Grace Global Alliance

An Independent Association of Christian Churches & Ministers

Personal Financial Planning Overview Tax Year 2017

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The Need for Financial Planning

Building a successful financial plan can be confusing. As we construct a plan, we find that our financial lives have many scattered pieces.

The Pieces of the Puzzle

Some of the financial issues that each of us can expect to face during life include:

- **Cash management:** More than just balancing the checkbook, cash management includes preparing (and following) a budget, using credit wisely, and keeping the income tax burden to the lowest level possible.
- **Risk management:** There is risk of loss of both life and property. Life insurance can be used to protect a family against the risk of premature death. Disability insurance can protect against the loss of a person's ability to earn a living. Property and casualty insurance can protect our worldly goods against accident and such perils as fire, flood, earthquake and theft. Health insurance can help pay the cost of needed medical care.
- **Accumulation goals:** We all need to save money for some reason. Educating our children is one very common goal. Buying a home and building an investment portfolio are two other typical accumulation goals.
- **Retirement:** Taking action today to insure that the later years are as comfortable and worry-free as possible.
- **Estate planning:** Recognizing that death is inevitable and planning for the ultimate transfer of our assets to our heirs.

The Need for Financial Planning

A coordinated financial plan provides a framework for achieving financial security.

Steps to Achieving Financial Security

Solving financial problems in today’s world takes work. Two basic steps are involved:

- **Step 1:** Choose Your Financial Planning Team: In our complex, ever-changing world, expert help is needed. Trained specialists such as your attorney, CPA, IRS enrolled agent, life insurance professional, health insurance agent, securities broker, and financial planner are generally members of your team.
- **Step 2:** Develop Your Plan: With the help of your team, the second step can be taken: the development of a systematic, integrated plan for dealing with each of these issues. This is called developing a financial plan.

You can choose to ignore these problems until it is too late. Or, you can take steps to put the puzzle together and achieve your financial security. The most important step is the first one.

Cash Management Tools

There is a wide range of accounts available to a consumer to control his or her monthly cash flow. Such cash management tools are characterized by easy access to funds, as well as providing for safety of principal.[1] They are typically used for transaction purposes, or as a place to store readily available savings.

Transaction-Oriented Accounts

There are several different types of accounts that are used for transactions such as paying bills:

- **Demand deposits (checking accounts):** Demand deposits in banks and savings and loans are accounts which do not earn interest and which are payable to the owner on demand. Checks or electronic debit cards are used to transfer funds to a third party. Most financial institutions offering checking accounts are protected by federal deposit insurance on account balances up to $250,000.
- **Negotiable order of withdrawal (NOW):** NOW accounts are a type of interest bearing savings account against which checks can be written or electronic debits made. Credit unions offer a similar option in the form of a share-draft account. Most financial institutions offering NOW accounts are protected by federal deposit insurance on account balances up to $250,000.
- **Money market deposit accounts (MMDAs):** Like NOW accounts, MMDAs are a form of savings account against which checks can be written. Unlike NOW accounts, however, MMDAs are limited to six transactions per month. Transfers in excess of these limits can be subject to penalties. Minimum balance requirements for MMDA accounts tend to be larger than for NOW accounts, and MMDA accounts usually pay a slightly higher rate of interest. Most financial institutions offering MMDA accounts are protected by federal deposit insurance, on account balances up to $250,000.[2]

[1] Most checking and savings accounts in the U.S. are protected by either the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).

[2] Some mutual funds offer a money market account with a name similar to money market deposit account. These mutual funds are not protected by federal deposit insurance.

Savings Accounts

Savings accounts differ from transaction-oriented accounts in that access to funds in savings accounts may be restricted.

- **Statement savings accounts:** Statement savings accounts, formerly known as "passbook" savings accounts, usually accept small deposits, have no fixed maturity date and pay a relatively low interest rate. Banks and savings and loans that provide this type of account can require a 30-day notice before funds are withdrawn. In practice, however, most institutions do not require advance notice before allowing depositors to withdraw funds. Most financial institutions offering these accounts are protected by federal deposit insurance, on account balances up to $250,000.
- **Certificates of deposit (CDs):** CDs are bank or credit union liabilities which have a fixed maturity date and require certain minimums, for example, $10,000. Some institutions will issue a CD for as little as $500. Interest rates can be either fixed or variable. A substantial penalty[1] generally applies for withdrawals made before the maturity date. Most financial institutions offering these certificates are protected by federal deposit insurance, on account balances up to $250,000.
- **Jumbo CDs:** Jumbo CDs are similar to regular CDs in that they are obligations of the issuing financial institution, have a fixed maturity date, and earn a specified rate of interest. Technically, jumbo CDs are issued only in amounts of $100,000 or more. The interest rate can be either fixed or variable. Penalties apply if funds are withdrawn before the maturity date.[1] Most institutions offering these certificates are protected by federal deposit insurance, on account balances up to $250,000. Amounts in excess of $250,000 are not protected by federal deposit insurance.

Other Options

In addition to the traditional cash management tools available through banks, savings and loans, and credit unions, several other options are available.

[1] For certificates with a maturity of less than one year, the penalty is loss of three months' interest; for certificates longer than one year, the penalty is loss of six months' interest.

- **Money market mutual funds (MMMFs):** Money market mutual funds are a specialized type of mutual fund that invests in short term debt such as CDs, high-grade commercial paper, and U.S. Treasury securities. MMMFs are sold by prospectus[1] and usually have minimum balance and transaction limits. Such funds strive to maintain a constant share price of $1.00 per share. There is no guarantee that a fund will be able to maintain a constant share price, nor is there government insurance for such funds. MMMFs typically pay a slightly higher return than do federally insured accounts.

