credit.org

the of BASICS FINANCIAL PLANNING

About credit.org

We are a nonprofit organization founded in 1974.

We offer personal financial education and assistance with money, credit, and debt management through educational programs and confidential counseling.

Accredited by the Council on Accreditation (COA)

Approved by the Department of Housing & Urban Development (HUD)

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Headquarters Office: 1450 Iowa Avenue, Suite 200 • Riverside, CA 92507
Mailing Address: P.O. Box 5438 • Riverside, CA 92517-5438
800.431.8157 • fax: 951.328.7750
www.credit.org • e-mail: education@credit.org

Credit.org is a nonprofit consumer credit management organization formed in 1974. Our mission is simple: our people improve the lives and financial well-being of individuals and families by providing quality financial education and counseling. We are accredited by COA (the Council on Accreditation), signifying the highest standards for agency governance, fiscal integrity, counselor certification and service delivery policies.

Our services include:

Financial Education Programs – We offer seminars, workshops, and educational materials on topics such as budgeting and money management, identity theft, and understanding credit. Materials for many of our workshops are available by contacting our education department or as downloads from our website, www.credit.org.

Confidential Credit and Debt Counseling – Our certified consumer credit counselors will discuss your financial situation with you, help you understand what may cause financial stress, and help you create a personalized budget, an action plan and give you options to help manage your finances more effectively.

Debt Management Plans – Debt repayment through our Debt Management Plan. If you choose this option, we can work with your creditors to reduce costs and repay debt through one monthly payment. *We do not offer debt management plans in all states; please call or check our website for state availability.

Bankruptcy Pre-petition Credit Counseling and Budget Briefing – We provide budget and credit counseling (and a certificate of completion as mandated by the bankruptcy reform law) for those who consider filing for bankruptcy.

Bankruptcy Pre-discharge Personal Financial Management Instructional Course – We provide financial education and instruction (and a certificate of completion as mandated by the bankruptcy reform law) for those completing their bankruptcy discharge.

Housing Counseling – We are a HUD-approved comprehensive housing counseling agency. We provide homebuyer education seminars, counseling for foreclosure prevention, landlord/tenant counseling, post homebuyer education and reverse mortgages (please call ahead for reverse mortgage appointments).

Counseling available by phone, internet, or in person

800.449.9818

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Setting Priorities in Money Management

What follows is an introduction to the fundamentals of Financial Planning; regardless of one's current financial state, it's the destination that matters. Sound financial planning isn't just for the wealthy, though employed responsibly, financial planning can put one on the road to wealth creation.

It's also crucial to remember that it is never too soon to think about financial planning. Even if you are fresh out of high school, you should start the process of saving for emergencies, retirement and other important goals. Do not wait until retirement is a few decades away to start thinking about how you will pay for your retirement. The earlier you start, the easier it will be to save, the less money you will have to contribute, and the more money you will have to pay for your retirement years.

It would be very unwise to count on Social Security to provide any significant amount of retirement income. Most financial experts expect the Social Security Program to become insolvent in the next 25 years. A Gallup poll found that 60% of workers do not expect to collect Social Security benefits when they retire. Counting on the Social Security system to be reformed successfully is a form of gambling; and gambling is not part of any responsible Financial Planner's advice.

It should be stressed that one's first act should be to stop accumulating new debt. Before you even begin to plan for your financial future, you must stop borrowing. Then you can think about financial planning and growing your wealth.

This material will break up the topic of financial planning into six priorities:

1. Insurance

2. Emergency Savings Fund

3. Accumulation

4. Retirement

5. Income

6. Actualization

Insurance

A consumer's first priority should be securing adequate insurance. No amount of budgeting and money management skill can get one through a crisis like a serious medical emergency if there is no medical coverage. Similarly, should an auto accident occur without proper liability coverage, it's likely that the damages will be insurmountable.

Risk management is your first order of business, and that means securing adequate insurance. Insurance protects you by transferring the risk of huge losses to an insurance company. By paying a relatively small amount each year to the company, you can protect yourself from the risk of losing a lot of money in the future.

