Associate Financial Educator (AFEd)

Online Certification Training

Overview

The purpose of this program is to provide you, the learner with a basic understanding of the essential elements that are necessary for both financial education and financial planning. In particular, this course will be an important step for you to build your career as a financial educator and a financial planner within the financial services industry.

Within the concept of learning, two principles are widely recognized by the Heartland Institute of Financial Education (HIFE). The first is that adults want to understand and apply what they learn; they are "volunteers" in the financial education "classroom" today, seeking answers to specific financial questions. These individuals function best when they receive proper guidance and education towards their specific objectives, along with learning best when they are taught, not "told" what to do. Second, knowledge is power, or perhaps better said, "Knowledge provides adults with the information and confidence to make positive behavioral changes". These changes are critical if we hope to become a nation (including the rest of the world) that learns to function soundly and effectively within our respective financial situations. Obviously, this begins with each individual.

A simple definition of financial education or financial literacy might be:
"The ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being."
The Government Accounting Office (GAO) of the United States goes on to expand the definition as follows:
"The ability to understand financial choices, plan for the future, spend wisely, and manage the challenges that come with life events, such as job loss, saving for retirement, or a child's education."

In both cases, it's clear that a person needs both knowledge and skills to accomplish specific functions in order to be financially secure. Financial education helps individuals become self-sufficient so that they can achieve financial stability. Those who understand the subject should be able to answer questions about purchases, such as whether an item is required, whether it is affordable, and whether it is an asset or a liability.

Overview

This field demonstrates the behaviors and attitudes a person possesses about money that is applied to his or her daily life. Financial education shows how an individual makes financial decisions. This skill can help a person develop a financial road map to identify what is earned, what is spent and what is owed. This topic also affects small business owners, who greatly contribute to economic growth and stability. The lack of financial education affects all ages and all socioeconomic levels and may cause many people to become victims of predatory lending, subprime mortgages, and fraud and high interest rates, potentially resulting in bad credit, bankruptcy or foreclosure. The lack of financial education can lead to owing large amounts of debt and making poor financial decisions. For example, the advantages or disadvantages of fixed and variable interest rates are concepts that are easier to understand and make informed decisions about if you possess financial literacy skills. Based on research data by the Financial Industry Regulatory Authority, 63% of Americans are financially illiterate. They lack the basic skills to reconcile their bank accounts, pay their bills on time, pay off debt and plan for the future.
In order to gain that knowledge and skill, the individual may also need the assistance of a personal instructor and guide to help them effectively meet their specific financial goals.

Financial planning may be defined as:

"A comprehensive evaluation of an individual's current pay and future financial state by using current known variables to predict future income, asset values and withdrawal plans. This includes a current and future retirement budget which organizes an individual's finances and includes a series of steps or specific goals for spending and saving in the future. This plan allocates future income to various types of expenses and also reserves some income for short-term and long-term savings. It covers a wide variety of money topics including budgeting, expenses, debt, saving, insurance coverage, investing, retirement, tax planning, estate planning and planning for college if you have children. Understanding how each of these topics works together and affect each other is important for laying the groundwork for a solid financial foundation, as well as properly anticipating and preparing for the future.

It is clear that effective, properly employed financial education and financial planning create the perfect marriage when it comes to aiding individual adults to gain financial independence and the ultimate goal of financial security.

This course will guide you through a basic understanding of these concepts, with the idea that you will be better equipped to help others realize the importance of both financial education and financial planning, along with a greater appreciation of how it will help you, personally.
It is also the first step towards becoming a financial educator and planner yourself. Understanding these basic concepts, along with gaining experience by working with practicing financial professionals is an effective way to learn the financial planning process and the best way to work with, educate and assist adult learners.

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Section 1

Budgeting and Cash Management

Budgeting and Cash Management

A personal budget is a finance plan that allocates future personal income towards expenses, savings and debt repayment. Past spending and personal debt are considered when creating a personal budget. There are several methods and tools available for creating, using and adjusting a personal budget. Personal budgeting, while not particularly difficult, tends to carry a negative connotation among many consumers; and sticking to a few basic concepts helps to avoid several common pitfalls of budgeting.
Clearly, a household's need to estimate average (monthly and yearly) income is paramount; spending, which will be relatively constant, needs to be maintained below that amount. A budget being an approximate estimation, room for error should always be allowed so keeping expenses 5% or 10% below the estimated income is a prudent approach. When done correctly, households should end any given year with at least 5% of their income left over. Of course, the better the estimates, the better the results will be.

To avoid running out of money because expenses occur before the money actually arrives (known as a cash flow problem in business jargon) a "safety cushion" of excess cash (to cover those months when actual income is below estimations) should be established. There is no easy way to develop a safety cushion, so families frequently have to spend less than they earn until they have accumulated a cushion. This can be a challenging task particularly when starting during a low spot in the earning cycle, although this is how most budgets begin. In general, households that start out with expenses that are 5% or 10% below their average income should slowly develop a cushion of savings that can be accessed when earnings are below average. Whether this rate of building a cushion is fast enough for a given financial situation depends on how variable income is, and whether the budgeting process starts at a high or low point during the earnings cycles.

