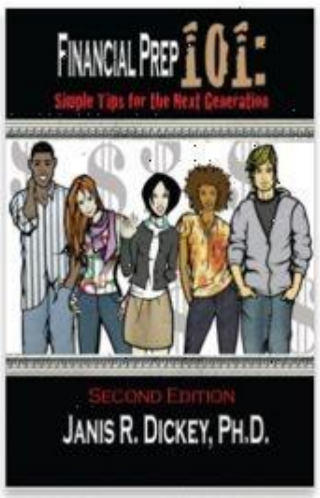
How to Become Financially Strong



DAY 1

The “Cool Down”

Reflect and Recharge

An Introduction to Protection Strategies

The act of protection, or the state of being protected; preservation from loss, injury, or annoyance; defense; shelter; ....

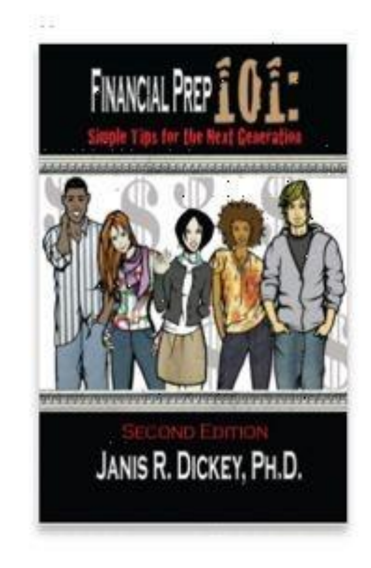
...That which protects or preserves from injury; a defense, a shield; a refuge.” (126)

Financial Prep: 101

Let's Start with INSURANCE

Insurance Definition - Investopedia www.investopedia.com › Personal Finance › Insurance

Insurance is a contract, represented by a policy, in which an individual or entity receives financial protection or reimbursement against losses from an insurance company. The company pools clients' risks to make payments more affordable for the insured.



Jump$tart Coalition® National Standards in K-12 Personal Finance Education

Financial Responsibility and Decision Making

"Overall Competence: Apply reliable information and systematic decision making to personal financial decisions.

1: Spending and Saving: Apply strategies to monitor income and expenses, plan for spending and save for future goals.
2: Credit and Debt: Develop strategies to control and manage credit and debt.
3: Employment and Income: Use a career plan to develop personal income potential. **4: Investing:** Implement a diversified investment strategy that is compatible with personal financial goals.
5: Risk Management and Insurance: Apply appropriate and cost-effective risk management strategies.
6: Financial Decision Making: Apply reliable information and systematic decision making to personal financial decisions." (6)

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Protection Strategies Insurance:

The act of protection, or the state of being protected;

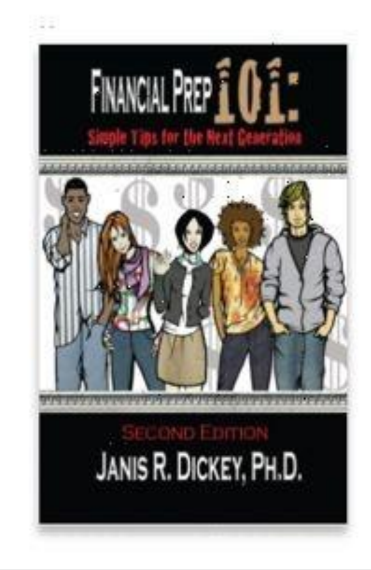
preservation from loss, injury, or annoyance; defense;

shelter; ….

…That which protects or preserves from injury; a defense, a shield; a refuge.” (126)

‘Insurance’ might also be thought of as the transfer of risk from one person or entity to another.

“When you buy insurance, your financial risk of loss, also called liability, is shared with an insurance company. To legally accept the risk, the insurance company enters into an agreement with you – you are referred to as the “insured.” The insurance company is willing to accept the risk of a possible large financial loss because you are paying a premium.” (127)



LEARNING OBJECTIVES Chapter 5

After completing Chapter 5, you should be able to:

a. Articulate your understanding of the advantages of protecting your assets.

b. Describe the safeguards put in place by our government to protect your assets; Securities Investor Protection Corporation and the Federal Deposit Insurance Corporation. o Illustrate how these agencies work; identify what the agencies oversee and protect.

c. Explain the general differences between Term and Permanent life insurance.

o Identify the general advantages and disadvantages for Term and Permanent life insurance;

o List and demonstrate an understanding of the key terms associated with life insurance policies.

d. Describe what long-term care is; how it is different from health care.

e. Identify the differences between a Will and a Trust; identify the advantages and disadvantages of each type of document.

f. Provide a list of activities that help individuals to safeguard themselves against Identity Theft.

g. Identify the six financial literacy competency areas outlined by Jump$tart Coalition® National Standards in K-12 Personal Finance Education.

Financial Prep 101 Activity

What insurance do you currently have?

Financial Prep: 101

Consult An Insurance Agent

Car Insurance

When you purchase car insurance there will be a variety of ‘coverage’ choices.

- ❑ Bodily liability insurance covers any bodily injuries or death for which you are responsible.
- ❑ Property damage liability insurance covers another type of damage in a car accident: o Damage to property. Property damage liability includes coverage for the damage to other cars, buildings, and anything else that may be injured in an accident.

Financial Prep: 101

- Comprehensive car insurance (other than collision) can include covering the cost of the car if it is stolen or damaged by hail, vandalism, fire, flood, an animal, or by anything other than a car collision.
- Collision car insurance covers damage to your car when your car hits, or is hit by, another vehicle, or another object.
  - Bodily Injury per person/Bodily Injury per occurrence/ Property damage: 100/300/50

Consult An Insurance Agent

Financial Prep: 101

Collision car insurance covers damage to your car when your car hits, or is hit by, another vehicle, or another object.

Financial Prep: 101

Consult An Insurance Agent

Car Insurance

- **Bodily Injury per person/Bodily Injury per occurrence/ Property damage: 100/300/50**

If you are involved in an accident with another car your auto policy will pay up to $100,000 in medical or legal bills per person (in the other car) not to exceed $300,000 total for the accident, and up to $50,000 to replace or repair the other vehicle or any property damage that was caused by you.

Financial Prep 101 Activity

Research how much full car insurance protection is, vs. liability only, coverage.

Report your findings here: Find a Declarations page and review it.

Note:

Some states have 'underinsured' motorist coverage that can step in and pay your medical/ legal bills if the other party is at fault, and either doesn't have insurance, or doesn't have as much insurance as you do. Check with a licensed Insurance Agent.

Big Government Protection For Your Money - (SIPC®)

➢ **The Securities Investor Protection Corporation (SIPC®)** **was formed in 1970 by federal law to protect clients of U.S. securities firms from loss of their security investments in the event the securities firm itself failed. The protection is provided for each client up to $500,000 for each aggregate account, to include a maximum for $250,000 in cash.** **(129) ***
Further clarification: "SIPC® coverage provides …

- ➔ **Up to $500,000 in total coverage per customer for lost or missing assets of cash and/or securities from a customer's accounts held at the institution.**
  - ○ **Up to $250,000 of that total can be applied to protect cash within a customer's account that is not yet invested in securities.**
- ➔ **Protection in case of unauthorized trading or theft from an account." (130)**

Determine what asset you hold, then determine how it is protected.

What does the SIPC® insurance cover, (among other securities)? (130, direct quote)

- note,
- stock,
- treasury stock,
- bond,
- debenture,
- evidence of indebtedness,
- any collateral trust certificate, preorganization certificate or subscription,
- transferable share,
- voting trust certificate,
- certificate of deposit,
- certificate of deposit for a security, or
- any security future as that term is defined in section 78c(a)(55)(A) of this title

- any investment contract or certificate of interest or participation in any profit-sharing agreement or in any oil, gas, or mineral royalty or lease (if such investment contract or interest is the subject of a registration statement with the Commission pursuant to the provisions of the Securities Act of 1933 [15 U.S.C. 77a et seq.]),
- any put, call, straddle, option, or privilege on any security, or group or index of securities (including any interest therein or based on the value thereof), or
- any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency,
- any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase or sell any of the foregoing, and

o any other instrument commonly known as a security.

(Certain investment products are ineligible for SIPC® coverage, and does not cover currency, commodities or related futures contracts, warrants/rights.)

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 (130)

The Federal Deposit

Insurance

Corporation, or FDIC,

provides protection for a different group of your assets. Bank deposits or ‘cash’ are NOT securities, so they are not covered by SIPC®.

Financial Prep: 101

The Security Exchange Commission (SEC) **was formed in 1934 to support the federal regulation of the securities markets**. The SEC is also responsible for ensuring that investment assets are ‘segregated’. In other words, investment accounts, and their investment holdings, cannot be commingled with the assets of the investment corporation who holds your accounts.