There are two kinds of insurance: *legacy* and *indemnity*.

Legacy is insurance, like life insurance, which replaces income in the event of a claim.

Indemnity replaces or "makes whole" in the event of a loss, like a theft or accident.

Here are the basic insurances:

Homeowner's
Health
Disability
Auto
Life

WHAT'S THE RIGHT AMOUNT OF INSURANCE TO HAVE?

Consider that many kinds of insurance are designed to substitute for income should someone die or become incapacitated. A life insurance policy for a child, therefore, need not be terribly large—there's no income for it to substitute. A child's life insurance policy should cover "final expenses"—burial and loss of parent's income from missed work. Parents should have much larger life insurance policies, to cover those costs plus future income that parent is expected to earn.

WHAT TYPE OF INSURANCE IS APPROPRIATE?

Term – A term insurance policy covers you in the event of your death. You buy the insurance for a specific period of time, e.g. ten years, thirty years, etc.

Whole Life – A whole life insurance policy adds an investment to the policy. More expensive than term insurance, whole life policies might include a money market account, bonds or stocks. Over time, as you pay your premiums, the whole life policy builds value, which you can cash out at the end of the life of the policy.

Combination – combines permanent and term insurance, offering greater coverage in the immediate term which is replaced by permanent life insurance after the term ends. The idea being that once you've retired you have less income to replace, so you need less insurance, but you're more expensive to insure because of advanced age. The combination helps guarantee a lower insurance rate because you lock in a lower rate when you are young.

REVIEWING YOUR POLICIES:

Are your policies up to date?

What are your deductibles?

What about policy discounts?

Do you have unnecessary duplicate coverage?

HOW MUCH INSURANCE IS APPROPRIATE?

The right amount of insurance varies from person to person, but it is wise to have enough coverage to pay off specific financial obligations:

- Mortgage
- Education
- Debt
- Final Expenses
- Income

WHERE CAN I GET MORE INFORMATION ABOUT INSURANCE?

On the web:

National Association of Insurance Commissioners: www.naic.org

Insurance Information Institute: www.iii.org

Consumer Action's Insurance Education Project: www.insurance-education.org

In print:

Insurance for Dummies, by Jack Hungelmann

Complete Idiot's Guide to Buying Insurance and Annuities, by Brian H. Breuel

Long-Term Care Insurance Made Simple, by Les Abromovitz

Emergency Savings Fund

A consumer's second priority should be their emergency savings fund. Credit.org advises everyone to build an emergency fund equal to a minimum of 3 to 6 months' income. Once that amount of money is safely in the bank, then one is secure enough to think about investing for the future.

Americans typically don't save any significant portion of their income, and average savings has steadily declined over the past 30 years.

While cash reserves should first and foremost cover the emergency savings fund amount, they can also be built up to include planned expenses, investments and big-ticket items.

By establishing a sufficient emergency savings fund, you will minimize the need to use credit and incur debt (you are buying big-ticket items outright, not placing them on a payment plan that accrues interest).

When a consumer is shopping for a savings fund, there are several characteristics one should consider, including:

a fund that earns interest
liquidity/check writing capability
low risk status
no withdrawal penalties
other considerations:

WHERE DOES YOUR MONEY GO?

Effectively building your emergency savings fund means saving money today for future needs. Intelligent budgeting is an absolute necessity when building cash reserves.

How does your spending stack up to national averages?

A Typical Family		Your Monthly Spending	
Cost of living/Debt Repayment	65%	Cost of living/Debt Repayment	________%
Taxes	25%	Taxes	________%
Insurance	8%	Insurance	________%
Savings/Investment	2%	Savings/Investment	________%

YOUR CASH RESERVES

Questions to ask

1. Are your cash reserves easily available in case of emergency needs?
2. Will you have adequate cash reserves for opportunities in the future?
3. Are you comfortable with your current level of savings?