Purpose

A budget should have a purpose or defined goal that is achieved within a certain time-period. Knowing the source and amount of income and the amounts allocated to expense events are as important as when those cash flow events occur. Additionally, money saved through the use of a budget may be saved and invested to help complete other financial goals and objectives.

Simplicity

The more complicated the budgeting process is, the less likely a person is to keep up with it. The purpose of a personal budget is to identify where income and expenditure is present in the common household; it is not to identify each individual purchase ahead of time. How simplicity is defined with regards to the use of budgeting categories varies from family to family, but many small purchases can generally be lumped into one category (Car, Household items, etc.).

Flexibility

The budgeting process is designed to be flexible; the consumer should have an expectation that a budget will change from month to month and will require monthly review. Cost overruns in one category of a budget should in the next month be accounted for or prevented. For example, if a family spends $40 more than they planned on food in spite of their best efforts, next month's budget should reflect an approximate $40 increase and corresponding decrease in other parts of the budget.

"Busting the budget" is a common pitfall in personal budgeting; frequently busting the budget can allow consumers to fall into pre-budgeting spending habits. Anticipating budget-busting events (and under-spending in other categories), and modifying the budget accordingly, allows consumers a level of flexibility with their incomes and expenses.

Budgeting for irregular income

Special precautions need to be taken for families operating on an irregular income. Households with an irregular income should keep two common major pitfalls in mind when planning their finances: spending more than their average income and running out of money even when income is on average.

Clearly, a household's need to estimate their average (yearly) income is paramount; spending, which will be relatively constant, needs to be maintained below that amount. A budget being an approximate estimation, room for error should always be allowed so keeping expenses 5% or 10% below the estimated income is a prudent approach. When done correctly, households should end any given year with about 5% of their income left over. Of course, the better the estimates, the better the results will be.

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Budgeting for Retirement

It's important to calculate how much you spend today and compare that to what you will likely spend in the future. This "retirement spending plan" is critical to calculate. Don't make the mistake of assuming you'll need a certain percentage of what you earn today. As you work on building a household budget and try to project your future income needs, you also need to remember that inflation is going to result in decreased buying power in the future.

Budgeting for Retirement (Continued)

You'll need to take some pretty accurate educated guesses, including answers to the following questions:

- What will be the rates of return on your investments?
- How much money is held in pre-tax retirement accounts such as traditional IRAs?
- How much money is held in non-taxable retirement accounts such as 403b and 401k plans?
- What tax rates or brackets will exist in the future?
- Will Social Security be available?
- Will you have a pension you can use to supplement your retirement income?

Using Credit Cards

Credit cards are safer to carry than cash and they're always there when you need them in an emergency. They make it easy to shop. They also give you extra time to pay for a purchase.

Unfortunately, credit cards can also be dangerous. Using them too much can lead to overspending and debt. Being careless with them can make you a victim of fraud.

Tips for Choosing Your Credit Card Issuer

- **Beware of special offers.** If you get a credit card offer in the mail that advertises an unbelievable 2.5-percent interest rate, don't believe it. Check the fine print. The interest rate will probably rise - maybe higher than 20 percent - in the coming months.

- **Shop for the best deal.** Look for a card that has a low annual fee and interest rate. Make sure that you'll owe no interest as long as you pay your monthly bill in full and on time.

- **Think twice.** Think twice before purchasing insurance that promises to pay your credit card bills if you can't. Often, this insurance is not worth the expense.

Tips for Using Your Credit Card

- **Don't carry your credit card with you every day.** If you think you will overuse it, keep the card at home. To keep your credit cards safe, don't carry more cards than you plan to use.
- **Keep your credit card number to yourself.** Criminals use stolen credit card numbers to make purchases over the phone, through the mail, or on the Internet. They can even use your number to make themselves a new credit card. To protect your number, shield your credit card from the people around you when checking out at store registers. Don't give your credit card number over the telephone unless you initiated the call and are making a specific purchase. Only shop at secure Internet Web sites. Guard your receipts too, since they carry your credit card number.
- **Don't leave blanks.** Always total your charge slip before signing your credit card receipt. Never sign a blank charge slip. Don't leave blank spaces where additional amounts could be added to your slip later by a dishonest sales person.
- **Report stolen or lost cards immediately.** If you don't call and write, the company can hold you liable for fraudulent charges of up to $50 per card. By calling early, you allow the company to stop the thief by canceling your credit card number.
- **Don't write your Personal Identification Number (PIN) on your credit card.** A credit card company may give you a PIN number that you can use to receive a cash advance from an Automated Teller Machine. If your card is stolen, a thief can use your PIN to "borrow" large amounts of cash on your card.