- **A Depository Trust Company (DTC) holds your fully paid securities in a separate account. Again, the SEC is monitoring this process.**

Financial Prep: 101

The Security Exchange Commission (SEC)

The SEC was charged with monitoring the following activities to ensure compliance:

1. "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.
2. People who sell and trade securities – brokers, dealers, and exchanges must treat investors fairly and honestly, putting investors' interests first." (132)

Financial Prep: 101

Big Government Protection for Your Money - (SIPC®)

➢ **The Securities Investor Protection Corporation (SIPC®)** was formed in 1970 by federal law to protect clients of U.S. securities firms from loss of their security investments in the event the securities firm itself failed. The protection is provided for each client up to $500,000 for each aggregate account, to include a maximum for $250,000 in cash. (129) *

SIPC® <u>insurance doesn't cover</u> …

- "Investment losses or worthless stocks or other securities.
- Losses due to account hacking, unless the firm was forced into liquidation due to the hack.

Financial Prep: 101

- Claims against bad or inappropriate investment advice. Complaints about firms are handled by the Financial Industry Regulatory Authority (FINRA®), the Securities and Exchange Commission (SEC) and state securities regulators.” (130)

Financial Prep: 101

Complete this chart, Circle Yes or No

	Covered by FDIC		Covered by SIPC®	
Savings Deposits	Yes	No	Yes	No
Money Market	Yes	No	Yes	No
Mutual Funds	Yes	No	Yes	No
Annuities	Yes	No	Yes	No
Cashiers' Checks	Yes	No	Yes	No
Stocks/Bonds	Yes	No	Yes	No

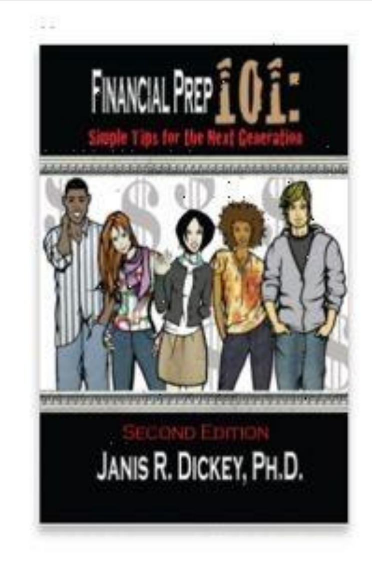
Financial Prep: 101

Margin

Investors can borrow money to purchase more securities or other assets, using their investment account holdings as collateral. <u>**This collateral feature is called buying on margin.**</u> Investment/Brokerage account holdings can be offered as collateral against which the investor could borrow money under certain conditions. (NOT allowed in IRA/Retirement Accounts, etc.)

Financial Prep: 101

- **Since 1974 the Federal Reserve's margin requirement limits debt to 50 percent of the purchase price of securities that can be purchased on margin.** Once margin is used in an account, the account will have a 'maintenance requirement:' i.e. a minimum of xx% of the total market value of the securities in the collateral account as required by your financial institution. https://www.sec.gov/investor/pubs/margin.htm:



Financial Prep: 101

DAY 2

An Introduction to Life Insurance

> *"If there are individuals who depend on you for financial support, or if you work at home providing your family with such services as childcare, cooking, and cleaning, you need life insurance. Older couples also may need life insurance to protect a surviving spouse against the possibility of the couple's retirement savings being depleted by unexpected medical expenses. And individuals with substantial assets may need life insurance to help reduce the effects of estate taxes or to transfer wealth to future generations."* (135)

Financial Prep: 101

Consult An Insurance Agent

Life Insurance .... **American Council of Life Insurers® (ACLI®):**

"Everyone's needs are different. A life insurance agent or financial advisor can help you determine what level of protection is right for you and your family based on your financial responsibilities and sources of income. There are online calculators that also can help you; however, sitting down with an insurance professional to review your financial needs can give you a more personalized view of your needs... In general, deciding how much life insurance you need means deducting the total income that would be lost upon your death from the total sum of your family's ongoing financial needs. Consider ongoing expenses (day care, tuition, mortgage, or retirement) and immediate expenses (medical bills, burial costs, and estate taxes). Your family also may need money to pay for a move or to cover daily expenses during a job search.

Financial Prep: 101

Life Insurance .... How Much Should You Buy?

Tamarind Financial Planning suggests: (https://tamarindfinancial.com/buying-life-insurance-how-much-what-kind/)

> *"A popular approach to buying insurance is based on income replacement. In this approach, a formula of between five and ten times your annual salary is often used to calculate how much coverage you need. Another approach is to purchase insurance based on your individual needs and preferences." (134)*

How much life insurance you buy generally is guided by how much money you need to leave to your loved ones to cover their financial needs if something should happen to you. Life insurance is commonly purchased to leave money to your dependents to:

a) cover bills;

b) pay estate taxes;

c) provide an income stream for loved ones;

d) guard against the loss of retirement income; and

e) protect against losing a business in the event a key employee dies.

Financial Prep: 101

Financial Prep 101 Activity

Visit 2 websites that offer information regarding reasons to purchase life insurance; record the websites and list 4 reasons that you find here:

Financial Prep: 101

Term or Permanent Life Insurance

<u>Term life insurance</u> 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. o Term life insurance is pretty straight forward, and the options are generally concentrated in three areas: price, the length of coverage, and the strength of the insurance company you select.

<u>Permanent life insurance</u> 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. Like with term insurance, your policy must also be ‘in-force’ for the policy to ‘pay-out.’ Permanent life insurance can be somewhat complex because permanent life insurance offers a few different varieties which have assorted characteristics, for example: Whole Life, Variable Life, and Variable Universal Life. There are pros and cons for each type of policy.

Financial Prep: 101

Term Life Insurance **Advantages**

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

b) Some policies can be converted to permanent life insurance if needs change

c) Simple to understand (usually)

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

e) Can provide coverage timing flexibility, i.e..: choose 10/20/30 year term.

Financial Prep: 101

Term Life Insurance

Disadvantages

a) Typically, policies do not build cash value

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

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

d) d) Policies do not offer loan options

e) No cash is available for distributions

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

Financial Prep: 101

Consult An Insurance Agent

Permanent Life Insurance

Advantages

a) Can build 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

Financial Prep: 101

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 renew 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

Financial Prep: 101

Permanent Life Insurance **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 (133, 135, 136)

Financial Prep: 101

Consult An Insurance Agent

Key Life Insurance Terms

- **Death Benefit** – "The death benefit is a tax-free payout to a beneficiary named by the insured." (6/2019) (134)
- **Face Value** – The original death benefit amount stated on the contract.
- **Convertibility** – The opportunity to convert your life insurance policy from one type of life insurance policy (term) to another (permanent), usually without a physical examination.
- **Cash Value** – The accrued money or savings component of a policy that can be borrowed against or withdrawn.

Financial Prep: 101

- **In Force** – In effect; active.
- **Premiums** – Monthly, quarterly, or yearly payments you submit to assure your coverage/policy remains 'in-force.'
- **Beneficiary** – The individual(s) or entity (e.g., trust) that is elected to receive the policy cash distribution.
- **Paid Up** – A policy that does not require further premium payments due to prepayment or earnings, a policy that has been paid-in-full. (135)

Financial Prep 101
Activity

Choose one type of insurance you might consider and explain why.

____

____

Financial Prep: 101

How To Apply For Life Insurance

a. First, your agent will run an initial 'insurance quote illustration' for you, based on information that you provide. The illustration shows you a schedule of payments and coverage for you and projects the cost of the insurance before you fill out the application, so you have some idea of the cost.

b. Complete the application…. Answer ALL of the questions. Along with the application you will also sign a Release and Health Information Privacy Act of 1999 (HIPAA) form. The form provides your consent for the Life Insurance Company to obtain your medical records.

c. Then, an attendant will come to your home, or place of business, to draw blood and ask you a few more questions.

Financial Prep: 101

d. Next, your medical records and the additional information you provided to the attendant will be evaluated by the Life Insurance Company underwriters. The underwriters determine, with an actuarial, if the company will make you an insurance offer. Just because you received an insurance illustration, you are not guaranteed that the insurance company will offer to insure you.

e. After this process has been completed, your agent will present you the offer, or final coverage details… the amount of insurance the insurance company will give you, along with the exact premium amount (cost of the insurance).

f. At this time you can either accept the offer or decide to decline the offer. You typically have 30 days to review the contract/offer. You can take your time to consider the offer, especially if the cost of the policy, or the insurance face amount (how much coverage you are being offered), is considerably different from your original 'quote.'

Financial Prep: 101

Other Insurance …. Disability

ü Disability insuranceprovides for income replacement in the event you experience either a short-or-long-term-period when you may not be able to work because you are disabled in some way and cannot perform your on-the-job duties.

> *"Based on new injury statistics, an American is accidently injured every second and killed every three minutes by a preventable event." (2016)*
> https://www.nsc.org/membership/member-resources/injury-facts

National Safety Council®,

Consult An Insurance Agent **Financial Prep: 101**

Other Insurance …. Disability

- ❖ **Over 37 million Americans are classified as disabled; about 12% of the total population.**
  - ➢ U.S. Census Bureau®, American Community Survey, 2011.