Need for Cash Reserves

- Emergencies
- Planned Expenses
- Investment opportunities
- Minimize the need to use credit

Money Management

- Are you currently paying yourself some of all you make?
- Do your saving and investment plans match your goals and objectives?
- Are you satisfied with the level of diversification in your investments?
- Are you making maximum use of any employer-sponsored saving/investment programs?

	Safety	Liquidity	Growth	Tax Treatment
Savings Accounts	No risk	Very high	Low (1-2%)	Fully taxed
CD	Very low risk	High	Low (2-5%)	Taxed
Money Market Funds	Low	High	Low/varies (2-4%)	Taxed
Annuities	Very Safe	Very low	Moderate	Can be tax deferred
Bonds & Bond Funds	Moderate risk	Low	Varies (5%)	Taxable
Municipal Bonds & Municipal Bond Funds	Moderate risk	Moderate	Varies	Exempt
Balanced Funds	Low to medium	High	Low to medium	Taxed
Stocks & Growth Funds	High risk	Moderate	Moderate to high (7-12%)	Interest and gains taxable
Treasury Bills	None	High to moderate	4%	Taxable at federal level
IRA	Moderate	Very Low	Average (7%)	Deferred

Accumulation

PREPARING YOUR MONEY FOR THE FUTURE

Accumulation, a consumer's third tier priority, is the first step toward retirement planning and includes the years that you are earning a working income to build you retirement assets.

Accumulation investments vary depending on how you want to make your money grow (long term or short term) and several of these offer special tax-savings opportunities (such as IRA/401(k)/SEP IRAS, annuities, and growth oriented investments). In general, all investments can be categorized as either "debt" or "equity." A "debt" investment is one that allows someone to use another's money to make money, such as: bonds (all investment would allow someone to take an ownership position, even if in partial, and would include: real estate, stocks, tangible assets, and collectibles.

Equity investments involve higher risk of return, essentially because they expose all of your investment capital at the risk of losing your principal investment. When equity investments generate investment return, it is generally from appreciation of the value of the underlying asset. Debt investments, on the other hand, involve little, if any, risk of principle, and inherently, low to moderate returns.

WHAT SHOULD ONE CONSIDER WHEN SELECTING AN INVESTMENT?

There are several factors a consumer must consider, and some of the most important are:

- Risk
- Rate of Return
- Marketability and Liquidity
- Diversification
- Impact of Taxes on Return

Risk: Risk is the possibility of loosing or not gaining value. There are several kinds of risk that must be considered when investing; some may be more important to you than others. Once you understand what each of the following types of risk entail, you can decide which of these have bearing on your personal investment portfolio.

Economic Risk (specifically purchasing power risk)–associated with the overall health of the economy. It may generate an uncertainty over future purchasing power of the income and principal of a specific investment, created by changes in the general price level of an economy.

Interest Rate Risk (also Inflation Risk)–investments that provide fixed income (CDs, bonds, etc) will have changes in price as interest rates increase (inflate) or decrease. In effect, a rise in the markets interest rates tend to cause a decline in market prices for existing securities, & vice versa.

Tax Risk–tax consequences involved with specific investments to include federal and state income, estate, inheritance, and gift taxes.

Rate of Return: The purpose of investing is the expectation of a future return, sufficient to fund your goals as a consumer. In order to better facilitate those goals, a consumer must understand the variety of ways a return may be received: interest, dividends, business profits, rental income, and capital gains.

"Total Return" is the true measure of investment results or earnings, and it can be broken down into two main factors:

Capital Gains- the increase in the market value of your investment, which is generally not fully realized until the asset is sold.

Current Income- is income (such as interest, rent, or dividends) received regularly over the course of the investment's lifetime.

Equally important in affecting the Rate of Return is the potential of compounding, which is earning interest on interest. Compounding is the effect that interest has when the interest rate is applied to both the initial amount invested, in addition to the interest that the investment has already gained.

"The Rule of 72" can demonstrate a simplified calculation of a compounding effect. In general, the number 72, divided by your investments interest rate, will give you an estimate of the number of years before you see the investment value double.