- **U.S. savings bonds:** U.S. savings bonds are both issued and redeemed by the federal government. As an asset class, they are considered to be very safe from default risk and thus earn a relatively low rate of interest. There are three types of savings bonds:

    - **Series EE bonds:** Series EE bonds are considered the "classic" form of U.S. government savings bond:

        - **Paper Series EE bonds:** Effective January 1, 2012, new Series EE bonds may only be purchased in electronic form. Prior to that date, paper EE bonds could be purchased over-the counter at banks and other financial institutions. Such paper EE bonds were sold at 50% of face value, in denominations ranging from $50 to $10,000. "Interest" on existing paper EE bonds is earned by a gradual increase in the value of the bonds.

        - **Electronic Series EE bonds:** Electronic Series EE bonds are purchased at face value, in exact amounts of $25 or more, via the U.S. government's TreasuryDirect website.

    - **Series I bonds:** Series I savings bond strive to provide some protection against inflation. They have a return composed of a (1) fixed-interest rate and (2) an inflation-adjusted rate.

[1] The prospectus contains valuable information concerning how an investment works, its goals and risks, and any charges or expenses involved. The prospectus is intended to provide an investor with the facts necessary to make an informed investment decision.

- **Paper Series I bonds:** Like paper Series EE bonds, effective January 1, 2012, new paper Series I bonds were no longer available over-the-counter at banks and other financial institutions. Up to $5,000 in paper Series I bonds per year may still be purchased via TreasuryDirect, but only if paid for with an IRS tax refund. Paper I bonds are issued at face value, in six denominations, $50, $100, $200, $500, $1,000, and $5,000.

- **Electronic Series I bonds:** Electronic Series I bonds are purchased at face value, in exact amounts of $25 or more, via the TreasuryDirect website.

- **Purchase limits:** Specific limits apply to the dollar amount of the various types of savings bonds that may be purchased by a single individual or entity in one calendar year. Savings bonds purchased as gifts are not included in these annual limits.
  - Electronic EE bonds: $10,000.
  - Paper I bonds: $5,000 (only with IRS tax refund).
  - Electronic I bonds: $10,000.

- **Series HH bonds:** Series HH bonds were issued at face value, in $500, $1,000, $5,000, and $10,000 denominations, and pay interest every six months. August 2004 was the last month that the U.S. Treasury issued new HH bonds. Before that date, investors could acquire HH bonds by exchanging matured EE/E bonds, or by reinvesting matured series HH/H bonds.

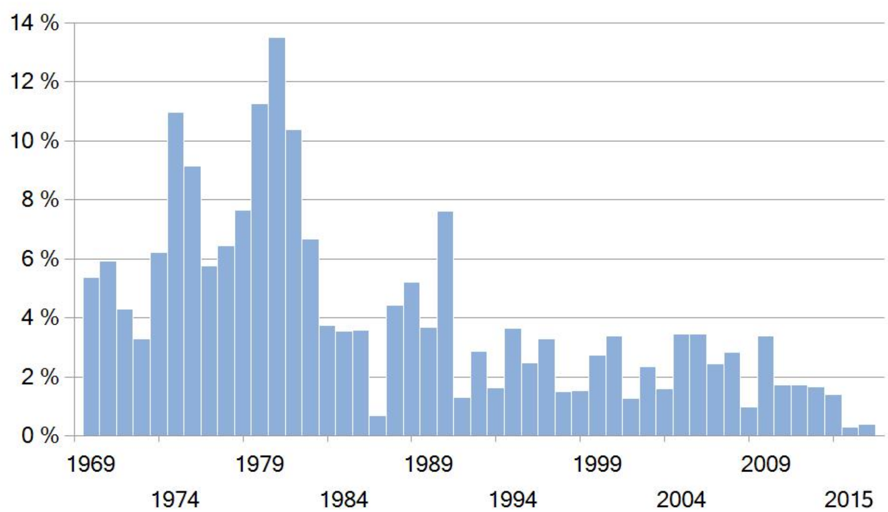
- **Asset management accounts:** Asset management accounts, available through banks, brokerages and insurance companies, combine a number of different financial tools in one package. Such accounts typically include a brokerage account, bank checking account, and a money market mutual fund. The linked accounts enable excess cash to be automatically swept into the money market fund. Other features such as a credit or debit card, or personal line of credit, may also be included. A consolidated monthly statement covers all accounts.

The various elements of an asset management account may or may not be protected by federal deposit insurance. For example, funds kept in a bank checking account are usually protected by federal deposit insurance. Dollar amounts kept in a money market fund, however, are not protected by government deposit insurance.

Inflation

Inflation is the annual increase in the price of goods and services as measured by the federal government. The graph[1] below illustrates the annual percentage change every other year since the base year of 1967. Over the last 47 years, the average annual inflation rate in the U.S. has been 4.22%.

Annual Inflation Rates



[1] Source: U.S. Bureau of Labor Statistics (CPI-W) (1967 - 2014).

Checking Your Credit Report

Reasons to Check Your Credit Report

Credit information - an individual's financial history - is an integral part of modern life. Most often used when a consumer applies for a loan, credit reports are also considered when an individual applies for life, auto, or home insurance, rents an apartment, or applies for a job.[1] Many financial advisors believe a consumer's credit report should be annually reviewed, to ensure all information is accurate and complete.

Information Found in a Credit Report

Credit-reporting agencies, commonly known as credit bureaus or consumer reporting agencies, collect information on individuals from a variety of sources. Much of the data comes from a credit bureau's business subscribers, such as banks and other lenders. Other information is obtained from public records. However, a credit report does not state whether or not an individual is a good or a poor lending risk. A credit bureau's subscribers evaluate the information in the report using their own criteria.