Tips for Paying Your Bills

- **Pay your bill on time.** That way you'll avoid paying late fees of $25 or more. Being late can also drag down your credit score, increasing the cost of any credit you may need. You should know that even if you pay your credit card bill on time, they can and will increase your interest rate if you are late with payments on other debts.
- **Pay as much on your bill as you can.** Pay at least the minimum. Paying even a few dollars more than the minimum is better. Credit card companies are increasing the minimum payment from around 2% to about 4%. In effect this doubles that minimum you must pay each month. At first this may be hard to do, but over the long run it helps you cut the time and cost to pay off the balance.
- **Pay your entire bill, if possible.** Otherwise, you'll wind up paying high interest rates on the remaining balance.
- **Make sure your monthly statement is accurate.** To correct billing errors, follow the instructions on the back of your statement.
- **Know your rights and responsibilities.** Three major laws protect borrowers from unfair practices. For more information, visit the Federal Trade Commission Web site.

Using Debit Cards

If you want the convenience of a credit card, but don't want interest payments or a large bill to pay off monthly, then a debit card may be the answer for you, too. Debit cards work like cash or a personal check. The money you "charge" is automatically deducted from your bank account. Yet, debit cards don't have the same protections from unauthorized use as credit cards.

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Debit Card or Credit Card?

What's the difference between a debit card and a credit card?

While a debit card looks like a credit card, it works more like cash or a personal check. You "pay now." With a credit card, you "pay later."

Debit means "subtract." When you use a debit card, you subtract money from your own checking or savings account. As with credit cards, you use it in stores for purchases. At check-out, the card reader electronically contacts your bank and subtracts the amount from your account. The money you have in your bank account limits how much you can spend. However, if you are not careful in watching your daily account balance, you can over withdraw your account. Some systems will allow you to use your debit card when you don't have enough money in your account to cover the purchase. This can result in hefty overdraft fees.

Using a **credit card** is somewhat like taking out a loan from a bank or other financial institution. You have to pay back the credit you used each month. If you pay back less than the full amount you owe each month, you pay interest on the amount you don't pay back. The credit card company sets the total amount you can charge based on your credit history, income, debts and ability to pay.

Some cards are dual-purpose credit/debit cards. Before you swipe the card through the reader, you select a "credit" or "debit" button on the reader. If you select "debit," you then enter your Personal Identification Number (PIN).

If you select "credit," you are given a credit receipt to sign. "Credit" charges will appear on your next charge account bill.

What are the advantages of a debit card?

It is often easier to get than a credit card.

You don't have to get your check approved or show identification at stores.

You don't have to carry cash, a checkbook or traveler's checks.

Debit cards are more readily accepted than checks, especially when you are traveling.

You don't pay interest charges.

Because checkout lines move faster, storeowners like debit cards. They don't worry about bounced checks or need to take checks or cash to the bank. Debit card processing fees for the merchant are generally lower than credit card fees.

What are the disadvantages of a debit card?

You need enough money in your bank account to cover each purchase.

Since you paid for the purchase at checkout and the money is out of your account, you have less protection if something goes wrong with the purchase. Your bank won't put money back into your account for items that are never delivered, don't work or were misrepresented.

You may have bank fees—such as monthly service charges, per-transaction costs or penalties—for dropping below your required minimum balance. Check with your bank to find out those extra costs.

You have less protection if your debit card is lost or misused than with a credit card.

Protecting Your Debit Card

A debit card is like a blank check, so you need to guard the card and the account number carefully against loss or misuse. A thief can clear out your bank account before you even know your card is missing.
If your debit card is lost or stolen, or if you think someone is using it fraudulently, call your bank immediately. Follow the phone call with a letter.

Thieves don't even need your card. As long as they have your name and card number, they can order goods by mail or over the telephone. They can wipe out your bank account before you know the card is missing, or even when you still have the card in your pocket. Protect your debit card by holding on to your debit card receipts and check them against your bank statement each month.

Memorize your PIN but don't keep it with your card. Don't choose one that a smart thief could figure out, like your phone number, address, birthday or part of your Social Security number. Never give your PIN to anyone.

Section 2

Risk Management and Insurance

The Purpose of Risk Management

The purpose of risk management is to identify potential problems before they occur so that risk-handling activities may be planned and invoked as needed across the life of the product or project to mitigate adverse impacts on achieving objectives. Risk management is a continuous, forward-looking process that is an important part of business and technical management processes. Risk management should address issues that could endanger achievement of critical objectives. A continuous risk management approach is applied to effectively anticipate and mitigate the risks that have critical impact on the project.

Effective risk management includes early and aggressive risk identification through the collaboration and involvement of relevant stakeholders. Strong leadership across all relevant stakeholders is needed to establish an environment for the free and open disclosure and discussion of risk. Although technical issues are a primary concern both early on and throughout all project phases, risk management must consider both internal and external sources for cost, schedule, and technical risk. Early and aggressive detection of risk is important because it is typically easier, less costly, and less disruptive to make changes and correct work efforts during the earlier, rather than the later, phases of the project.

The Risk Management Process

Good risk management doesn't have to be resource intensive, difficult to undertake or provide for clients. With a little formalization, structure and a strong understanding of needs and risks, risk management planning can be rewarding.