The rule of 72:

72 / Interest Rate = Number of yrs to double

6 % doubles in 12 years

___% doubles in ___years

___% doubles in ___years

Before we continue, it is important to note the correlation between the Risk of an investment and an investment's Rate of Return. In general, the amount of risk associated with a given investment is directly related to its expected return. So theoretically, the more risk you are willing to take, the higher the investment's return is expected to be, and vice versa.

Marketability and Liquidity: Marketability is a measure of an investment's acceptance in the market- how readily it may be traded or sold.

Liquidity is the ease at which an asset can be sold and turned into cash, without loosing any of the principal invested. For example, a house cannot be easily redeemed for cash, which is contrary to a blue chip stock, per se, due to the nature of the stock.

Although both characteristics of investment are desirable, it is often a trade off, subjective to the consumer's situation. For example, a checking account does not have a market where it can be readily sold or bought, but it is very liquid. Conversely, a stock on the exchange tends to have high marketability, but a sale thereof could result in some loss of principal, which is not pure "liquidity."

Diversification: Is an important investment principle to consider when a consumer is building a portfolio. Diversification is the distribution of assets amongst a variety of securities (investments). By diversifying, you avoid having all of your eggs in one basket (as the old cliché says), or allocating all your money into one investment that may not perform well at a particular time. By spreading the risk, it can be minimized, and is a wise decision for most consumers.

There are many types of diversification. One may diversify between stocks and bonds (equity and debt, subsequently); between liquid and non-liquid; between one investment goal and another. In general, the fluctuations in price or value of different investments are not congruent; they do not go up or down all at the same time or in the same magnitude. Thus, an investor can protect at least a portion of his/her investment assets by applying the principle of diversification.

Impact of Taxes on Returns: As the saying goes 'it doesn't matter what you get, only what you get to keep!' In similar nature, it is imperative to differentiate between the return received from an investment and its 'after-tax' return.

There are several considerations regarding this impaction, and the following are simplified examples:

1. An investment may yield income that is taxable as ordinary income, such as certificates of deposit or corporate bonds. For this investment, the after-tax yield will be less than its current yield (interest rate). This can be calculated in the following manner:

   Current Interest Rate x (1- investor's income tax rate) = after tax yield.
   e.g. A CD with a taxable interest rate of 5% would have an after tax yield of 3.6% for someone in the 28% tax bracket.

   5 x (1 - .28) =3.6
   So the investor didn't really make 5% on his investment, he made 3.6% yield, which is significantly less, because the rest went to pay federal taxes.

2. If an investment yield is fully tax exempt, such as interest from some municipal bonds, the after-tax yield equates the current yield because there is no tax implication (the interest rate stays the same).

3. In some circumstances, an investment may yield returns that are taxable only when realized as capital gains (capital gains are explained above under "Rate of Return" as an increase in the market value of your investment). For example, if a stock has paid no dividends, but increased in value from $20 per share to $40 per share, the investor will not have a taxable event until he/she sells the shares, therefore 'realizing' it's capital gain of $20 per share.

Asset Allocation: involves the mix of investments in your portfolio. This might include a mix of stocks, bonds, cash, and real property. Stocks are typically the riskiest investment, but bring in the highest returns. Bonds earn less interest, but are more stable than stocks. Cash savings, including savings accounts, CDs, treasury bills and money market accounts, are the safest investments, but offer low returns in the long run. Finally, holding real property, like gold & silver, is a very stable and safe investment that typically works as a hedge against inflation but doesn't earn high returns.

A crucial element of any wise asset allocation strategy is diversification. This means spreading your investment among many different products, so that if one part of your investment portfolio loses value, your entire retirement fund won't be devastated.