A typical credit report usually has the following information:

- **Personal data:** Identifying information such as name, Social Security number, birth date, current address and marital status.
- **Credit history:** Including a list of current and past creditors, credit terms and limits, and how well (or poorly) past debts have been repaid.
- **Inquiries:** A list of requests for credit reports on the individual concerned.
- **Public records:** Information such as bankruptcies or lawsuits.
- **Personal statement:** A limited statement where a consumer can explain his or her position in any dispute with a lender.

[1] Federal law prohibits an employer or prospective employer from checking credit records without written permission from the individual involved.

Free Annual Credit Report

Under federal law, a consumer is entitled to one free credit report every 12 months, from each of the three major credit bureaus: Equifax, Experian, and TransUnion. Under Consumer Financial Protection Bureau (CFPB) rules, these credit bureaus must provide a central access point[1], where a consumer may request a copy of his or her credit report, including:

- **A website:** www.annualcreditreport.com.
- **A toll-free telephone number:** (877) 322-8228.
- **A postal mailing address:** Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

Incorrect Negative Information - Correcting Errors

If a review of a credit report reveals incorrect or incomplete information, a consumer should contact the credit bureau in writing, comprehensively detailing the information deemed incorrect. Under the provisions of the Fair Credit-reporting Act, the credit bureau is required to investigate disputed items, usually within 30 days after receiving a written request.

As a part of the investigation, the credit bureau will contact the lender or other information provider. The law also requires the information provider to investigate the claim and report the results to the credit bureau. When the investigation is complete, the credit bureau must give consumers written reports of the results.

If the disputed data is found to be incorrect, resulting in a change in the credit report, the credit bureau will provide a free copy of the corrected report to the consumer. The information provider is also required to correct its own records and provide the corrected information to all national credit bureaus.

[1] Specialized bureaus (agencies that specialize in areas such as insurance claims, medical records, and tenant or employment histories) are required to maintain only a toll-free telephone number. A consumer may request one free report from these bureaus every 12 months.

The investigation of a disputed item may not result in a change in the credit report. A consumer can ask the credit bureau to include in his or her file a statement concerning the disputed information.

Correct Negative Information

If negative information in your credit report is correct, generally only the passage of time will remove it from the report. Many items, such as charged-off or collected accounts, delinquencies, and child support judgments, remain in the report for seven years. Other types of information can be retained in the report for longer periods, including:

- **Criminal convictions:** These may be reported without any time limit.
- **Bankruptcy:** Under Chapters 7, 11, or 12, bankruptcies can be reported for up to 10 years. Under Chapter 13, they remain in the record for seven years.
- **Job application:** Information reported in conjunction with an application for a position with an annual salary of $75,000 or more may be reported with no time limit.
- **Life insurance:** Information reported in conjunction with an application for credit or life insurance in excess of $150,000 may be reported with no time limit.
- **Lawsuit or unpaid judgment:** These can remain on the report for seven years, or until the statute of limitations expires.
- **Tax liens:** Unpaid liens for federal, state and local taxes can remain in the record for 15 years, while paid liens remain seven years.

Other Useful Resources

- **Consumer Financial Protection Bureau:** http://www.consumerfinance.gov/

The Personal Budget

The basic purpose of a personal budget is to plan how an individual's money will be spent. Given limited financial resources, a budget is a method of managing personal cash flow, to meet current needs and save for the future.

Reasons to Prepare a Personal Budget

- **A planning tool:** Correctly used, a personal budget can insure that income and expenditures match, both in amount and timing. It can both spotlight potential cash-flow problems, and identify opportunities to make better use of current income.
- **A yardstick to measure progress:** By comparing the planned budget against actual results, an individual can see if progress is being made toward meeting specific goals. This measuring process will often highlight areas where changes should be made.

Preparing a Personal Budget

- **Past income and expenditures:** This initial step entails recording information on past cash flow, both income and spending. Ideally, a year's worth of data should be gathered, to even out the effect of seasonal variations. Paycheck stubs, check registers, cancelled checks, copies of paid bills and recent income tax returns are excellent sources of this information. An individual may also want to keep a daily spending diary for a short period of time.
- **Set goals:** Clear goals should be set, with both specific dollar amounts and a realistic time frame for accomplishing each goal. A goal can be as simple and immediate as making ends meet each month, or as complex and long term as planning for retirement.
- **Maintain records:** Perhaps the most difficult part of the budgeting process is consistently keeping adequate monthly records of income and expenditures.
- **Periodic review:** A periodic review, comparing the planned budget with actual results, provides a means of measuring progress toward an individual's goals. The review will usually indicate if changes should be made, either in income, expenditures or both.

National Spending Patterns

How does your spending compare with these broad national budget averages?[1]

	National Spending
Food	12.6%
Clothing and Services	3.3%
Housing	33.4%
Personal	19.1%
Medical	8.0%
Transportation	17.0%
Other	6.6%
Totals	100%

[1] Source: Bureau of Labor Statistics, Consumer Expenditures 2013 September 9, 2014.