Risk management does require some investment of time and money but it does not need to be substantial to be effective. In fact it will be more likely to be employed and maintained if it is implemented gradually over time. The key is to have a basic understanding of the process and to move towards its implementation. There are many different risk management models available. In summary, the five steps in the risk management process are:

1. **Identify Potential Risks:** What can possibly go wrong?
2. **Measure Frequency and Severity:** What is the likelihood of the risk occurring and if so what is the impact?
3. **Examine Alternative Solutions:** What are the potential ways to treat the risk and of these, which strikes the best balance between being affordable and effective?
4. **Decide Which Solution to Use and Implement it:** Find the needed resources, get the necessary buy-in and implement.
5. **Monitor Results:** Is your plan working? Are changes or updates required?

How much life insurance do you need? Let's explore the "DIME" method, this is an acronym for Debt, Income, Mortgage and Education. Use the DIME formula as a starting point in calculating your life insurance needs.

- **D = Debt.** If you were to die tomorrow, how much debt would you leave behind? If you're not independently wealthy and haven't prepared with life insurance, all of that debt gets passed on to your family. So your life insurance policy should cover any debt. You'll also want to include funeral expenses in that debt figure. For example, let's say you have $20,000 in credit card debt and $20,000 in student loans, and you're budgeting $10,000 for your funeral. Your total debt is $50,000.
- **I = Income.** Your life insurance policy needs to provide a sufficient income for your family to maintain its standard of living until the youngest child turns 18. In this example, let's assume that your youngest child will graduate in 10 years; so we'll multiply your annual income by 10. For example, if you make $55,000 per year, you might consider a $550,000 policy.
- **M = Mortgage.** If you're still paying on a mortgage, your life insurance policy should pay off the remaining balance of your mortgage loan. So, if you still owe $100,000 on your home, for example, add that figure to your debt and your income.
- **E = Education.** If you have children, do you plan to send them to college? If so, you should budget a minimum of $100,000 per child for a four-year university education at a state school. That includes tuition fees, room and board and books. If you're thinking of a private university or out-of-state school, get ready to pay a lot more. Financial aid and student loans help, but there's no guarantee of getting scholarships, and loans can come with high interest rates.

So, let's take the figures on the previous slide and consider that you have two children you plan to send to college. Here's how it adds up

Debt: $50,000
Income: $550,000
Mortgage: $100,000
Education: $200,000
DIME = $900,000

According to the DIME formula, your recommended life insurance coverage is $900,000. Of course, each person's needs are different, so just consider this a baseline analysis and customize your coverage amount as needed. Remember, some insurance is better than none at all.

We may not like to talk about death, but we all understand the importance of planning for the future of our loved ones. Life insurance gives peace of mind, for you and everyone who depends on you. Beyond providing financial security, life insurance can also be used as a tool to fund college tuition or retirement.

There are two basic kinds of life insurance policies: Permanent (or cash value) life insurance and term insurance.

Whole-life policies, a type of permanent insurance, combine life coverage with an investment fund. Here, you're buying a policy that pays a stated, fixed amount on your death, and part of your premium goes toward building cash value from investments made by the insurance company. Cash value builds tax-deferred each year that you keep the policy, and you can borrow against the cash accumulation fund without being taxed. The amount you pay usually doesn't change throughout the life of the policy.

Universal life is a type of permanent insurance policy that combines term insurance with a money market-type investment that pays a market rate of return. To get a higher return, these policies generally don't guarantee a certain rate.

Variable life and variable universal life are permanent policies with an investment fund tied to a stock or bond mutual-fund investment. Returns are not guaranteed.

Term insurance
The other type of coverage is **term insurance**, which has no investment component. You're buying life coverage that lasts for a set period of time provided you pay the monthly premium. Annual-renewable term is purchased year-by-year, although you don't have to re-qualify by showing evidence of good health each year.

When you're young, premiums for annual-renewable term insurance are fairly cheap - as low as a few hundred dollars per year for $250,000 worth of coverage.
As you get older, premiums steadily increase. Level-premium term has somewhat higher - but fixed - premiums for longer periods, anywhere from five to 30 years.
Term assurance provides life insurance coverage for a specified term. The policy does not accumulate cash value. Term is generally considered "pure" insurance, where the premium buys protection in the event of death and nothing else.

There are three key factors to be considered in term insurance:

1. **Face amount (protection or death benefit),**
2. **Premium to be paid (cost to the insured), and**
3. **Length of coverage (term).**

Various insurance companies sell term insurance with many different combinations of these three parameters. The face amount can remain constant or decline. The term can be for one or more years. The premium can remain level or increase. Common types of term insurance include level, annual renewable and mortgage insurance.

A level term policy features a premium fixed for a period longer than a year. These terms are commonly 5, 10, 15, 20, 25, 30 and even 35 years. Level term is often used for long-term planning and asset management as premiums remain constant year to year, allowing for long-term budgeting. At the end of the term, some policies contain a renewal or conversion option. With guaranteed renewal, the insurance company guarantees it will issue a policy of an equal or lesser amount without regard to the insurability of the insured and with a premium set for the insured's age at that time. Some companies however do not guarantee renewal, and require proof of insurability at the time of renewal. Renewal that requires proof of insurability often includes a conversion option that allows the insured to convert the term policy to a permanent one, possibly compelling the applicant to agree to higher premiums. Renewal and conversion options can be very important when selecting a policy.