Three worst enemies to your money are debt, inflation, and taxes:

Debt	Inflation	Taxes
Mortgage	Rising Prices	Income Taxes
Auto	Inflation usually 1.6-3.3%	Sales Taxes
Credit Card	Measured against the	State Taxes
Home Equity Loan	CPI (Consumer Price Index)	City Taxes
Student Loans	Decreases the purchasing	Social Security Taxes
Personal Loans	power of cash holdings	Property Taxes
Collections & Other	Discourages saving	Capital Gains Taxes

Carrying debt is a serious problem for anyone concerned about long-term accumulation. With average return rates of 1% on a 1-year CD and average credit card interest charges at 17%, every dollar you owe a credit card company negates $17 in savings. That's why paying down and eliminating debt is an essential part of your long-term financial strategy.

Inflation varies from year to year, and constantly weakens the value of your saved dollars. With inflation ranging from 1.6 to 3.3% in a typical year and savings accounts earning an average of .8%, inflation will outpace the gains to your cash savings every year. This is why financial experts don't typically advocate relying exclusively on cash holdings.

Taxes can have a serious impact on your retirement plans. Millions of seniors have found themselves "house poor" after spending decades paying off their mortgages, only to find that rising property taxes have made keeping their homes unaffordable on a fixed retirement income. It's difficult for savers to predict what income taxes will be when retirement comes years down the road, but it's always a safe bet that they will be higher. That's why it's important to have an investment strategy that accounts for taxes.

Impact of Pretax Investment

Non-Retirement Plan Contribution Taxed at 28%		Retirement Plan Contribution Pretax
$1000	Earned Income	$1000
-$280	Less Taxes (28% Bracket)	-0
= $720	Net Available for inv.	= $1000
+ $58	First Years Earnings (at an assumed 8% rate)	+ $80
- $16	Taxes on earning	-0
= $762	Net Savings	= $1080

Taxable Equivalent Yields

	6%	8%	10%
Taxed at 15%	5.1	6.8	8.5
Taxed at 28%	4.32	5.76	7.2
Taxed at 31%	4.14	5.52	6.9
Taxed at 36%	3.84	5.12	6.4
Taxed at 39.6%	3.62	4.83	6.04

Retirement

As most of us already know, retirement planning doesn't mean planning for retirement a year before you retire. Remember that wealth accumulation, a consumer's third tier priority, is the first step toward retirement planning and includes the years that you are earning a working income to build your retirement assets. Building a solid retirement plan is a long process, and should begin with your first employment that offers retirement benefits. In this section we'll discuss different retirement savings plans and strategies that can assist an individual in reaching their personal retirement goals.

With regard to retirement savings plans, there are generally two types: Personal Plans and Employer-sponsored Plans.

A. Personal Plans: Traditional IRA, Roth IRA, IRA Rollover, Roth Conversion.

1. Traditional IRA (Individual Retirement Account): Is a basic form of retirement plan to provide consumers with a tax-advantaged means to invest (save) for their future. Income-earners, and their spouses, can contribute up to a maximum of $3000 each person, across all their IRAs (this mandate is in effect from 2002-2004). Growth of this investment is free from current taxation.

2. Roth IRA: Is a relatively new type of IRA, established by the Taxpayer Relief Act of 1997, which allows taxpayers, subject to certain income limits, to save for retirement while allowing the savings to grow tax-exempt. Distributions of both investments and earnings that meet certain guidelines can be withdrawn tax-free from Roth IRAs.

3. IRA Rollover: Is a tax-free reinvestment transfer from a qualified retirement plan into and IRA or otherwise qualified plan within a specific period of time, generally 60 days. These transfers tend to happen when leaving a job with an employer that offered a retirement plan, such as a 401(k) (we'll discuss this in more detail in the following section). The company can transfer the amount in form of a check, less 20% for withheld taxes. This penalty can be avoided, however, but the transfer must be done trustee to trustee, meaning that the check is made out to the new trustee or custodian (agent, bank, trust company) of the IRA Rollover. The company will provide the check and the participant must deposit the check into a new account with the 60 days.

4. Roth Conversion: is an account established by transferring traditional IRA funds to a Roth IRA. By doing so, it offers tax-free withdrawals to eligible investors. The holder of a converted account must pay taxes on prior contributions to the traditional IRA that may have been deducted previously, as well as on accumulated earnings. There are certain income limit restrictions on this type of conversion; a financial planner can explain given an interest to convert.