The Personal Budget Worksheet

Name: ____

Period covered - From: ________________________ To: ______________________

Item	Historical	Current Budget	Current Actual	Difference
Debt, savings and investment				
Credit and charge cards	$____________	$____________	$____________	$____________
Other installment loans	$____________	$____________	$____________	$____________
Education fund	$____________	$____________	$____________	$____________
Retirement	$____________	$____________	$____________	$____________
Other savings goals	$____________	$____________	$____________	$____________
Other	$____________	$____________	$____________	$____________
Total debt, savings, etc.:	**$____________**	**$____________**	**$____________**	**$____________**
Food				
Home consumption	$____________	$____________	$____________	$____________
Outside the home	$____________	$____________	$____________	$____________
Total food:	**$____________**	**$____________**	**$____________**	**$____________**
Clothing				
Clothing and shoes	$____________	$____________	$____________	$____________
Cleaning, laundry	$____________	$____________	$____________	$____________
Jewelry, watches, etc.	$____________	$____________	$____________	$____________
Total clothing:	**$____________**	**$____________**	**$____________**	**$____________**
Housing				
Rent or mortgage	$____________	$____________	$____________	$____________
Real estate taxes	$____________	$____________	$____________	$____________
Insurance	$____________	$____________	$____________	$____________
Furniture and furnishings	$____________	$____________	$____________	$____________
Appliances	$____________	$____________	$____________	$____________
Cleaning, repairs and maint.	$____________	$____________	$____________	$____________
Electricity, gas and heating	$____________	$____________	$____________	$____________
Water and sewer	$____________	$____________	$____________	$____________
Telephone, cable	$____________	$____________	$____________	$____________
Other housing	$____________	$____________	$____________	$____________
Total housing:	**$____________**	**$____________**	**$____________**	**$____________**
Totals for this page:	**$__________**	**$__________**	**$__________**	**$__________**

The Personal Budget Worksheet

Name: ____

Period covered - From: ________________________ To: ______________________

Item	Historical	Current Budget	Current Actual	Difference
Personal and Legal				
Personal care and toiletries	$____________	$____________	$____________	$____________
Child care	$____________	$____________	$____________	$____________
Legal and accounting	$____________	$____________	$____________	$____________
Life and disability insurance	$____________	$____________	$____________	$____________
Other personal and legal	$____________	$____________	$____________	$____________
Total personal and legal:	**$__________**	**$__________**	**$__________**	**$__________**
Medical				
Medicines	$____________	$____________	$____________	$____________
Doctors, dentists and hospitals	$____________	$____________	$____________	$____________
Health insurance	$____________	$____________	$____________	$____________
Other medical	$____________	$____________	$____________	$____________
Total medical:	**$__________**	**$__________**	**$__________**	**$__________**
Transportation				
Auto payments	$____________	$____________	$____________	$____________
Repairs and maintenance	$____________	$____________	$____________	$____________
Insurance	$____________	$____________	$____________	$____________
Gas, oil and tires	$____________	$____________	$____________	$____________
Public transportation	$____________	$____________	$____________	$____________
Other transportation	$____________	$____________	$____________	$____________
Total transportation:	**$__________**	**$__________**	**$__________**	**$__________**
Miscellaneous				
Books, magazines and newspapers	$____________	$____________	$____________	$____________
Vacations	$____________	$____________	$____________	$____________
Entertainment and clubs	$____________	$____________	$____________	$____________
Charitable	$____________	$____________	$____________	$____________
Education	$____________	$____________	$____________	$____________
Other miscellaneous	$____________	$____________	$____________	$____________
Total miscellaneous:	**$__________**	**$__________**	**$__________**	**$__________**
Totals for this page:	**$__________**	**$__________**	**$__________**	**$__________**
Totals from previous page:	**$__________**	**$__________**	**$__________**	**$__________**
Grand totals:	**$__________**	**$__________**	**$__________**	**$__________**

Personal Net Worth

A personal net worth statement is a snapshot of an individual's financial health, at one particular point in time. It is a summary of what is owned (assets), less what is owed to others (liabilities).

The formula used is: assets - liabilities = net worth.

If assets are greater than liabilities, the individual has a positive net worth. If assets are less than liabilities the individual has a negative net worth. Many financial advisors regard having a positive net worth as a primary goal.

Reasons to Prepare a Net Worth Statement

There are a number of reasons why an individual or family should prepare a net worth statement, usually on an annual basis.

- **To keep score:** Preparing an annual net worth statement allows an individual to keep track of progress toward meeting long-term financial goals. Ideally, net worth should increase over time.
- **A planning tool:** The net worth statement also serves as a planning tool. For example, a review of the net worth statement may show that an individual has too few liquid assets (for emergencies) or that investments are too heavily concentrated in one area.
- **Lenders may ask:** An individual's net worth is a common question on many loan applications. College financial aid programs will usually require information on the parents' net worth when a child applies.
- **For certain investments:** Certain types of high-risk investments require prospective investors to have a minimum level of net worth before they are allowed to invest money.

Preparing a Personal Net Worth Statement

The personal net worth worksheet on the following page can be used to prepare a net worth statement.

- **Assets:** For all assets categories (except cash or cash equivalents), a realistic valuation of what a willing, knowledgeable buyer would pay for an asset in an arms-length transaction should be used.
- **Liabilities:** It may be necessary to contact the lender or store to get the current balance on a loan or account.

Personal Net Worth

Worksheet

Date Prepared: ____________________

Name: ____

Assets		Liabilities	
Liquid Assets	$ ________	**Current Liabilities**	
Cash and cash equivalents	$ ________	Rent	$ ________
Money owed to you	$ ________	Utilities	$ ________
Life insurance cash value	$ ________	Credit and charge cards	$ ________
Other liquid assets	$ ________	Taxes	$ ________
Total liquid assets	$ ________	Other current liabilities	$ ________
Personal Use Assets		Current portion, LT liabilities	$ ________
Personal residence	$ ________	**Total current liabilities**	$ ________
Home use assets	$ ________	**Long-Term Liabilities**	
Autos or other vehicles	$ ________	Home mortgage	$ ________
Collectibles (art/antiques)	$ ________	Auto or other vehicle loans	$ ________
Other personal use assets	$ ________	Education loans	$ ________
Total personal use assets	$ ________	Margin account loans	$ ________
Investment Assets		Business loan	$ ________
Equity assets	$ ________	Other long-term loans	$ ________
Fixed-income assets	$ ________	**Total long-term liabilities**	$ ________
Investment real estate	$ ________		
Business interests	$ ________		
Commodities	$ ________	**Net Worth Summary**	
Vested portion - Pension plans	$ ________		
IRA or Keogh plans	$ ________	**Assets**	$ ________
Other investment assets	$ ________		
Total investment assets	$ ________	**Less liabilities**	$ (________)
Total Assets	$ ________	**Equals net worth**	$ ________