Annual renewable term is a one-year policy, but the insurance company guarantees it will issue a policy of an equal or lesser amount regardless of the insurability of the applicant, and with a premium set for the applicant's age at that time.

Another common type of term insurance is **mortgage life insurance**, which usually involves a level-premium, declining face value policy. The face amount is intended to equal the amount of the mortgage on the policy owner's property, such that any outstanding amount on the applicant's mortgage will be paid should the applicant die.

A policy holder insures his life for a specified term. If he dies before that specified term is up (with the exception of suicide), his estate or named beneficiary receives a payout. If he does not die before the term is up, he receives nothing. However, in some European countries (notably Serbia), insurance policy is such that the policy holder receives the amount he has insured himself to, or the amount he has paid to the insurance company in total. Suicide used to be excluded from all insurance policies. However, after a number of court judgments, many insurers began awarding payouts in the event of suicide (except for cases where it can be demonstrated that the insured committed suicide solely to access the policy payout). Generally, if an insured person commits suicide within the first two policy years, the insurer will simply return the premiums paid as a compromise. After this period, the full death benefit may be paid in the event of suicide.

Permanent life insurance remains active until the policy matures, unless the owner fails to pay the premium when due. The policy cannot be cancelled by the insurer for any reason except fraudulent application, and any such cancellation must occur within a period of time defined by law (usually two years). A permanent insurance policy accumulates a cash value, reducing the risk to which the insurance company is exposed, and thus the insurance expense over time. This means that a policy with a million-dollar face value can be relatively expensive to a 70-year-old. The owner can access the money in the cash value by withdrawing money, borrowing the cash value, or surrendering the policy and receiving the surrender value.

The four basic types of permanent insurance are whole life, universal life, limited pay and endowment. Universal life is often specified as Indexed Universal Life (IUL) and will be covered separately in this text.

Whole life coverage provides lifetime death benefit coverage for a level premium in most cases. Part of the insurance contract stipulates that the policyholder is entitled to a cash value reserve, which is part of the policy and guaranteed by the company. This cash value can be accessed at any time through policy loans and are received income tax free. Policy loans are available until the insured's death. If there are any unpaid loans upon death, the insurer subtracts the loan amount from the death benefit and pays the remainder to the beneficiary named in the policy.

While the marketing divisions of some life insurance companies often explain whole life as a "death benefit with a savings component", this distinction is artificial according to life insurance actuaries Albert E. Easton and Timothy F. Harris. The cash value reserve builds up against the death benefit of the policy and reduces the net amount at risk. The net amount at risk is the amount the insurer must pay to the beneficiary should the insured die before the policy has accumulated an amount equal to the death benefit. It is the difference between the current cash value amount and the total death benefit amount. Because of this relationship between the cash value and death benefit, it may be more accurate to describe the policy as a single, indivisible product, as no actual separation of the cash value and death benefit is possible. The insurer is actually setting aside money as a cash reserve to pay the future death benefit claim. This suggests that the cash value is technically part of the death benefit, which is "earned" as cash over time. The lack of separation between the cash value and death benefit also explains why insurers do not pay both the death benefit and the cash value to the beneficiary.

The advantages of whole life insurance are guaranteed death benefits, guaranteed cash values, fixed, predictable annual premiums and mortality and expense charges that will not reduce the cash value of the policy. The disadvantages of whole life are inflexibility of premiums and the fact that the internal rate of return in the policy may not be competitive with other savings alternatives. Riders are available that can allow one to increase the death benefit by paying additional premium. One such rider is a paid-up additions rider.

The death benefit can also be increased through the use of policy dividends, though these dividends cannot be guaranteed and may be higher or lower than historical rates over time. According to internal documents from some life insurance companies, like Massachusetts Mutual, the internal rate of return and dividend payment realized by the policyholder is often a function of when the policyholder buys the policy and how long that policy remains in force. Dividends paid on a whole life policy can be utilized in many ways. First, if "paid-up additions" is elected, dividends will purchase additional death benefit which will increase the death benefit of the policy to the named beneficiary. Since this additional death benefit generates cash value, it also increases the cash value of the policy. Another alternative is to opt in for 'reduced premiums' on some policies. This reduces the owed premiums by the non-guaranteed dividends amount. A third option allows the owner to take the dividends as they are paid out (although some policies provide other/different/less options than these - it depends on the company for some cases). A final option is to invest the dividends in the insurance company's general or separate account.

Universal life coverage

Universal life insurance (UL) is a relatively new insurance product, intended to combine permanent insurance coverage with greater flexibility in premium payment, along with the potential for greater growth of cash values. There are several types of universal life insurance policies which include interest sensitive (also known as "traditional fixed universal life insurance"), variable universal life (VUL), guaranteed death benefit, and equity indexed universal life insurance.

A universal life insurance policy includes a cash value. Premiums increase the cash values, but the cost of insurance (along with any other charges assessed by the insurance company) reduces cash values. However, with the exception of VUL, interest is paid at a rate specified by the company, further increasing cash values. With VUL, cash values will be and flow relative to the performance of the investment sub-accounts the policy owner has chosen. The surrender value of the policy is the amount payable to the policy owner after applicable surrender charges, if any.