- ❖ The Social Security Administration Disability Benefits Publication: 'Disability Benefits,' (2019) presented that,

"Studies show that a 20-year-old worker has a 1-in-4 chance of becoming disabled before reaching full retirement age."

Financial Prep: 101

Other Insurance …. Long-Term Care

ü Long-term Care insurance is different than health care, as noted here by a report by the U.S. Senate Special Committee on Aging®, February 2000 (https://www.aging.senate.gov/, 111), described here as follows

> *"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…*
>
> *Long-term care encompasses a wide array of medical, social, personal, and supportive and specialized housing services needed by individuals who have lost some capacity for self-care because of a chronic illness or [a] disabling condition." (111)*

Financial Prep: 101

Consult An Insurance Agent

Long-Term Care Stastics

✓ *"63% of those 85 and older [use assistance] devices and [get] personal assistance." (139)*

✓ *https://www.prepsmart.com/statistic-long-term-care.html reported:*

o *"As the Baby boomers age, the number keeps rising. Now experts say that 65% of people over 75 need long term care. The average facility stay for older folks is about 3 years." Business Week® (This is a nursing home only stay estimate and does not include home care or assisted living, which usually come first.)*

"Long Term Care Statistics," (112) reports:

"Fact: 65% of people 75 and older will eventually need Long Term Care"

Financial Prep: 101

Consult An Insurance Agent

The major decisions you will make when you purchase long-term care insurance:

1) The length of coverage you want to purchase (number of years: 1 year to lifetime);

2) How much benefit (dollars you will receive) you want to buy on a daily basis (typically $ 100 a day and up);

3) The length of the 'elimination period' you will select (how long you will wait until your benefits start: 30/60/90 or 180 days);

4) What company should you purchase your policy from?

(Determine the company's financial strength before selecting.)

Financial Prep: 101

Long-term Care Insurance terms for review continued:

- **'Increase in premiums' will take effect if your policy premiums DO NOT remain 'level.' In other words, your premiums can increase over time under certain conditions.**

- **The 'length of benefits' statement explains how long your benefits will pay-out.**

- **'Nursing home benefits' state what your policy will pay for care if you are receiving care in a nursing home.**

- **'Pre-existing conditions' are conditions that you have prior to obtaining your long-term care policy. These conditions are explicitly eliminated from your benefit coverage; those conditions will not be covered by your policy.**

Financial Prep: 101

- The ‘waiver of premium’ rider permits you to stop paying premiums while you are receiving benefits.

- The ‘restoration of benefits’ re-establishes your long-term care policy, back to the original full maximum value, if your health is restored.

- The ‘return of premium’ pays your premium back to you if you cancel your policy. (140)

Consult a Life Insurance Agent

Financial Prep: 101

___ Find someone who has long-term care insurance and ask them to describe their policy to you.

Company Name ____

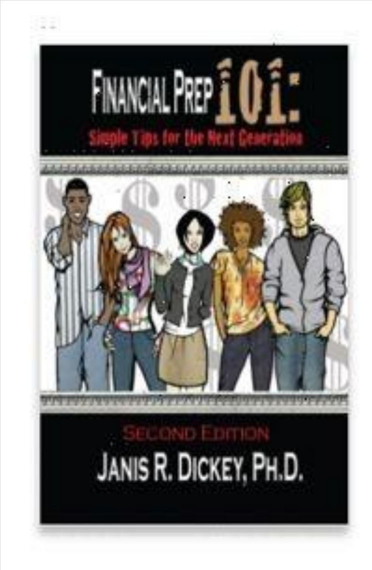
Daily Benefit ____

Length of Benefit ____

Does the benefit amount go up each year? ___________________________

Financial Prep: 101

DAY 3



Estate Planning

“Death is not the end. There remains the litigation over the estate.”

– **Ambrose Bierce** brainyquote.com

Financial Prep: 101

Consult An Attorney and Tax Advisor

Estate Planning

> "**Estate planning** is the preparation of tasks that serve to manage an individual's asset base in the event of their incapacitation or death. The **planning** includes the bequest of assets to heirs and the settlement of **estate** taxes.
>
> Most **estate** plans are set up with the help of an attorney experienced in **estate** law." Jun 25, 2019
>
> https://www.investopedia.com/terms/e/estateplanning.asp

Financial Prep: 101

Consult An Attorney and Tax Advisor

A Will Is A Legal Document, Signed By The Maker Of The Document

- **Advantages of distributing assets through a Will**

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

o 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.

o Distribution can be settled through the probate court.

Financial Prep: 101

- **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, when the Will is presented to probate.**

Financial Prep: 101

A Will Is A Legal Document, Signed By The Maker Of The Document

- Disadvantages of distributing assets through a Will o When assets are distributed through a Will the distribution process goes through a legal procedure called probate. The probate process does not provide you with any privacy because it is a public hearing. The Will is a public document. Also, if the assets named in the Will are in more than one state, the Will has to be probated in each affected state.
  - Fees charged by the estate fiduciary to disperse the estate may be a percentage of the gross estate and can be high if it is a large estate. o Processing a Will through probate is typically long and drawn out.
  - Wills do not make provisions for you if you should become incapacitated. In case of disability you would need a separate document called a Durable Power Of Attorney to allow your fiduciary to manage your affairs.

Financial Prep: 101

A Trust Is A Contract That Identifies A Three-Party

Arrangement Involving A Grantor, A Trustee And A Beneficiary

a) Grantor: A Grantor is the creator of a trust document.

b) Trustee: A holder of trust property on behalf of a trust beneficiary.

c) Beneficiary: An individual or entity named to receive assets at the time of an owner's/grantor's death.

Consult An Attorney and Tax Advisor

Financial Prep: 101

Trust

- 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.
  - Property titled into a Trust typically passes to beneficiaries without oversight by a judge (avoids a legal process known as “probate”).

Financial Prep: 101

- Disadvantages of distributing assets through a Trust
  - Setting up a Trust can be more expensive than creating a Will.
  - If the assets are not titled in the Trust, then the Trust is not as effective, so work needs to be done on your part…

YOU STILL NEED A WILL and an ESTATE PLAN.
(141)

Financial Prep: 101

Transfer on Death (TOD) is another estate planning tactic.

If you want to name a beneficiary on some of your titled assets, and you do not have a Will or Trust, you add a TOD. The TOD will pass the asset directly to the named individual or entity when you die. Simply stated, upon your death (only), your asset will become the property of whomever you have named as your TOD.

This avenue virtually costs you nothing to put in place; you can add a TOD to your checking account (typically referred to as Payable on Death, POD), car title, Investment/Brokerage accounts, or other titled property, at no cost.

Financial Prep 101 Activity

Do you know someone who has a Trust? Ask them to describe the benefits.

Consult An Attorney and Tax Advisor

Stretch IRA - When you Die

Stretching an IRA is typically employed for estate planning purposes. The rules for stretching an IRA changed January 1, 2020, however, some provisions remain the same for spouses, chronically ill or the disabled. Currently,

➢ **<u>If you inherit an IRA/401k/Roth account from a NON-spouse</u>, you are now required to Stretch the payouts/withdrawals over 10 years. The Stretch IRA is created by the non-spouse beneficiary of the inherited IRA and allows for the continuation of the tax-deferral status of the investment assets for 10 years ONLY.**

<u>THERE IS A 50% PENALTY IMPOSED FOR VIOLATING THE 10 YEAR RULE. THE PENALTY WILL BE ASSESSED ON THE ASSETS NOT DISTRIBUTED UNDER THE 10 YEAR RULE.</u>

➢ **<u>If you inherit a spousal IRA,</u> you can roll it over to your name and take Non-Roth RMDs at age 72.***

- **Rules can change**

Consult An Attorney and Tax Advisor

Stretch IRA continued

If you have a Traditional/Roth IRA/401k to <u>leave when you die</u>, the assets can transfer to:

❖ **A non-Spousal beneficiary:**

o **the non-spouse beneficiary can keep the tax-deferral status of the (non-Roth) account and take distributions for 10 years by keeping the 'beneficiary status' and rolling the inherited assets into an 'Inherited IRA.' Withdrawals from the Inherited IRA taken before age 59 ½ by the beneficiary are 'early-withdrawal penalty free.' The assets must be withdrawn by the non-spouse beneficiary within a 10-year period.** ❖ **A spousal beneficiary*:**

o **the spouse beneficiary can roll the inherited spousal IRA into his or her name IRA, relinquishing the 'beneficiary' status… or keep the account as is and be the "designated beneficiary.". For example: If the account is in the spouse's name, the Non-Roth RMDs would be initiated after age 72, and the beneficiary would still be penalized for early withdrawals before age 59 ½. The spouse can stretch/maintain the account's tax-deferral status and take non-Roth RMDs over the course of their lifetime, but only if they follow the specific rules for doing so.**

***Rules that apply for the spousal beneficiary also apply for chronically ill or disabled beneficiaries, and beneficiaries not more than 10 years younger than the owner. (143)**

Consult An Attorney and Tax Advisor

When business owners prepare to sell their business, or pass their business on to other partners, they may enter into a Buy-Sell Agreement. Having a Buy-Sell Agreement in place and funding a buy-sell agreement plan can have several advantages. Here are a couple of Advantages to consider:

- **Makes liquid assets available for the business owner’s family (if the buy-sell plan is funded) when the business is transferred;**
- **Reduces the possibility of dispute among the partners of the business when it comes time to transfer the business;**
- **Allows for the transfer of the business to the intended parties only;**
- **Creates a vehicle for a pre-arranged transition of the business in the event of the death, disability or departure of the business owner;**
- **Because a pre-agreed-upon price has been determined for the market value of the business, (assuming the price meets IRS guidelines) tax issues may be streamlined. (144)**

Identity Theft

Identity theft is the act of stealing important information from another individual with the purpose in mind to assume that person's identity; with the intention of exploiting that individual's credit in an effort to realize personal gain.