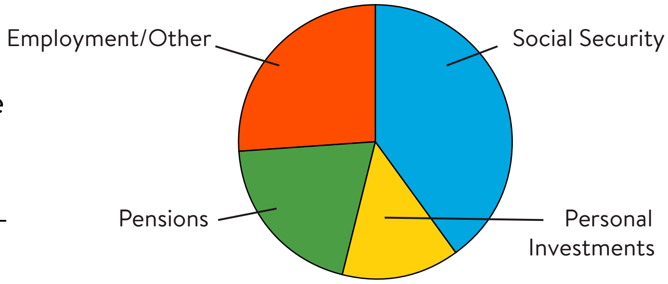
B. Employer-sponsored Plans: What are your options?

1. Pension/Profit Sharing: A pension is a qualified retirement plans established by a corporation or organization to provide income for its employees when they retire. There are restrictions as to when and how you can withdraw these funds without being charged taxes and penalties, and many pensions are now being replaced by 401(k) s. A profit sharing plan is one wherein the employees get a share of the profits of the company (hence, it's name). The company decides what portion of the profit will be shared and each employee then receives, into an account, a percentage of those profits based

on their earnings. There are typically restrictions as to when and how you can withdraw these funds without penalties. This type of plan is also known as a deferred profit sharing plan.

2. 401(k): Is a used when a participant in a company's qualified retirement plan defers a percentage of their salary into an investments such as stocks, bonds, or mutual funds. The advantage of this deferral arrangement is that the percentage of the money (salary) that is invested is deducted from personal income taxes and the earnings grow tax-deferred. Employers may make matching or non-elective contributions to the plan on behalf of eligible employees and may also add a profit sharing feature to the plan. Caps placed by regulations and/or the plan usually limit the percentage of salary deferral contributions. There are restrictions on how and when you can withdraw these assets and penalties may apply if the amount is withdrawn while you are under age 59 ½. For plans that allow participants to direct their own investments, the plan provides a core group of investment products that participants may choose from. Otherwise, professionals hired by the employer direct investments.
3. Simplified Employee Plan (SEP/IRA): This type of retirement plan is given favorable treatment by the IRS (allowing a tax deduction for contributions), given an employer and employee may make contributions towards an employee's retirement fund. Contributions to SEP IRAs are immediately 100% vested, and the IRA owner directs the investments.
4. TSA/457: Tax Sheltered Annuity (TSA), in addition to 457 plans, are retirement plans for schools, hospitals, and non-profit organizations. These can be invested in mutual funds or insurance companies, and can often be combined (seek professional assistance to determine if this doubling is right for you). TSA/457 plans are voluntarily offered by employers, and allow participants to allocate a portion of their salary to contribute on a per-pay basis. Contributions are pre-taxed and automatically deducted from the payroll. State and Federal income taxes are calculated on remaining pay.

As important as it is to consider opening a retirement savings plan early on in your employment, it is equitably important to understand how you will spend that income when the time comes. The Congressional Research Service has studied the sources of retirement income as being comprised of Social Security- 40%; Asset Income - 14%; Pensions- 20%; Employment/Other- 26%



Social Security: You can start to receive S.S. benefits as early as age 62, but the benefit amount you get will be less than your full retirement benefit. If you were born after 1937, you must be at least 65 to receive full benefits. Furthermore, if you were born after 1960, you must be 67 to receive full benefits. There are numerous factors that can alter this age specification (delayed retirement, benefits for family and spouse); review your personal earnings and benefit statement (form SSA-7004) from Social Security here: call toll free 1-800-772-1213, or visit www.ssa.gov.

Although Social Security is the largest percentage source of income for retried Americans today (40%), there have been significant changes that decrease that percentage; future Social Security recipients will need to be less reliant to S.S. as a source of retirement income. It is extremely important to plan your retirement income spending to make your money last as long as possible. There are several payout options to consider: monthly/periodic, lump-sum, 5-10 averaging, but each consumer must decide what is applicable given their source of retirement income.