Explanatory Notes

- **Liquid assets:** Cash or other assets, which can be easily converted into cash.
  - **Cash and cash equivalents:** These include cash in checking or savings accounts and cash equivalents where there is no concern for any loss of principal if the asset is converted into cash. May include CDs, money market funds and short-term (less than one year) Treasury securities.
  - **Money owed to you:** Includes those debts owed to you under a written agreement.
  - **Life insurance cash value:** This is the whole life policy cash surrender value.
- **Personal use assets.**
  - **Home use assets:** Includes furniture, furnishings, household goods, appliances, and sporting and hobby equipment.
  - **Autos or other vehicles:** Includes motorcycles, boats, airplanes and RVs.
  - **Collectibles (art/antiques):** Includes items that have a potential investment value as well as a personal interest value.
- **Investment use assets:** Includes investments with a maturity or a usual holding period of more than one year.
  - **Equity assets:** These include stocks, stock mutual funds or other investments based on stock market investments.
  - **Fixed-income assets:** Includes bonds, bond-based mutual funds, preferred stock or other investments based on bond or bond-type assets.
  - **Investment real estate:** Refers to real estate purchased for investment rather than shelter.
  - **Business interests:** Includes the equity ownership of any business in which you actively participate.
  - **Commodities:** These are gold, silver or other precious metals. Also gems and commodities contracts.

- **Vested portion of pension plans:** Refers to the amount to which you are entitled even if you quit today.
- **IRA or Keogh plans:** Includes the current market value less any taxes payable.

- **Current liabilities:** Refers to bills, which are due today or within thirty days.
  - **Rent and utilities:** Only include those due for the current month.
  - **Credit and charge cards:** Includes the total amount due, even if only minimum payments are made.
  - **Taxes:** Includes income and property taxes due today.
  - **Current portion of long-term liabilities:** Refers to the portion of the total long-term liabilities to be paid within the next 30 days.
- **Long-term liabilities:** These are liabilities, which are typically paid over an extended period of time.

Time and Growth of Money

Time is a vital factor in accumulating wealth. The following tables illustrate the effect of time and after-tax interest in accumulating funds.

Growth of a Single Lump-Sum Investment

Years of Growth	$20,000 Compounded at	
	5%	8%
5	$25,526	$29,387
10	32,578	43,178
15	41,579	63,443
20	53,066	93,219
25	67,727	136,970
30	86,439	201,253
35	110,320	295,707
40	140,800	434,490

In other words, in a period 8 times longer (40 years rather than 5 years) the investment result at 8% is 15 times greater growth ($434,490 divided by $29,387).

Growth of a Fund to Which $5,500 Is Added at the Beginning of Each Year

$5,500 per Year at 5%	Total Contributed	Will Grow to	Growth	Percent Increase
5	$27,500	$31,911	$4,411	16%
10	55,000	72,637	17,637	32%
15	82,500	124,616	42,116	51%
20	110,000	190,956	80,956	74%
25	137,500	275,624	138,124	100%
30	165,000	383,684	218,684	133%
35	192,500	521,600	329,100	171%
40	220,000	697,619	477,619	217%

These tables assume a 5% rate of return after taxes and that the earnings are reinvested.

Values shown in this presentation are hypothetical and not a promise of future performance.

Accumulating A Million Dollars

How long does it take to accumulate $1,000,000?

The answer depends on three things.

- How many years are available to accumulate the fund,
- The after-tax rate of return, and
- The method of contribution: One lump sum, or monthly contributions.

The table below shows how long it takes to accumulate $1,000,000 under varying circumstances. The results shown are hypothetical.[1] The actual growth will depend on a number of factors.

Annual Rate of Return (after taxes)

Years	Annual Rate: 2.00%[2]		Annual Rate: 4.00%[2]		Annual Rate: 6.00%[2]		Annual Rate: 8.00%[2]	
	Lump Sum	Monthly	Lump Sum	Monthly	Lump Sum	Monthly	Lump Sum	Monthly
5	$904,913	$15,861	$819,003	$15,083	$741,372	$14,333	$671,210	$13,610
10	818,867	7,535	670,766	6,791	549,633	6,102	450,523	5,466
15	741,003	4,768	549,360	4,064	407,482	3,439	302,396	2,890
20	670,543	3,392	449,927	2,726	302,096	2,164	202,971	1,698
25	606,783	2,572	368,492	1,945	223,966	1,443	136,237	1,051
30	549,086	2,030	301,796	1,441	166,042	996	91,443	671
35	496,875	1,646	247,172	1,094	123,099	702	61,378	436
40	449,628	1,362	202,434	846	91,262	502	41,197	286

Example: If you contribute $2,164 per month to an investment which returns 6% after taxes, you should accumulate $1,000,000 in 20 years. Likewise, if you currently have $302,096 invested at 6% (after-tax) for 20 years, it will grow to $1,000,000 without any additional contribution.

Values shown in this presentation are hypothetical and not a promise of future performance.

[1] The calculations shown assume monthly compounding. Monthly contribution amounts are calculated on an end-of-month (ordinary-annuity) basis.

[2] Seeking a higher rate of return generally involves a greater degree of volatility and risk.

Credit Cards

The use of credit cards has become a widespread and accepted part of modern life. From modest beginnings in the early 1900s, credit card usage has grown to the point where 70.2% of American families have at least one general-purpose credit card, with a median credit balance outstanding of $3,000.[1]

Reasons to Use a Credit Card

There are many reasons individual consumers use a credit card.