Identity Theft

Some ideas for safeguarding your identity are presented here:

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 trustworthy. However, 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. One of the best safeguards for Identity Theft is to monitor your bank and other account statements carefully.

i. The absolute best way to receive bank account and investment account statements is on-line. Avoid paper-trails whenever possible. (Some financial institutions will provide you with a compact disk at year-end that captures all of your monthly statements.)

j. Along the same lines, employing a credit-report service to alert you to when new credit application is made in your name is in-valuable. On the rare occasion when I have opened a new credit card, I have been notified by e-mail of the event.

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 https://www.annualcreditreport.com/index.action. 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. (145)

The credit bureaus: (Equifax® (800-525-6285), Trans Union® (800-680-7289), Experian® (888- 397-3742)

Financial Prep 101 Activity

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

____

Financial Prep 101

Asset Protection

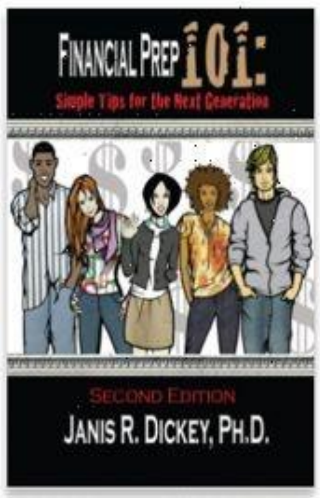
"*Key Reasons why Asset Protection Planning is Important*"

https://zimmerlawfirm.com/blog/asset-protection-2/key-reasons-asset-protection-planning-important

"Asset protection planning is very important if you have any money, investments, or property that you want to protect. If you own a business or are starting one, you also need to make sure you have a solid plan in place to protect your personal assets.

There are many different risks to your financial security, and your plan for asset protection needs to focus on the things that are most likely to impact your nest egg." Barry Zimmer (6/2016)

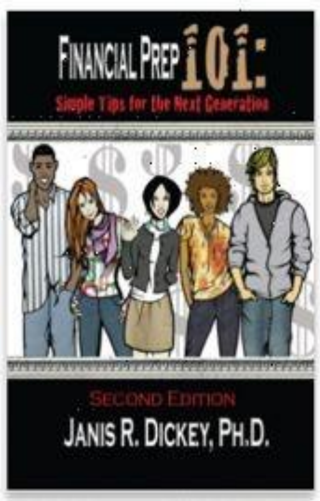
Financial Prep 101



Chapter 5 Check For Understanding

- **List some of the things you might do to protect your identity.**
- **Discuss why the FDIC and SEC were established. Relate your statement to how the two organizations are important in today's economic environment.**
- **Describe, in your own words, why you might buy life and disability insurance in the future. (If you haven't already.)**
- **Explain the term 'face value' as it relates to a life insurance policy.**
- **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.**

Financial Prep 101



Chapter 5 Check For Understanding continued

- **Interpret the difference between health insurance and long-term care insurance.**
- **Compare and contrast a few of the characteristics of Term versus Permanent Life Insurance.**
- **Identify the benefits of establishing a Will.**
- **Who assists the maker in the creation of a Trust?**
- **Evaluate the importance of naming a beneficiary for your assets.**
- **Select one of the Jump$tart Coalition® National Standards in K-12 Personal Finance Education learning topics and report what you now 'know and understand.' Choose a standard that you didn't know before you read this section of the handbook.**

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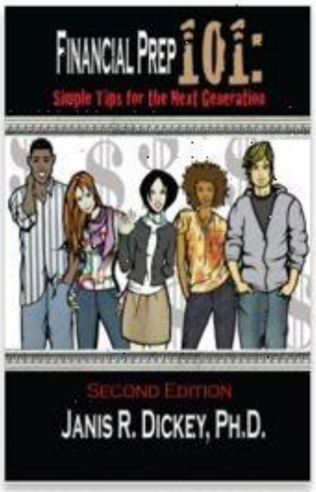

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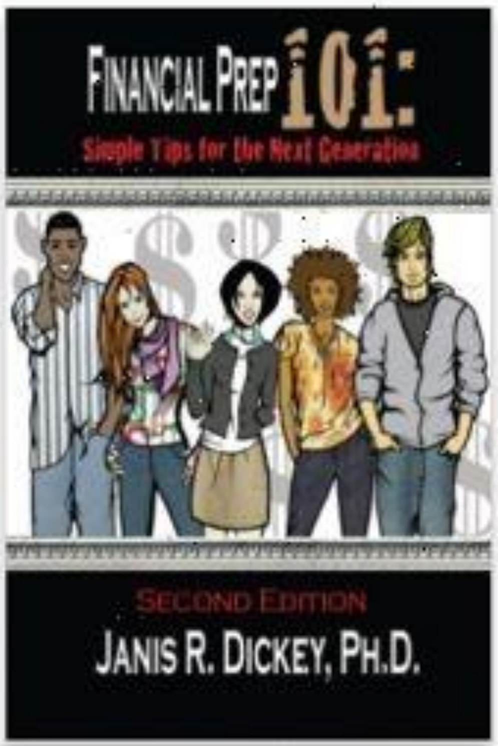
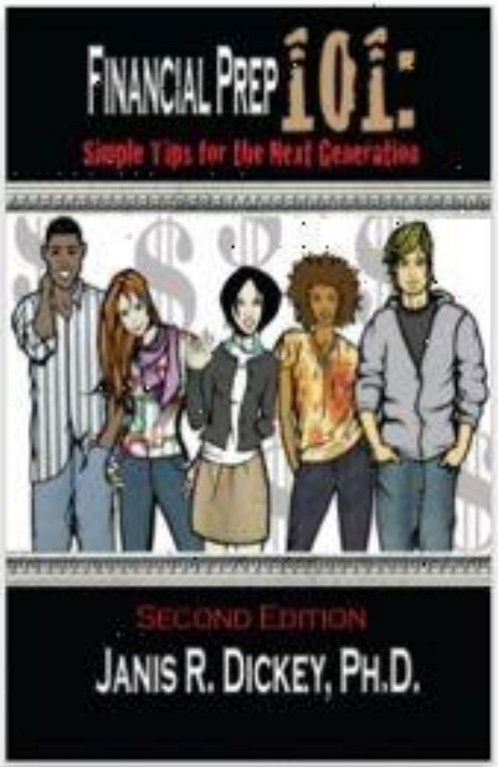


Chapter 5
End
Review Learning Objectives
Complete Chapter Activities
Take Quiz

How to Become Financially Strong

JanisRDickey.com



Simple Tips for the Next Generation

Second Edition

Financial Prep101:

How to Become Financially Strong

Glossary

401(k): An (non-Roth) employer-sponsored retirement plan that allows employees to make pre-tax contributions; contributions reduce the employee's taxable income.
403(b): A public school or non-profit employer-sponsored retirement plan that allows employees to make pre-tax contributions; contributions reduce the employee's taxable income; also, sometimes known as a Tax-Sheltered Annuity.
Accidental Death and Dismemberment (AD&D): If a death occurs due to an accident; or if a limb above the wrist or ankle joints are severed due to an accident, insurance payments are made.
Accrued Interest: The accumulation of interest added to a bond's contract price; calculated from the last interest payment to the settlement date; does not include settlement date.
Addendum: A legal document added to a contract.
Adjusted Gross Income (AGI): Net income; all earned, passive, portfolio income and capital gains, minus allowable deductions.
Affidavit: A written statement that is sworn to an/or notarized.
Alpha: A measurement of investment product gain that is not credited to the market.
American Depositary Receipt (ADR): Bought and sold in the U.S. Securities Markets, a negotiable certificate representing a specific number of shares of stock in a foreign corporation.
American Stock Exchange® (AMEX): A non-profit, private New York corporation that executes securities trades.
Amortization: Principal and interest payments collected as per a stated schedule to repay a mortgage obligation in full at the completion of the term of the contract.
Annual Expense Ratio: Percentage of a mutual fund's assets that are subtracted annually to pay for fund expenses like sales/operating costs, 12b-1 fees, management fees, administrative fees, etc. Costs incurred by the mutual fund to manage the fund.
Annual Percentage Rate: (APR) The annualized rate for the total finance charge on a loan; includes the interest rate, points, mortgage insurance, and fees.
Annual Percentage Yield: Annual rate of return paid out if held for the full year period.
Annual Return: Total gains for an investment; includes any interest or dividends and capital gains or losses calculated for a year period.
Annual Yield: The total amount of interest to be distributed based on the interest rate (coupon) and frequency of compounding for a yearly period.