Retirement savings plans

Personal Plans

	Available	Participate
Traditional IRA		
Roth IRA		
IRA Rollover		
Roth Conversion		

Employer-sponsored Plans

	Available	Participate
Pension/Profit Sharing		
401(k)		
Simple IRA/401(k)		
SEP		
TSA/457		
Thrift/ Savings plan		
Other		

Planning for retirement income

- Making your money last - Learn to budget and create a workable spending plan. Develop sound money management habits now, because they will be much harder to change later.
- Planning - Start saving early to build a sizable nest egg.
- Asset Consolidation - If you change jobs multiple times in your working life, you may end up with different retirement accounts that you want to consolidate. Do so with caution, as there may be negative tax consequences and exit fees from certain accounts. Not all assets can be consolidated, so seek the advice of a qualified professional.
- Simplification – Changes to the law in the last few decades have led to higher taxes on pension benefits. Stay abreast of further changes to your pension plans between now and retirement.
- Diversification – Keep funds in multiple kinds of investment vehicles. “A two-legged stool will not stand,” so have more than just Social Security and a 401(k) lined up for your retirement. A Roth IRA or Tax-Sheltered Annuity can help you avoid some negative tax consequences from retirement investing.
- Staying Ahead of Inflation – Real property that holds its value, like gold and silver, can be an effective hedge against inflation. They won’t appreciate in value, but they will be stable if the financial markets experience a protracted downturn. Holding a lot of cash in an account that doesn’t appreciate in value will leave you vulnerable to inflation. Save enough for your emergency savings fund, and plan to responsibly invest the rest.

Payout Options

- Self-Directed IRA rollover – if you change jobs and want to change your retirement plans, you can rollover the funds to a new IRA. This allows you to avoid witholding taxes and preserve the tax-deferred status of your retirement savings.
- Monthly/Periodic Payout - At regular intervals, a specific sum is paid out of your retirement account until the funds are exhausted. This can be done with a consistent payout amount, or one that changes based on the value remaining in the fund.
- Lump-sum payout - Taking your entire retirement fund in a lump sum will subject you to steep taxes at the time of withdrawal.
- 5-10 year averaging – You may be able to take a lump-sum distribution of your retirement payout, but pay taxes on that income as though it had been paid out over a 5 or 10 year span. You must meet certain qualifications to use 10-year averaging.
- Other______________________

Estate Planning

Questions to ask

- Do you have a will or trust (control)?
- Do you have an estate plan?
- If yes, have they been updated recently?
- Are your assets structured to achieve your goals and objectives?

Estate planning objectives

- Maintain standard of living
- Avoid conflicts
- Shorten delays
- Minimize expenses
- Provide for family and heirs
- Benefit community or charitable causes

Steps to an effective estate plan

- Make sure that you have an up-to-date will
- Review the ownership of property that you hold in joint tenancy
- Consider the benefits of a living trust as a means of carrying out your estate plan instead of relying entirely upon your will or joint tenancy.
- Investigate a gifting program, including trusts, as a means of distributing assets before your death
- Determine the need for any other estate planning strategies with the advice and assistance of your attorney.

Income

A consumer's fifth tier priority is his/her income.

The most important thing credit.org can tell you with regard to your income is to go back and re-read the section on insurance.

Especially if your income is derived from a skilled trade (auto mechanic, carpenter, plumber) you absolutely must have disability insurance to replace your income should you become incapacitated.

As for your income itself, it's important that you remember a crucial fact:

Credit is not a substitute for income.

At credit.org, we see many consumers on the verge of bankruptcy because they violated this principle. Using credit to get by in an emergency situation is a recipe for disaster. It merely puts off the emergency–that credit card bill will always be there. With interest.

Finally, budgeting is an absolute must; see our "Power of Paycheck Planning" materials (free of charge) for a more comprehensive discussion of creating a personal budget.