Universal life insurance addresses the perceived disadvantages of whole life – namely that premiums and death benefit are fixed. With universal life, both the premiums and death benefit are flexible. Except with regards to guaranteed death benefit universal life, this flexibility comes with the disadvantage of reduced guarantees.

Universal life coverage

Depending on how interest is credited, the internal rate of return can be higher as it moves with prevailing interest rates (interest-sensitive) or the financial markets (equity indexed universal life and variable universal life). Mortality costs and administrative charges are known, and cash value may be considered more easily attainable because the owner can discontinue premiums if the cash value allows this.

Flexible death benefit means the policy owner can choose to decrease the death benefit. The death benefit could also be increased by the policy owner, but that would typically require the insured to go through a new underwriting. Another feature of flexible death benefit is the ability to choose from option A or option B death benefits, and to change those options during the life of the insured. Option A is often referred to as a level death benefit. Generally speaking, the death benefit will remain level for the life of the insured and premiums are expected to be lower than policies with an Option B death benefit. Option B pays the face amount plus the cash value. If cash values grow over time, so would the death benefit which is payable to the insured's beneficiaries. If cash values decline, the death benefit would also decline. Presumably, option B death benefit policies would require higher premiums than option A policies.

Indexed Universal Life Insurance

Indexed universal life insurance is a type of permanent life insurance — it stays in place as long as you live and keep paying premiums, according to the National Association of Insurance Commissioners (NAIC). As with other types of permanent life insurance, part of the premium you pay goes toward a death benefit, and the other part is credited to a cash value account, says the American Institute of CPAs (AICPA). The money in your cash value account has the potential to earn interest based on the index chosen by your insurer, the AICPA explains.

Key Features of Indexed universal life insurance

No fixed interest rate. When you purchase indexed universal life insurance, funds in your cash value indexed account don't earn a fixed rate of interest, the NAIC explains. Instead, your rate of interest is based on an index chosen by your insurer. According to the Securities and Exchange Commission, an index tracks the performance of the specific basket of investments, such as stocks or bonds. Your insurer selects the index, and then calculates an interest rate based on the performance of the index, says the NAIC. Your insurer then credits that interest to your cash value account.

Interest rate guarantee. The NAIC also says that policies typically include an interest rate guarantee, so a minimum interest rate is paid even if the index produces lower returns. However, interest rates are usually also subject to a "cap" or upper limit.

Adjustable premium payments: Your policy will likely specify a planned premium for you. However, if you have enough money in your cash value account, you may be able to use those funds to help pay your premiums.

Adjustable death benefit: Death benefits are typically flexible with an indexed universal life policy, and you can usually lower them at any time. However, increasing the death benefit may require you to pass a medical examination.

Access to cash value: In case of emergency, you may be able to borrow from your indexed universal life insurance policy, although you will likely be charged interest for doing so. You may also be able to make withdrawals from your cash value account. However, doing so may permanently reduce your death benefit.

Who might choose Indexed Universal Life Insurance?

The Insurance Information Institute suggests that permanent life insurance may be a good option if you need lifelong life insurance and want to build your cash account over the long term. The NAIC points to the fact that indexed universal life insurance offers both potential for growth based on the market, as well as protection from losing value if the market falls. If these features appeal to you, you might consider indexed universal life insurance. An insurance agent or advisor may help you make an informed decision about whether indexed universal life insurance is right for you.

A final comment about life insurance is that the death benefit is tax-free when paid to a named beneficiary.

Disability Insurance Protection

Coverage for disability insurance may be group (employer sponsored), individual (owned directly by the insured through an insurance company) or both. Group policy premiums are often paid by the employer as a "benefit" and will provide disability benefits to the insured on a taxable basis, while individually owned disability policies usually provide disability benefits that are not taxable.

1. Salary Continuation Plans

Salary continuation plans, which include sick leave, are employer-provided benefits for short-term disability. Short-term disability refers to the inability to work for periods of six month or less. (Long-term disability refers to the inability to work for periods longer than six months). Salary continuation plans typically replace an employee's full amount of income for the period of time he or she is unable to work because of illness or injury. The period starts with the first day of disability and continues to the period limit specified by the plan. However, some plans provide a reduced level of benefits after a certain period of time. For example, a salary continuation plan might provide full salary replacement for the first three months of disability, replace 70 percent of lost income for the next three months of disability, and not provide any benefits for disabilities continuing after six months (at which time long-term disability benefits are likely to begin). Most Salary continuation plans cover only full-time employees and might be available only to certain classes of employees, such as nonunion employees or senior management. Most salary continuation plans also require that employees satisfy a probationary period before they become eligible to receive benefits under the plan.

2. Disability Income Insurance

Disability income insurance is designed to replace a portion of income workers lose when they become unable to work as a result of illness or injury. It may be sold by private insurers on a group and an individual basis.