Annualized Return: The average gain of an investment, measured over a specific period of time.
Annuitant: The individual on whose life an annuity contract calculates the payout
Annuitize: To decide to take an income stream from an annuity policy; to move from the accumulation phase (growth of assets) to distribution (payout) phase of the contract.
Annuity: An insurance contract that can provide an income stream and has distributions options for the annuitant or owner.
Any Occupation: A disability term that describes when an individual is diagnosed with a qualifying disability that causes them not to be able to work in any occupation which they are 'reasonably' trained.
Appraisal: A statement of property value provided by a qualified professional.
Appreciation: The gains that investments enjoy; an increase in asset value.
Asset: Any item that has value; Anything tangible or intangible that value can be attached to..." (61)
Asset Allocation: The proportion of asset classes in an investor's portfolio. For example: 60% equities, 40% Bonds and Cash.
Asset Class: Specific kind of investment, i.e. Cash, Bonds, Equities, etc.
Average: A mathematical calculation to determine the midpoint of a number of prices.
Back-end Load: A sales fee or commission that is levied when mutual fund shares or annuity contracts are redeemed before a pre-determined time.
Balance Sheet: A report identifying an entity's assets and liabilities for a specific time period.
Bankruptcy: A legal announcement of inability to repay debts.
Basis: The cost of a security or asset.
Bear Market: A length of time when either equity stock prices or bond coupons decline.
Beneficiary: An individual or entity named to receive assets at the time of an owner's death.
Benefit Period: The duration of time that an individual receives benefits as described in an insurance policy.
Beta: A measure of a specific mutual fund's comparative volatility verses a specific market index. If the Beta is more than 1, then the fund is more volatile than the market.
Blackout Period: A time period when trading is frozen.

Blue-Chip-Stock: Common stock of U.S. companies with historical earnings growth and dependable profits.
Bond: An instrument to allow entities to raise capital. The bond is a pledge to return principal at maturity, as well as pay a specific coupon (interest) for a specific period of time. Bonds are issued by a variety of entities such as cities, corporation, and the Federal Government.
Bond Equivalent Yield: The taxable yield an investor should achieve when compared to a tax-free bond.
Borrower: One who receives money and in return is obligated to repay the debt over a specific time period at a stated rate; the borrower’s name is acknowledged on the promissory note and mortgage contract.
Break Points: An aggregate dollar amount an investor invests with one Mutual Fund Company to qualify the investor for reduced mutual fund fees.
Budget: A spending plan by category.
Bull Market: A length of time when stock price or bond coupons rise.
Business Cycle: A long-term pattern of stages of economic growth and decline; the four phases are: expansion, peak, reaction and trough.
Buy-sell Agreement: A contract to purchase a business owner’s interest in a business at a preset price or formula.
Call Date/Provision: The ability of an issuer to repay fixed-income product at an earlier time than the stated maturity; a date on which the issuer of a bond or fixed-income instrument may redeem the instrument at par; similar to an early maturity date.
Call Option: A contract that provides an investor with a ‘right’ to buy a stock, bond, commodity, or other investment instrument at a pre-determined price within a predetermined and specified time period. The investor-buyer is not obligated to ‘exercise’ that right and can let the option expire. This is the opposite of a put option (which provides the contract holder of the option contract the ‘right’ to sell shares.)
Call Risk: More likely to occur in a falling-interest rate environment, the potential for a bond to be called prior to maturity so the investor doesn’t receive the bond’s current income.
Capacity: A calculation of an individual’s ability to repay a loan, given their income stream.
Capital: Money or goods on hand for use in achieving appreciation and growth.
Capital Appreciation: An increase in the investment’s market price.
Capital Gain: Realized net gain achieved when an investment is sold for a higher price than the purchase price.
Capital Loss: Realized net loss achieved when an investment is sold for a lower price.

Capital Risk: Unrelated to the financial issues, the investor has a possibility to lose the invested principal.
Cash Advance: Use of a bank teller, automated tell machine, or instant loan from a credit card to access a cash withdrawal.
Cash Dividend: A portion of a corporation's current earning or profits paid to stockholders.
Cash Flow: Money in and out.
Cash Surrender Value: The amount of money that an owner can withdraw from an insurance policy at the surrender of the policy.
Certificate of Deposit: An interest-bearing account deposit that offers the investor a specific rate of return for the deposit, if left in the account until the maturity date.
Certified Public Accountant: (CPA) A trained person who assists in tax matters.
Closing: A meeting to complete a real estate transaction.
Collateral: Assets that are pledged for a guarantee of a loan.
Commission: A third party fee assessed for a business transaction.
Compound Interest: Money paid on both principal and interest according to a stated schedule.
Consumer Price Index (CPI): Measures the change of consumer goods and services.
Contract: A signed legal agreement to document a transaction between two parties.
Contingent Beneficiary: The person(s), or entity (i.e. trust), to whom proceeds are paid if the primary beneficiary has died.
Conversion Price: A convertible security's par value when exchange for one share of common stock.
Convey: Transfer of title of property from one party to another.
Corporate Bond: A private or public debt obligation.
Corporation: A type of business organization whereas the total worth of the corporation is divided into shares of stock; each share represents a unit of ownership.
Correlation: When two assets' performance move in the same direction in the market.
Correlation Risk: Risk that the correlation between two investment products does not equal the anticipated performance by the fund management.
Cost Basis: The price paid by an investor for an investment.

Cost of Living Rider: To offset the effects of inflation, this rider offers annual benefit increases; often tied to the Consumer Price Index.
Coupon: Percent interest rate the debt issuer pays investor for an explicit time period; paid on a specific pre- determined schedule to investor.
Credit: Right to use resources in return for a 'promise to pay.'
Credit Report: Confidential report documenting a consumer's credit use history: payment history, total debt, length of credit history, credit requests, and types of credit in use.
Credit Risk: Risk that the issuer of an investment product, or a participant in an investment transaction, will not honor the terms of the transaction, or fails to meet commitments to the investor or to the fund. For example, Credit Risk occurs when the company with which you may hold a bond cannot make interest or principal payments, causing you to lose interest payments.
Currency Risk: When the exchange rate of the U.S. currency adversely affects the value or an investment product.
CUSIP Number: The nine-digit number assigned by the Committee on Uniform Security Identification Procedures that identifies stocks and registered bonds.
Custodian: An entity chosen a fiduciary to manage another's assets.
Cyclical Industry: An analyst term for an industry that is responsive to the business cycle.
Debenture: Debt obligation backed by the issuer.
Debit: A charge against assets.
Debit Card: A card that directly draws funds from a bank deposit account.
Debt Security: A security identifying an investor's loan to an issuer.
Debt-to-income Ratio: A calculation of a person's outstanding debt obligations to income.
Debt-to-security Ratio: Long term debt divided by equity.
Declaration Date: The date that an announced dividend amount, pay date, and record date is announced.
Deduction: A reduction taken against income to reduce taxes.
Deed: A written document that is recorded at the courthouse; the document records the transfer of property from one party to another.
Default: The failure to pay interest or principal when due.
Defensive Industry: An analyst's description for an industry that is impervious to business cycles.

Deferred Compensation Plan: A retirement plan funded with before-tax or Roth after-tax money; expected to be withdrawn after age 59 1/2; money set aside for individual's retirement, for non-working years.
Defined Benefit Plan: A retirement plan funded with before-tax contributions that identifies payouts to the employee at retirement.
Defined Contribution Plan: A retirement plan funded with before-tax or Roth after-tax money, expected to be withdrawn after age59 ½; money set aside for an individual's retirement, or non-working, years.
Deflation: A steady and quantifiable fall in the general level of prices.
Delinquent: An account that is past due.
Depreciation: A calculation of diminishing value for tangible assets relative to the assets' income contribution or value. A reduction of taxes calculated by deducting certain businesses expenses from income.
Depression: A time of falling economic weakening.
Dilution: When additional shares of common stock and conversion of convertible securities are issued, there is a reduction in earnings per share.
Direct Deposit: Funds are sent directly to an account per a previously signed agreement.
Disability: An injury or illness that prohibits an individual from earning an income.
Disclosure: Information is provided to parties of a transaction, as required by law.
Discount: The variance between the lower price paid for a security, and the security's face value at issue.
Discount Points: Additional fees assessed up-front to enable a borrower to reduce the interest rate of a principal loan.
Discount Rate: The 12 Federal Reserve Banks set this interest rate for short-term loans made to member banks.
Dispute: The credit card holder calls or writes to advise the credit card issuer of a charge believed to be incorrect. The credit card issuer must respond within 30 days. The credit card holder is not required to pay for the disputed charge during investigation.
Diversification: A risk management practice to reduce the overall impact of any one investment vehicle within a portfolio; to lessen risk by acquiring non-correlated investments in a portfolio.
Dividend: The distribution of either stock earning (cash or stock) or mutual fund's net investment income (cash, typically reinvested in fund) paid to shareholders.