- **Safety:** The use of credit cards allows a consumer to purchase goods and services without the need to carry large amounts of cash.
- **Opportunity:** A credit card allows a consumer to deal with short-term situations, such as Christmas or emergency auto repairs, when paying cash might not be possible.
- **Facilitate transactions:** Credit cards allow for payment of goods and services purchased via telephone or the Internet. Some transactions, such as renting a car, purchasing airline tickets, or guaranteeing payment for late arrival at a hotel, would be impossible without the use of a credit card.
- **Leverage:** Paying with a credit card can provide a consumer with additional leverage, in case of disputes with merchants over defective or poor quality merchandise.
- **Identity:** In certain types of transactions, such as cashing a check, credit cards have become a means of personal identification.

Types of Credit Cards

Not all credit cards are alike. They will vary widely in terms of issuer, scope of use and contract terms.

- **Bankcards:** Are issued not only by banks, but also by other financial institutions such as savings and loans or credit unions. These general-purpose credit cards can usually be used to purchase a wide range of goods and services. Credit is usually provided on a revolving basis, under which a borrower is granted a specific amount of credit. Typically, minimum monthly payments are required and any unpaid balance is subject to an interest charge. As borrowed amounts are repaid, the amount of available credit increases, up to the credit limit.

[1] Taken from The Statistical Abstract of the United States: 2012. See Report No. 1188 - Usage of General Purpose Credit Cards by Families: 1995 to 2007. Data is from 2007.

- **Charge cards:** Also known as travel and entertainment cards. Unlike bankcards, charge cards typically must be paid in full each month. Balances not paid are subject to heavy penalty fees. Like bankcards, charge cards are usually accepted widely.

- **Retail credit cards:** Retail credit cards are issued by businesses such as department stores, airlines and gasoline companies. Credit is usually provided on a revolving basis and purchases are limited to the goods and services sold by the specific card issuer.

- **Secured credit cards:** Such cards are usually general-purpose bankcards, with a specified (typically lower) credit limit. The card is secured by a deposit in an account with the issuing institution. If a consumer defaults, the card issuer can use the deposited funds to cover the shortage. Such cards are useful for individuals who do not have an established credit history or for those rebuilding their credit rating.

- **Affinity cards:** Affinity cards are issued jointly by a lending institution such as a bank or savings and loan, and some other organization such as an airline, charity or college alumni group. Using an affinity card allows a cardholder to also achieve other goals, such as earning frequent flyer miles or making charitable contributions.

Shopping for a Credit Card

When shopping for a credit card, a consumer should carefully compare the terms under which a card is offered:

- **Interest rate on unpaid balances:** The interest rate on unpaid balances can be either a fixed rate or a variable rate. Card issuers are required to state the interest rate as both an annual percentage rate (APR) and (for each billing cycle) as a periodic interest rate.

- **Unpaid balance computation:** The method by which a card issuer calculates the unpaid balance on an account. The unpaid balance, multiplied by the periodic interest rate, determines the finance charge.

AVERAGE DAILY BALANCE	PREVIOUS BALANCE	ADJUSTED BALANCE
Each day the issuer subtracts any payments from, and adds new purchases to, the account balance. The daily balances for each day in a billing cycle are added together and then divided by the number of days in that cycle.	The issuer charges interest on the balance outstanding at the end of the previous billing cycle.	The issuer starts with the previous balance, subtracts any payments or credits, and charges interest on any remaining unpaid amount.

- **Fees:** Many card issuers will charge an annual fee, just to have the card. Fees may also be charged for such items as cash advances, late payments, charging over the established credit limit and lost card replacement.
- **Grace period:** The amount of time during which no interest is charged, if the entire amount is paid off.
- **Other benefits:** A card may provide other benefits such as cash advances, flight insurance, or discounts on travel or long-distance telephone charges.
- **Acceptance:** Some merchants may not accept a specific type of card.

Using a Credit Card

Many advisors recommend that consumers develop certain habits when using credit cards.

- Keep the number of open credit card accounts to a minimum.
- Understand the terms under which a card is issued.
- Sign all cards as soon as they are received.

- Pay credit card bills promptly to keep interest charges as low as possible and maintain a good credit rating. Authorizing electronic payment of credit card bills from your checking or savings account can automate this process.

- Keep detailed records of credit card account numbers, expiration dates and the telephone number of card issuers. The easiest way to do this is to photocopy the front and back of each card.

- Protect credit card information to avoid unauthorized use.

- Carefully review credit card statements each month. The customer copy of charge slips should be kept, to allow comparison with the monthly statement.

Lost or Stolen Credit Cards

Under federal law, a cardholder can be held liable for charges of up to $50.00 per card, even though the use was unauthorized. Such unauthorized credit card use is often the result of a card being lost, stolen or even counterfeited. If the loss of a card is reported to the issuer before the card is used, however, the issuer cannot hold the consumer liable for any unauthorized use.

- **Notify issuer:** A consumer should report the loss or theft of a credit card to the issuer as soon as possible. Many card issuers have toll-free, 24-hour telephone numbers for this purpose. Written notification should also be sent to the issuer.

- **Check monthly statement:** Review the monthly card statement to be sure that no unauthorized charges were made before it was noticed that the card was missing.

- **Registration service:** A consumer who carries more than one credit card may want to use a credit card registration service. For an annual fee, such services keep a record of all of a consumer's credit cards. In the event of a loss, the consumer makes one call, to the registration service. The registration service notifies all card issuers of the loss and, in many cases, arranges for replacement cards.

Financing an Auto

Once a consumer decides to acquire an automobile, the next step is to decide how to pay for it. There are three methods of financing an auto:

- **Pay cash:** Using already accumulated funds.
- **Borrow the funds:** Taking out a loan and paying for the vehicle over time.
- **Lease:** Allows use of an auto for a specified period of time, in return for regular monthly payments.

The decision as to whether to pay cash, take out a loan, or lease a vehicle is usually made after considering a number of personal and financial issues.