3. Duration of Disability Income Benefits

Disability income insurance is available on a short-term and long-term basis. Short-term disability income insurance is designed to provide income benefits for short periods of time, ranging from thirteen to fifty-two weeks, with twenty-six weeks being most common.

Short-term disability income insurance generally does not cover disabilities caused by occupational illness or injury. Most work-related disabilities are covered by workers compensation. However, some employers provide coverage under their group short-term disability income policy for all types of disability, occupational and non-occupational. In this case, the coverage is coordinated with workers compensation and is referred to as twenty-four-hour coverage. Short-term disability income insurance is the level of disability income protection. Long-term disability income insurance can be arranged to begin benefit payments when short-term benefits end. Long-term disability income insurance is designed to provide benefits for an extended period of time. Many long-term disability policies provide income benefits until normal retirement age. Usually, group long-term disability (LTD) benefits are provided for all types of disability; occupational and non-occupational.

4. Total Disability

To receive total disability benefits, an insured must be totally disabled. A typical definition to total disability specifies that at the beginning of a period of total disability and until disability income benefits are paid for a specified period the insured is eligible for total disability benefits if he or she is unable to engage in his or her own occupation. After such a period, the insured will be considered totally disabled only if he or she is unable to engage in any gainful occupation for which he or she is reasonably fitted by education, training, or experience with consideration given to the insured's previous earning level. Some policies permit the insured to recover benefits indefinitely for total disability as long as he or she is unable to engage in the "substantial and material" duties of his or her own occupation and has a loss of income.

5. Partial Disability

In some situations, a disabled insured can return to some work but cannot work at full capacity for a temporary period of time. This is referred to as partial disability. Some disability income insurance policies provide benefits for partial disability in addition to benefits for total disability. Thus if an insured is partially disabled or is totally disabled for a time and then partially disabled for a while before reaching full recovery, his or her disability income insurance policy will provide benefits, subject to policy to policy limits, until he or she is fully recovered. Partial disability benefits are payable for a shorter period than are total disability benefits.

6. Residual Disability

In some cases, the insured is left with permanently diminished working capacity and suffers a permanent reduction in earnings even though he or she is not totally disabled. This is referred to as residual disability. Coverage for residual disability applies when an insured returns to work at a reduced income following a period of total disability. Benefits are payable in proportion to the reduction in the insured's earnings from before the onset of total disability.

7. Group Disability

Group disability insurance underwriters are generally not concerned about any individual disability income insurance policies that an insured owns. In addition, group disability income insurance policies might not reduce income benefits by amounts received from individual disability income insurance policies.

Medical (health) Insurance

Health insurance is insurance against the risk of incurring medical expenses among individuals. By estimating the overall risk of health care expenses among a targeted group, an insurer can develop a routine finance structure, such as a monthly premium or payroll tax, to ensure that money is available to pay for the health care benefits specified in the insurance agreement. The benefit is administered by a central organization such as a government agency, private business, or not-for-profit entity.

A health insurance policy is:

1) a contract between an insurance provider (e.g. an insurance company or a government) and an individual or his sponsor (e.g. an employer or a community organization). The contract can be renewable (e.g. annually, monthly) or lifelong in the case of private insurance, or be mandatory for all citizens in the case of national plans. The type and amount of health care costs that will be covered by the health insurance provider are specified in writing, in a member contract or "Evidence of Coverage" booklet for private insurance, or in a national health policy for public insurance.

2) Insurance coverage is provided by an employer-sponsored self-funded ERISA plan. The company generally advertises that they have one of the big insurance companies. However, in an ERISA case, that insurance company "doesn't engage in the act of insurance", they just administer it. Therefore ERISA plans are not subject to state laws. ERISA plans are governed by federal law under the jurisdiction of the US Department of Labor (USDOL). The specific benefits or coverage details are found in the Summary Plan Description (SPD). An appeal must go through the insurance company, then to the Employer's Plan Fiduciary. If still required, the Fiduciary’s decision can be brought to the USDOL to review for ERISA compliance, and then file a lawsuit in federal court.

The individual insured person's obligations may take several forms:

- **Premium:** The amount the policy-holder or his sponsor (e.g. an employer) pays to the health plan to purchase health coverage.
- **Deductible:** The amount that the insured must pay out-of-pocket before the health insurer pays its share. For example, policy-holders might have to pay a $500 deductible per year, before any of their health care is covered by the health insurer. It may take several doctor's visits or prescription refills before the insured person reaches the deductible and the insurance company starts to pay for care however, most policies do not apply co-pays for doctor's visits or prescriptions against your deductible.

The individual insured person's obligations may take several forms (cont'd):

- **Co-payment:** The amount that the insured person must pay out of pocket before the health insurer pays for a particular visit or service. For example, an insured person might pay a $45 co-payment for a doctor's visit, or to obtain a prescription. A co-payment must be paid each time a particular service is obtained.

- **Coinsurance:** Instead of, or in addition to, paying a fixed amount up front (a co-payment), the co-insurance is a percentage of the total cost that insured person may also pay. For example, the member might have to pay 20% of the cost of a surgery over and above a co-payment, while the insurance company pays the other 80%. If there is an upper limit on coinsurance, the policy-holder could end up owing very little, or a great deal, depending on the actual costs of the services they obtain.