Dollar Cost Averaging: Investing a pre-set amount of money in mutual funds or stocks on a pre-determined schedule.
Donor: A person or entity that makes a gift of securities or money to another; the donor gives up all rights to the gift upon transfer.
Dow Jones Composite Average® (DJCA): A widely utilized market indicator; an index of 65 stocks from the Dow Jones Industrial®, Dow Jones Transportation®, and Dow Jones Utilities® Averages.
Dow Jones Industrial Average® (DJIA): A widely utilized market indicator; an index of 30 industrial U.S. companies.
Dow Jones Utilities Average® (DJUS): A widely utilized market indicator; an index of 15 utility U.S. companies.
Due Diligence: A term utilized to describe a thorough examination of reported information for verification.
Durable Power of Attorney: A legal document granting authority to an entity or individual, on another's behalf.
Earned Income: Money resulting from working; includes wages, salaries, tips, commissions and bonuses.
Earnest Money: Money provided to 'bind' a real estate contract.
Earnings Per Share: Divide the company profit for specific period of time by the number of outstanding shares of common stock.
Education IRA: An account that allows contributions of a stated amount per year, per child, to fund qualified higher-education expenses tax-free (including gains).
Effective Tax Rate: Add together both federal and state taxes and divide by gross income to determine percentage.
Efficient Market Theory: A theory presenting that information is processed by the stock market and is immediately reflected in the 'fair price' of stock.
Elimination Period: The time period an individual 'waits' before they receive benefits.
Emerging Markets: Newly developing markets in nations without mature stock markets.
Employee Retirement Income Security Act of 1974 (ERISA): Law that oversees corporate pensions and benefit plans; plans meeting ERISA standards qualify for beneficial tax treatment.
Endowment: Insurance that pays the face value either at a pre-determined date or age; or at the insured's death.

Equity/Equity Security: Common and preferred stockholders' ownership shares in a company; or the value an owner has established in real estate – the value minus the debt owed.

Escrow: A deposit made by a buyer to be held in a third-party account and is delivered upon completion of a provision of a contract.

Evidence of Insurability: Individuals who apply for insurance must supply documentation to satisfy requirements for medical, occupational, and financial insurability.

Ex-Dividend: When a stock is purchased 'ex-dividend' the seller keeps the scheduled dividend (not paid yet) because the buyer will not own the stock on the 'record date.'

Exercise (an Option): The Stock Option has a specific price at which the owner/holder of the option may purchase the stock. The owner exercises the Option, thereby purchasing the stock at the pre-determined Option price.

Expense: The charge for a good or service.

Expense Ratio: Operating expenses of a fund is divided by the net assets in the fund.

Expiration Date: Expiration of the Option. This is the date on which the holder forfeits the rights to exercise the Option.

Face Amount: The death benefit of an in-force life insurance policy.

Fair Market Value: Without duress, an agreed-upon price by both the seller and buyer of real property to transfer property from one party to another.

Federal Deposit Insurance Corporation (FDIC): Government agency that insures deposits for member banks to prevent bank and thrift collapses.

Federal National Mortgage Association (FNMA): A public corporation that buys conventional and government agency mortgages.

Federal Reserve Board (FRB): A Presidential appointed, and Congress ratified, seven-member board that is responsible for the operation of the Federal Reserve System.

Fiduciary: A legally named person who manages assets for another's benefit; one who acts on another's behalf. Finance Charge: Charges to be paid as a result of extending a loan.

Fiscal Policy: Set by the United States President or Congress, the policies affect government spending, interest rates, and tax rates; ultimately to manage the U.S. economy.

Fixed Asset: Physical property, i.e., computers, buildings, land.

Fixed Rate: An unchanging annual percentage rate. Coupon (or interest rate) fixed to maturity.

Flat Yield Curve: An illustration depicting short-maturity bond yields are equal to long-maturity bond yields.
Flow-through: Business income, deductions and credits are reflected directly on an individual business owner's personal tax return.
Floating Rate: Coupon (or interest rate) is adjusted to another financial instrument; changes over time.
Foreclosure: The lender takes possession of the mortgaged property.
Foreign Exchange Rate: The value of one country's currency in relationship to another country's currency.
Fractional Share: Less than a whole share.
Fraud: Intentional deception of a material fact.
Front-end Load: An up-front sales fee or commission that is levied when mutual fund shares or annuity contracts are purchased.
Funds (Mutual Funds): general guidelines:

- Global: +/- 25% of portfolio holds securities traded outside the U.S.
- Global Income: Debt securities with exposure in countries outside the U.S.
- Growth: Objective of the fund is appreciation. Growth funds typically invest in companies with longer-term earnings that demonstrate potential to appreciate faster than the appropriate index.
- High Yield: Objective is high yields from fixed income investments. No quality or maturity restrictions; invests in lower grade debt issues.
- Income: Objective of the fund is current income through income generating stocks, bonds, and money market holdings.
- Intermediate U.S. Bond: +/- 65% of assets are in U.S. government or government agency debt instruments with dollar-weighted average maturities of 5 to 10 years.
- Intermediate U.S. Treasury Bond: +/- 65% of assets are in U.S. Treasury bills/notes debt instruments with dollar-weighted average maturities of 5 to 10 years.
- International: Most securities held in fund are non-U.S. companies.
- Value: Objective of the fund is to hold companies that are considered 'undervalued' verses the index.

Fundamental Analysis: Analysts investigate a company's financial strength, overall economy and industry conditions to assess a specific stock's value.
Futures and Options: Exchange-traded contracts that require either the seller to deliver, or the buyer to receive certain assets at a specific, pre-stated time:

- Futures have 'leverage' and 'correlation risk;' and potential also to have currency and political risk.
- Options may involve currency and political risk.

Gain: Sale price of the investment minus the investment cost which equals a surplus.
General Partnership: Whereby each partner is liable for the total partnership's liability; does not require legal formation.
Good Faith Estimate: A itemization of expected costs of a mortgage transaction provided to a borrower prior to closing.
Government National Mortgage Association (GNMA): A government-owned corporation that issues pass- through mortgages.
Grace Period: The number of days stated in the policies which notes how many days after the payment due date that the individual has until coverage lapses or the contract terms are voided. Typically, the individual can remit payment without penalty during this timeframe.
Gross Domestic Product (GDP): The production of goods and services for one year; includes: consumption, government, purchases, investments and exports, minus imports.
Gross Income: All sources of taxpayer income.
Growth Stock: Company whose earnings are growing faster than the industry average.
Guardian: A fiduciary responsible for the supervision of assets for the benefit of a minor or an incompetent person.
Hazard Insurance: Insurance purchased to reimburse the insured in case of loss or damage.
Homeowners Insurance Policy: A contract protecting a private dwelling and the contents against loss and damage.
Household income: Money attained from all household sources such as: salary, bonuses, commissions, alimony, child support, Social Security, wages, retirement benefits, disability, compensation, investment product income (dividends and interest), and unemployment benefits.
HUD-1: A standardized form to note all transaction costs at closing.
Income: Interest or dividends paid to an investor.
Index: Performance of a number of similar investment vehicles with similar objectives is calculated for a particular period of time.
Individual Retirement Account (IRA): Individual Retirement Account is an account that holds pre-taxed contributions; gains are tax-deferred and the individual pays taxes (current tax law) at an ordinary income tax rate upon distribution. Certain eligibility, contribution limits, and withdrawal rules apply. (Non-Roth)
Inflation: The measurable increase in the level of goods, usually calculated on an annual basis.

Initial Public Offering (IPO): First offer of sale of company stock; not previously offered.
Insurance: A protection contract against the loss of assets, life, health, and disability.
Insured: The individual on whose life is insured by a life insurance policy.
Intangible Asset: A non-physical property, such as copyright, goodwill.
Interest: Money paid by the borrower for use of loaned money.
Interest Rate Risk: The potential loss of a security's value due to the change in interest rates.
Inverted Yield Curve: An illustration depicting lower yields for longer-term bond maturities, compared to the higher yields of shorter-term bond maturities.
Investing: Placing money aside for the purpose of growing it to meet longer-term financial goals.
Investment Grade: Based on Moody's® BAA3 or higher; S&P BBB- or higher ratings; credit quality ratings given for bonds.
Irrevocable Trust: A Trust that may not be revoked or removed.
Issuer: The entity, i.e. corporation, company, government, agency that issues the security or bond.
Joint Account: The ownership of assets by two or more individuals. There are various kinds of joint account arrangements:

1 Joint Tenants with Rights of Survivorship (JTWOS): Upon the death of one of the account owners, the assets pass to the other account owners.

2 Tenants in Common (TIC): The assets are held in 'shares'/separate interest for each of the account owners; at death the shares pass to the heirs of the owners.