Factors to Consider

The table below compares some of the factors to consider when considering how to finance an auto:

	Pay Cash	Borrow the Funds	Lease
Method of financing	Consumer uses cash to completely pay for the vehicle at the time of purchase.	Consumer borrows the funds to purchase the vehicle, and makes monthly payments to repay the loan.	Consumer obtains the right to use the vehicle for a specified period of time, in return for monthly payments.
Out-of-pocket costs	Entire purchase price.	Down payment and/or trade-in. Special offers may allow zero down.	Down payment and/or trade-in. Often less than for an auto loan. Special offers may allow zero down.
Monthly payments	None.	Payments cover repayment of loan amount, plus interest.	Payments cover estimated depreciation during the lease period, and other costs. Typically less than for an auto loan.
Vehicle ownership	Consumer is the owner.	Consumer is the owner, subject to a lien held by lender. Once loan is repaid, consumer takes title free and clear. Lender may repossess vehicle if payments not made as scheduled.	Leasing firm retains ownership. Consumer usually has the right to purchase the vehicle at the end of the lease.

	Pay Cash	Borrow the Funds	Lease
Excess mileage charges	None.	None.	Typical lease limits consumer to no more than 10,000 – 15,000 miles per year. Miles in excess of lease limits are subject to a per-mile charge.
Excess wear and tear	No additional charges. Excess wear and tear, or high mileage, can reduce a vehicle's resale value.	No additional charges. Excess wear and tear, or high mileage, can reduce a vehicle's resale value.	Additional charges for excess wear and tear usually apply.
Risk of future vehicle resale value	Risk remains with the consumer.	Risk remains with the consumer.	With a closed-end lease, risk of future vehicle resale value remains with leasing firm. With an open-end lease, consumer may be responsible for substantial additional charges.
Early disposal of vehicle	Consumer is free to sell vehicle at any time.	Consumer is free to sell vehicle at any time, subject to repayment of loan balance to lender. Early loan termination fees may apply.	Additional fees for early lease termination normally apply.
Tax issues	Deduction available for business use of vehicle.[1]	Deduction available for business use of vehicle.[1]	Deduction available for business use of vehicle. In certain situations, leasing may provide a larger deduction for business use than an owned vehicle.[1]
Lifestyle issues	Limits consumer to vehicle that he or she can currently afford. Consumer avoids additional debt burden.	Usually allows consumer to purchase more expensive vehicle than if full cash payment is required.	Consumer typically has use of more expensive vehicle than with other financing options. May also allow consumer to drive a new car more frequently. No equity at end of lease.

[1] Based on federal law. State law may vary.

Comparing the Dollar Costs

The following table provides a hypothetical comparison of the costs involved in the three options for financing an auto:

- **Pay cash:** Purchase price of $22,500, sales tax of $1,631, registration and fees of $350. Total purchase price of $24,481.
- **Borrow the funds:** Total purchase price of $24,481, less down payment of $2,250. Financed over a 48-month period at 4.0% annual interest.
- **Lease:** 48-month closed-end lease, with same costs and interest rate as under the “loan” option. $500 down payment and an assumed resale value at the end of the lease of $12,000.

	Pay Cash	Borrow the Funds	Lease
Up-front cash	$24,481	$2,250	$500
Monthly payment	0	502	437
Total payments over 48 months	0	24,096	20,976
Opportunity costs[1]	999	92	20
Total costs after 48 months	**25,480**	**26,438**	**21,496**
Value of vehicle after 48 months	(12,000)	(12,000)	0
Total	**$13,480**	**$14,438**	**$21,496**

[1] The amount of interest the “up-front cash” shown for each option would have earned over the 48 month period, at an assumed 1.0% annual after-tax rate of return.

Managing Your Debt

While earlier generations may have followed a "cash only" spending philosophy, most Americans today cannot imagine living without at least some debt. Relatively few of us are able to pay cash for a home or car. The ability to borrow money, when it's needed and on favorable terms, is a privilege earned by carefully managing your debt obligations.

Why Borrow Money?

Many advisors regard borrowing money as a two-edged sword. It can, for example, be used to finance long-term goals such as a home, a business, or an education. Over time, these "investments" tend to increase in value and return far more than the cost to purchase them. Used to excess, or to constantly pay for short-term consumer items, such as clothing, vacations, or a night on the town, debt can become an overwhelming burden.

Managing Your Credit Record

Most lending decisions are made on the basis of your credit record, also known as your credit report. When lenders size you up to determine how much credit, if any, to grant you, they count on the three Cs:

- **Character:** How responsibly will you handle your credit obligations? Lenders will look at how well (or how poorly) you have repaid previous debts.
- **Capacity:** What is your financial ability to assume a certain amount of debt? Do you have enough money coming in the door each month to pay all of your bills?
- **Capital:** What financial assets are at your disposal to pay off debts? If you don't repay the debt as promised, do you have other financial assets that could be used by the lender to pay off the debt?

How well you manage each of these issues is reflected in your credit report. Because your credit report is constantly changing, you should review it at least once a year to check for errors, credit card fraud or identity theft.

What Are My Choices?

Today's consumer has many methods of borrowing money. You could, for example, use your credit card to finance a college education. However, a better choice might be a government-subsidized student loan which typically carries a lower interest rate and defers payments until after the student has finished school. Similarly, you could use part of your home equity line of credit to pay for a car, but do you really want to be making car payments for the next 10 or 20 years?

Whether you do the homework yourself, or seek the help of an advisor, understanding the loan options available, and then appropriately matching the type of loan to the need, is a key part of effective debt management.

Managing the Cost of Your Debt

Interest rates constantly move up and down. Thus, the loan that you took out several years ago at what was then a great rate may not be such a good deal today. Lower interest rates may allow you to refinance an existing loan and lower your monthly payment. Or, if you keep the same monthly payments, a lower interest rate may allow you to pay off the loan sooner.