Monthly Cash Flow

_____Monthly Income

_____Wages, Salary, Tips

_____Self-Employed income

_____Alimony, child support

_____Rental income

_____Partnership income

_____Dividends from stock, mutual funds, etc.

_____Interest on savings accounts, bonds, CDs, etc

_____Social security benefits

_____Pensions

_____Other income

_____Total monthly income

_____Total monthly Income

-_____Total monthly expenses (see following page)

=_____Total monthly cash flow

Monthly expenses

Cost of living

______Mortgage payment or rent
______Car loan
______Credit cards
______Other installment loans
______Household maintenance
______Utilities (gas, water, electric)
______Telephone/ cellular phone/ pager
______Transportation or car (gas, oil, maintenance)
______Clothing/dry cleaning
______Food
______Education expenses
______Child care
______Medical/dental expenses
______Entertainment/recreation
______Charitable/community
______Other expenses
______Total living costs

Living Costs: ___________

Taxes

______Federal income taxes
______State income taxes
______FICA (Social Security)
______Local income taxes
______Property taxes
______Real estate taxes
______Other taxes
______Total monthly taxes

+ Taxes: ___________

Insurance

______Life insurance
______Disability insurance
______Property/liability insurance
______Automobile insurance
______Medical/dental insurance
______Other insurance
______Total insurance costs

+ Insurance: ___________

= Monthly Expenses: ___________

Actualization

Actualization represents the final stage of a consumer's financial development. It is what each of us strives for through the financial planning process.

When you have become actualized, your needs are met and you have the security to focus on other important goals and personal enrichment.

Achieving this is more than just a matter of accumulating wealth or investing wisely.

At some point on your road to financial security, you will have to analyze your own attitudes toward money and wealth. As long as your attitude toward money is unhealthy, your financial situation will be too.

Ask yourself this question: What do you think of rich people?

Did you say "greedy," "selfish," "miserly," "unhappy," or some other negative adjective? A myth that has been repeated in our culture by the media holds that rich people are all miserable. Perhaps it goes back to Dickens' characterization of Ebenezer Scrooge; certainly the working class found much to despise about the rich during the industrial age. But suggestions like "more money, more problems" serve to placate the lower classes in a society as filled with iniquity as ours.

Instead consider these adjectives for the rich: "hard-working," "committed," "savvy," "smart," "frugal," "prudent," etc. When your attitude towards wealth changes to one of positive associations, true actualization will be possible.

What are your financial goals and objectives?

The 7 step process

Analysis

1. Identify Personal goals

2. Prioritize your objective

3. Gather Financial Information

Strategies

4. Analyze Financial Information

5. Propose Appropriate Solutions

Actions

6. Take necessary Actions

7. Review & Monitor Progress

Objectives					
	Emergency $	Retirement $	Education $	Other $	Total $
Cash					
What I have now					
What I think I need					
Income-oriented					
What I have now					
What I think I need					
Growth-Oriented					
What I have now					
What I think I need					
Balanced					
What I have now					
What I think I need					
Total					

Cash - Keep 3 or preforably 6 months' income on hand for emergencies.

Income Oriented - Your return will be stable income, from very safe investments. Make these investments when you are looking for near-term income, like when retirement is imminent.

Growth-Oriented - Riskier than other investments, but carrying greater rewards. Best to make these investments when you are younger.

Balanced - A balance between growth and income, this is medium in terms of risk/return.

To have a properly diversified retirement portfolio, strive to have a mix of all of the above.

Retirement Income Worksheet

	In Today's Dollars		In future dollars
Income objective at age __	$_____		$_____
Expected Income:			
Investments	$_____		
Social Security	$_____		
Government	$_____		
Pension	$_____		
Employment	$_____		
Other	$_____		
Total Expected Income	$_____		$_____
Balance	$_____	Surplus/Deficit	$_____

Notes

Credit.org
1450 Iowa Avenue
Suite 200
Riverside, CA 92507

PO Box 5438
Riverside, CA 92517-5438

1-800-WISE-PLAN (800.947.3752)

www.credit.org

education@credit.org