3 Community Property (COMM): Assets acquired after marriage are considered joint property.

Joint Life with Last Survivor: A payout option that concerns more than one person; the benefit does not payout until the last person on the contract dies.
Joint Life Policy: A payout option that concerns more than one person; the benefit pays out at the death of the first person, and then the policy terminates.
Keogh Plan: A tax-deferred retirement plan for self-employed and unincorporated individuals funded with either pre-tax or after-tax dollars.
Key-Employee (Person) Insurance: Insurance for a person who is important to the well-being of a company.
Lagging Indicator: An economic market marker that confirms a market trend after the economy has demonstrated a change.

Lapsed policy: A terminated period (at the end of the grace period) due to non-payment.
Leading Indicator: An economic market marker that predicts a market trend prior to the economy demonstrating a change.
Legal Description: A narrative depiction of property utilized for legal purposes.
Legislative Risk: The possibility that changes in investment or tax laws can negatively affect an investor's investment value.
Level Premium: A premium that does not change for a stated period of time.
Leverage: A method of increasing investment return by using borrowed capital.
Liability: A debt or financial obligation.
Lien: A legal claim to property to recover payment of a loan.
Life Insurance: A contract that pays benefits to a beneficiary upon the loss of the insured's life.
Limited Liability: Limiting the amount of financial loss to the sum invested.
Line of Credit: An established loan amount available as ready money.
Liquid Assets: Assets that are quickly converted to cash.
Liquidate: To exchange an asset into cash.
Liquidity Risk: When a specific investment product cannot be sold at a time when it would be beneficial to do so. The possibility that when an investor wants to sell an investment, he or she may not be able to; real estate property is an example of liquidity risk.
Load: The front- or back-end sales charge assessed for a mutual fund. 'No-load' funds do not charge a front- or back-end fee.
Long-term Gain: The realized gain after holding a capital investment for at least 12 months.
Long-term Loss: The realized loss after holding a capital investment for at least 12 months.
Loss Carry-over: A realized loss that is carried over for use to reduce tax liability from one year to the next.
Lump Sum: A one-time payout of the total proceeds or benefits.
Market Risk: The possibility of investment loss due to everyday market volatility.
Market Value: The price at which an investor pays or sells an investment.

Maturity: When a fixed investment's guarantee period ends, and the principal is returned.
Medicare: Managed by the Social Security Administration, a program to cover specific health-care expenses for U.S. citizens who are ages 65 or older.
Money Market: A short-term security that is generally liquid.
Moody's® Investors Service: Credit quality of issuers is rated by this organization.
Mortgage: To borrow from a lender and give partial interest in a property as collateral for the payment of the obligation.
Mortgage Insurance: Insurance to protect the mortgage lender against loss due to default.
Municipal Bond: States, cities, countries and various government agencies raise money by offering municipal bonds to finance public projects.
Mutual Fund: A professionally managed basket of stocks, bonds, and/or cash investments; managed to a pre- determined fund objective.
NASDAQ® Composite: The National Association of Securities Dealers Automated Quotations® (NASDAQ®) system that embodies the largest domestic, over the counter, electronic screen-based equities trading market.
Negotiability: The ability of an owner to assign, give, transfer or sell a security to another person.
Net: The gross amount, minus fees and charges.
Net Asset Value (NAV): The assets of an open-ended fund, minus the liabilities, divided by the number of outstanding shares.
Net Investment Income: The difference between a company's operating expenses and the total realized dividends and interest.
Net Worth: What an individual owns, minus what is owed.
New Issue: Initial public offering or re-financing of existing corporation; the Securities and Exchange rules and regulations oversee all new issues.
New York Stock Exchange®: A Board of Directors of the exchange corporation sets policy, oversees the operation of the Exchange and member activities, lists securities, and conducts all necessary tasks in operating the exchange.
No-load Fund: No commission or sales charge is received when a mutual fund is purchased.
Nominal Yield: The interest rate paid on a debt instrument; bond yield.

Non-investment Grade Securities: Debt securities generally known as “junk bonds,” rated below investment grade.
Non-Qualified Retirement Plan: Contributions into the plan are not tax-deductible; the plan does not meet the ERISA guidelines.
Non-recourse Financing: A pledge for a loan that utilizes the purchased asset to secure the loan but does not hold the borrower personally liable.
Non-taxable Income: Money that is not taxed by one or more agencies: the federal, state, or local government.
Normal Yield Curve: An illustration depicting the maturity of longer-term debt instruments producing higher yields than shorter-term debt instruments.
Note: Short-term debt investment that typically has a 5 year or less maturity date.
Odd Lot: Generally, less than a unit of 100 shares of stock.
Open-end Investment Company: Same as Mutual Fund.
Operating Expenses: Costs sustained in running a business.
Operating Income: An annual profit for a business.
Opportunity Cost: The gain that is forfeited by selecting an investment product that does not perform as well as another product choice.
Option: A contract to purchase or sell a specific number of shares of stock at a pre-set price on/before a particular date.
Ordinary Income: Revenue that is from other than capital gains.
Origination Fee: Payment for the processing of the application and coordination of a loan.
Overdraft: Funds are not available to cover a submitted check.
Own Occupation: A disability insurance term stating that an insured will receive benefits if they become disabled and cannot work in the in their trained occupation.
Paid-up Policy: A life insurance policy that is in effect and does not require any additional premium payments to keep it in force.
Par: The dollar amount designated when the investment is issued, for a bond, also the value assigned at maturity.
Partnership: A type of business where all owners are liable for expenses and debt.

Partial Disability: When an insured cannot carry out all of his/her own occupation responsibilities.
Passive Income: Revenue realized from non-active business participation, like rental property.
Passive Loss: Losses realized from non-active business participation, like rental property.
Past Due: When payment has not been received within the stated billing period.
Pension: A retirement benefit paid at regular intervals to a retiree.
Periodic Rate: A description of an interest rate in relation to a specific stated time period.
Per Stirpes: If a named beneficiary is deceased, the proceeds pass down to their heirs.
Political Risk: Risk of investment losses due to government or legal events.
Posting Date: The recorded date on the credit card or (any) statement that identifies a purchase, fee, cash advance, or charge.
Power of Attorney: A document assigning legal rights to a fiduciary to act on another's behalf.
P/E Ratio – Price Earnings Ratio: Divide the current stock price by dollar earnings.
Preferred Stock: Ownership in a corporation; issued with a stated dividend that is paid prior to dividend payment to common stockholders; general characteristics are: offered in increments of $ 25, $50, $100, and $1000 par values, pay quarterly dividends, trade on the exchanges (i.e. New York Stock Exchange® and others), and typically are callable.
Premium: Payments for insurance contracts (annuity, life insurance, disability, etc.); the variance between a higher price paid for a security and the face value of the security at issue.
Price-to-Earnings Ratio: (P/E) The current stock price divided by the stock earnings. If a high P/E is calculated (over 20) then the stock is predicted to have growth potential.
Primary Beneficiary: The first named beneficiary to receive proceeds.
Prime Rate: The interest rate the banks offer their best corporate customers.
Principal: The money that is initially invested; a beginning amount to buy an investment.
Principal Transaction: A broker-dealer buys or sells securities from its own inventory.
Proceeds: The money paid to beneficiaries from an insurance policy at the death of the insured.
Profit: The difference between revenue and expense which nets a positive result.
Profitability: The generation of income and gain that exceeds expenses.

Profit-sharing Plan: A retirement plan where the employer shares a portion of the company profits with the employees.
Progressive Tax: A tax that increases as income increases.
Prospectus: Documentation that presents all relative financial and legal information for an investment (for a stock, bond, mutual fund, etc.).
Proxy: A stockholder authorizes another person to vote on stockholder issues on a specific issue; a limited power of attorney.
Public Offering: When an issue of common stock is offered; new shares or additional company shares.
Purchasing Power Risk: The possibility that inflation will erode the value of money and investments.
Put Option: A contract that gives the owner of the underlying investment position the ‘right’ to sell a pre- determined amount of the underlying security at a pre-determined price within a named time period. The owner of the contract is not obligated to sell the contract, the investor can simply let the contract expire. This is the opposite of a call option (which provides the holder of the option contract the ‘right’ to buy shares.)
Qualified Retirement Plan: A retirement plan that allows a) employees to make pre-tax salary deferrals, and b) employers to contribute to employee accounts also on a pre-tax basis. (Non-Roth)
Rate of Return: Expressed as a percentage, the return earned on an investment or deposit.
Rating: An assignment given to a corporate or municipal bond based on the issuer’s capacity to repay principal and make interest payments.
Real Estate Investment Trust (REIT): A trust or corporation that collects investor capital to purchase income property or mortgage loans.
Realized Gains/Losses: The amount the investor has after the sale of an asset; the sale value minus the initial purchase price; either an increase or decrease in value verses the cost basis of the asset.
Rebalancing: Reallocation of assets to bring in line with pre-stated allocation.
Receipt: Documentation of payment.
Recession: An economic turn down continuing from 6 to 18 months.
Record Date: The date that a corporation’s Board of Directors determine that identifies which stockholders are entitled to receive dividends or rights distributions.
Redemption: The return of principal to the investor.
Refinancing: To pay off an existing loan and enter into a new debt contract.