- **Mortgages and other consumer loans:** As a general rule, the interest saved must be greater than the cost (pre-payment penalties and other closing expenses) of acquiring the new loan before it makes sense to re-finance.
- **Credit cards:** The competition between credit card issuers can be intense. You can sometimes "surf" your credit card balance from one issuer to another to take advantage of issuers' low introductory rates. If you do move your balance from one card to another, be sure that you make at least the minimum payment when due; otherwise, the interest rate can permanently jump from the low single digits to the high 20s.

Seek Professional Guidance

The advice and guidance of a professional financial advisor can be useful in helping sort out the various options for borrowing money. In addition, a qualified advisor can help you understand the impact of any borrowing upon your personal financial and income tax situation.

Other Resources

The federal government makes a number of resources available to the public:

- **Consumer Financial Protection Bureau:** On the internet at http://www.consumerfinance.gov/. Look under *Participate*, then *Know Before You Owe*.
- The **Federal Trade Commission** has a number of free publications available. On the internet, go to http://www.consumer.ftc.gov/topics/credit-and-loans.
- The **Federal Consumer Information Center**, at http://publications.usa.gov/, has a number of free and low-cost publications on a number of topics on interest to consumers.

Up to Your Neck in Debt?

Are you afraid to open your bills? Do you juggle bills, paying Paul one month and Peter the next? Do you make only the required minimum payment? Do you have to pay for basic necessities like food, rent, or gasoline on credit because you're out of cash?

If some or all of these apply to you, it's a good bet you've taken on too much debt.

Initial Steps

Many of us have to deal with a financial crisis at some point in our lives. Whatever the cause, there are ways to overcome these financial problems. Often the first step is to recognize that there is a problem. Then you can begin to take action to solve it.

- **Create a budget:** One key step is to create a realistic budget, a cold, hard look at both your income and your necessary living expenses. Are there ways to increase income, as well as reducing expenses?
- **Talk with your creditors:** Contacting your creditors and explaining why you're having trouble paying your bills on time may lead to a reduced payment plan. Setting up an automatic payment plan from your checking or savings account can help establish how serious you are about paying your bills.
- **Check for mistakes:** Your bills or credit report could contain errors that, once corrected, could provide some partial relief.

Lower the Cost of Debt

Lowering the cost of debt is another way to improve the situation:

Method	Description	Comments
Refinance High-Cost Loans	Lower interest rates may allow you to refinance an existing loan and lower your payment.	Mortgages: Generally, the interest saved must be greater than the cost of acquiring the new loan. Credit cards: You may be able to move balances from one card to another, to take advantage of introductory rates.

Method	Description	Comments
Consolidate Loans	Taking a number of high interest rate debts (often credit card debt) and replacing them with a single loan, often secured by the borrower's home or auto.	If payments are not made on the new loan, the lender often can seize the asset securing the loan.
Reposition Assets	Using existing assets such as cash, jewelry, or securities to pay down or pay off debt. Loans with the highest interest rates should be paid off first.	There may be negative tax implications if an asset with long-term appreciation is sold. Be sure you keep adequate liquid reserves to cover any future emergency.

Outside Help

Many credit counseling agencies are available to help consumers who find themselves in financial trouble. Not all of these agencies work in a consumer's best interest. A reputable credit counseling agency has counselors trained in budgeting, credit, and debt management. A good counselor works closely with you to develop a personalized plan to resolve your individual debt problems.

- **Debt management plan:** A debt management plan, or DMP, may be recommended by a credit counselor. In a DMP, you make monthly payments to the credit counseling agency, which then uses your money to pay your unsecured debts in accordance with an agreement between you and your creditors. DMPs are not for everyone and may have restrictions which are unacceptable to some consumers.
- **Debt negotiation:** For a fee, debt negotiation firms offer to "negotiate" settling a debt with a creditor, often for 10% to 50% of the amount owed. These programs can be highly risky and can have a negative, long-term impact on your credit rating. The IRS may consider any debt forgiven as taxable income.
- **Credit "repair" firms:** Companies or agencies that offer or promise to "repair" your credit record should be regarded as scams. The passage of time and a regular history of repaying your debts are the only way to truly "fix" your credit report.

A Last Resort – Personal Bankruptcy

If your debts are truly overwhelming, personal bankruptcy is a drastic option of last resort. Bankruptcy is a court-supervised process in which a debtor either has his debts eliminated (Chapter 7) or a plan is arranged which allows debt repayment under the supervision of the bankruptcy court (Chapter 13). Certain debts, such as most taxes, child support, and alimony, cannot be "discharged" through bankruptcy. Federal law requires a debtor to undergo credit counseling before filing bankruptcy and to complete debtor education before bankruptcy can be finalized. Competent legal advice is highly recommended.

- **Chapter 7:** Also known as "liquidation", Chapter 7 effectively erases your unsecured debts. With the exception of certain "exempt" property,[1] other assets that you own, such as your home, jewelry, or artwork, may be sold and the proceeds used to pay your debts. Not everyone qualifies for Chapter 7 bankruptcy; if you have a regular income that exceeds certain limits, you may be required to file Chapter 13. A Chapter 7 bankruptcy remains on your credit record for 10 years.

- **Chapter 13:** Also known as "wage earner" bankruptcy, Chapter 13 allows you to propose a plan to repay your debts over a three to five year period. To qualify for Chapter 13, you need a steady source of income and your debts must not exceed certain dollar limits. A Chapter 13 bankruptcy remains on your credit record for 7 years.

- **Online resources:** See the website of the Department of Justice, U.S. Trustee, at www.justice.gov/ust.

[1] The amount and type of exempt property can vary with state law.

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