Repossession: Collateral is seized by lender when a borrower falls significantly behind in reimbursement payments.
Retained Earnings: An accounting of a corporation's net income, after the payment of dividends to stockholders.
Return: A calculation of the increase, gain minus cost, of a portfolio's performance; to include capital appreciation, yield and dividends.
Return on Investment (ROI): The gain or loss from a sale of an investment; expressed as a percentage.
Reverse Split: A decrease in the total number of outstanding shares; increases the per-share price.
Rider: To add something to a policy for a cost.
Risk: Possibility for an investor to lose invested assets due to conditions other than an issuer's financial strength.
Risk Tolerance: An assessment of an investor's attitude towards risk and return.
Rollover: Moving money within a 60-day period from a qualified (pre-tax) account to another qualified plan to maintain the tax-deferred status of the assets.
Roth IRA: A non-deductible retirement account available to individual within certain income levels; gains are tax-free; no required withdrawals at age 72.
Revocable Trust: A trust that provides for amendment options.
Sales Charge: A load or sales commission charged when a Mutual Fund is bought or sold.
Savings: Placing money aside for short-term goals or emergencies.
Savings Bond: A government issued debt security; not negotiable or transferable.
Savings Incentive Matching Plan for Employees (SIMPLE): A qualified, or pre-tax, retirement account that provides small businesses an opportunity to offer a generally low-cost, simple way for employees to defer part of their salary until retirement. Like an IRA, gains are tax-deferred until withdrawal; if a withdrawal is made before the owner is 59 ½ years old, the IRS levies a 10% tax penalty. Taxes are paid at withdrawal. (Certain other rules apply to setting up the plan and for contribution limits, rollovers, withdrawals, etc.)
Second Mortgage: A loan obtained on a property that has an existing loan; the added loan is subordinate to the first loan.
Secondary Market: Various investment vehicles are offered for sale and re-purchase on the secondary market; vehicles bought and sold on the secondary market are not primary offerings.

Sector: Securities are grouped by same economic segments, such as; Health Care, Natural Resources, Technology, etc.
Securities and Exchange Commission (SEC): Congress established this commission to oversee the securities markets and to safeguard investors.
Security: Investment vehicle deployed by a government, corporation, or any entity that tenders equity or debt vehicles.
Sell: To transfer ownership of an investment or asset for money or value.
Settlement: The repayment of a debt in full.
Share: A unit representing a part ownership of a company.
Share: A division of capital stock of a corporation or company into equal parts.
Short-term Capital Gain: The net profit from the sale of an asset that has been owned for 12 months or less.
Short-term Capital Loss: The net loss from the sale of an asset that has been owned for 12 months or less.
Simple Interest: Rate credited on the principal amount only.
Simplified Employee Pension Plan (SEP): A type of qualified retirement account where the employer ONLY contributes to a retirement account for the employee. (Certain other rules apply to setting up the plan and for contribution limits, etc.)
Size and Style: Securities are grouped by like size and style, such as; Large-cap Growth, Mid-cap Value, Small-cap Growth, etc.
Social Security: FICA deductions fund this federal government program that provides funds for retirement, disability, or loss of income to qualifying U.S. individuals at age 62 or beyond.
Sole Proprietorship: A simple business structure for a one-person business.
Split-Dollar Life Insurance: A contract where two beneficiaries share the responsibility of premium payments on a single policy. However, one beneficiary receives the net death benefit (death benefit less cash value) and the second beneficiary receives the cash value of the policy.
Spousal IRA: A retirement account set up for a non-working spouse by the working spouse who is eligible themselves for an IRA.
Standard and Poor’s Composite Index® of 500 Stocks (S&P 500®): A basket of 500 funds that are tracked as an equity market index.
Standard Deviation: A measure of the investment’s historical volatility; a measure of the divergence of returns from their average.

Stock: Part ownership of a company; an entitlement on the company's assets and profits.
Stock Bonus Plan: Company bonuses are awarded to employees in shares of stock.
Stock Certificate: Written proof of ownership of shares in a corporation.
Stock Split: Proportionate holdings of the stockholder remains the same, however the number of outstanding shares increases.
Supply: Availability of goods and services for purchase by consumers.
Supply-side Economics: A theory that advocates stimulation of an economy can be initiated by an increased supply of goods to consumers.
Surrender Charge: A penalty cost imposed to withdraw funds before the termination of the surrender charge period.
Symbol: Letters assigned to identify a security.
Tax Credit: A dollar for dollar reduction in taxes derived from IRS approved programs.
Tax Deduction: Certain expense that reduce a taxpayer's gross income; affects (lowers) the amount of income upon which taxes must be paid.
Taxable Income: Money attained from all household sources: salary, bonuses, commissions, alimony, child support, Social Security, wages, retirement benefits, disability compensation, investment product income (dividends and interest), and unemployment benefits that will be taxed by either the federal, state, or local government.
Tax-Deferred: Gains are not taxed until they are distributed.
Tax-Equivalent Yield: A comparison of the rate of return that a taxable bond must provide to be equivalent to the tax-exempt earnings on a municipal bond; rates change depending on individual investor's tax bracket.
Tax-Exempt Fund: The primary purpose is to generate tax-free income.
Tax-Sheltered Annuity (TSA): A retirement plan for non-profit organizations that is similar in structure to a for-profit company 401k; individuals may make salary deferral elections to their qualified (pre-tax) retirement account; gains are tax-deferred until withdrawals are made; withdrawals are taxed at ordinary income rates; premature withdrawals are penalized with an additional IRS 10% tax. (Other rules may apply.)
Term: The stated period of time that is identified in a contract to complete a transaction or service.
Term Insurance: A type of insurance policy that is in-force for a specific term; typically, 10, 20 or 30 years; no cash value is accrued.

Time Value of Money: The purchasing power of money, compared at different intervals, considering the effects of inflation.
Title: A legal document denoting ownership.
Trade Date: The date when a security transaction is completed.
Transaction Fee: A charge assessed for service or administration of a credit or investment account.
Treasury Bill: A U.S. Treasury debt obligation with a maturity of less than one year.
Treasury Bond: U.S. Treasury debt obligations with a maturity of less than thirty years.
Treasury Note: U.S. Treasury debt obligations with a maturity between one and ten years.
Trust: A legal contract to describe the distribution of property according to the directions given by the grantor/ owner.
Trustee: A legal appointment to perform on behalf of a beneficiary.
Truth-in-lending Statement: A standardized format for the full disclosure of credit terms.
12b-1 Fee: The fee that a mutual fund company may assess for sale, promotion, or expenses incurred for distribution of its shares.
Underwriting Process: For the purpose of determining the applicant's eligibility: Review of the application, documentation, property, or other records, prior to the issuance of a contract or loan.
Unearned Income: Income realized from sources other than employment services.
Uniform Gifts to Minors Act (UGMA): A custodial account that is held for a minor's benefit; income and capital gains are taxed at the minor's tax rate; the minor has legal right to the account.
Unit Cost: Cost of purchase price of an investment; includes commissions and fees.
Unit Investment Trust (UIT): A professionally managed portfolio of securities that offers shares by an investment company; organized under a trust agreement, not a corporate contract.
Unrealized Gains/Losses: The gain or loss of an investment recorded on a specific date for an investment that has NOT been sold yet.
U.S. Savings Bond: A U.S. Treasury fixed-income investment instrument that appreciates 100% of premium at maturity.

Variable Annuity: An insurance contract that guarantees a minimum total payout to the annuitant in the annuitization stage; principal and gains are held in insurance separate accounts and performance of these accounts determines the total payout, minus contract expenses; gains grow tax-deferred until they are withdrawn; IRS penalties incur for withdrawals prior to age 59 1/2; withdrawals on gains and pre-tax money are taxed at ordinary income rates. (Other factors/rules apply.)
Variable Rate: An interest rate that is not fixed, but changes over time.
Variable Universal Life Insurance Policy: An insurance contract that offers flexible terms and investment options. Death of the insured triggers a tax-free payout to the beneficiary; principal and gains are held in insurance separate accounts and performance of these accounts determines the cash surrender amount (minus the policy expenses).
Vesting: A schedule for a retirement plan that determines the length a time that an employee must be employed to take ownership of certain types of employer contributions; deferrals made by the employees into their own accounts are immediately vested.
Volatility: The standard deviation of the return of the investment; a measure of the variation in an investment's price.
Wash Sale: Buying a security within 30 days before or after selling a characteristically duplicate security for the purposes of generating a tax loss.
Working Capital: The liquid assets that a corporation has available to meet short-term cash needs.
Yield: Rate of return on an investment; rate of interest paid on a bond or note.
Yield Curve: A pictorial depiction of the fixed-income yields, relative to their maturity dates.
Yield to Call: Performance of a callable investment, measured from the time of purchase to the call date.
Yield to Maturity: Performance of an investment, measured from the time of purchase to the maturity date.
Zero Coupon Bond: A debt instrument that does not pay interest until maturity; at maturity both principal and total interest (compounded semi-annually) is paid.
Glossary terms have been acquired through a review of many sources, to include Dearborn® study manuals,
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