- **Exclusions:** Not all services are covered. The insured are generally expected to pay the full cost of non-covered services out of their own pockets.

- **Coverage limits:** Some health insurance policies only pay for health care up to a certain dollar amount. The insured person may be expected to pay any charges in excess of the health plan's maximum payment for a specific service. In addition, some insurance company schemes have annual or lifetime coverage maximums. In these cases, the health plan will stop payment when they reach the benefit maximum and the policy-holder must pay all remaining costs.

The individual insured person's obligations may take several forms (cont'd):

- **Out-of-pocket maximums:** Similar to coverage limits, except that in this case, the insured person's payment obligation ends when they reach the out-of-pocket maximum, and health insurance pays all further covered costs. Out-of-pocket maximums can be limited to a specific benefit category (such as prescription drugs) or can apply to all coverage provided during a specific benefit year.
- **Capitation:** An amount paid by an insurer to a health care provider, for which the provider agrees to treat all members of the insurer.

- **In-Network Provider:** (U.S. term) A health care provider on a list of providers preselected by the insurer. The insurer will offer discounted coinsurance or co-payments, or additional benefits, to a plan member to see an in-network provider. Generally, providers in network are providers who have a contract with the insurer to accept rates further discounted from the "usual and customary" charges the insurer pays to out-of-network providers.

- **Prior Authorization:** A certification or authorization that an insurer provides prior to medical service occurring. Obtaining an authorization means that the insurer is obligated to pay for the service, assuming it matches what was authorized. Many smaller, routine services do not require authorization. Explanation of Benefits: A document that may be sent by an insurer to a patient explaining what was covered for a medical service, and how payment amount and patient responsibility amount were determined.

Prescription drug plans are a form of insurance offered through some health insurance plans. In the U.S., the patient usually pays a copayment and the prescription drug insurance part or all of the balance for drugs covered in the formulary of the plan. Such plans are routinely part of national health insurance programs. For example in the province of Quebec, Canada, prescription drug insurance is universally required as part of the public health insurance plan, but may be purchased and administered either through private or group plans, or through the public plan. Some, if not most, health care providers in the United States will agree to bill the insurance company if patients are willing to sign an agreement that they will be responsible for the amount that the insurance company doesn't pay. The insurance company pays out of network providers according to "reasonable and customary" charges, which may be less than the provider's usual fee. The provider may also have a separate contract with the insurer to accept what amounts to a discounted rate or capitation to the provider's standard charges. It generally costs the patient less to use an in-network provider.

Property Insurance

Property insurance provides protection against most risks to property, such as fire, theft and some weather damage. This includes specialized forms of insurance such as fire insurance, flood insurance, earthquake insurance, home insurance or boiler insurance. Property is insured in two main ways; open perils and named perils. Open perils cover all the causes of loss not specifically excluded in the policy. Common exclusions on open peril policies include damage resulting from earthquakes, floods, nuclear incidents, acts of terrorism and war. Named perils require the actual cause of loss to be listed in the policy for insurance to be provided. The more common named perils include such damage-causing events as fire, lightning, explosion and theft.

Types of Coverage

There are three types of insurance coverage. **Replacement cost coverage** pays the cost of replacing your property regardless of depreciation or appreciation. Premiums for this type of coverage are based on replacement cost values, and not based on actual cash value. **Actual cash value coverage** provides for replacement cost minus depreciation. Extended replacement cost will pay over the coverage limit if the costs for construction have increased. When you obtain an insurance policy, the coverage limit established is the maximum amount the insurance company will pay out in case of loss of property. In case of a fire, household content replacement is tabulated as a percentage of the value of the home. In case of high value items, the insurance company may ask to specifically cover these items separate from the other household contents. One last coverage option is to have **alternative living arrangements** included in a policy. If a fire leaves your home uninhabitable, the policy can help pay for a hotel or other living arrangements.

Automobile Insurance

Everyone who drives needs car insurance. In fact, most states require it by law. When you buy car insurance, you are buying what is called a policy. Your policy is based on a variety of factors including what kind of car you drive as well as what kind of insurance you want. Auto insurance policies are actually a package of different types of insurance coverage.

The first step in understanding an auto insurance policy is to learn the various types of coverage insurance companies offer. Some of this coverage may be required by your state and some of the coverage may be optional.

- **Liability** - This coverage pays for accidental bodily injury and property damages to others. Injury damages include medical expenses, pain and suffering and lost wages. Property damage includes damaged property and automobiles. This coverage also pays defense and court costs. State laws determine how much liability coverage you must purchase, but you can always get more coverage than your state requires.
- **Collision** - This coverage pays for damages to your vehicle caused by collision with another vehicle or object.
- **Comprehensive** - This coverage pays for loss or damage to the insured vehicle that doesn't occur in an auto accident. The types of damages comprehensive insurance covers include loss caused by fire, wind, hail, flood, vandalism or theft.
- **Medical Coverage** - Pays medical expenses regardless of fault when the expenses are caused by an auto accident.

Automobile Insurance

- **Personal Injury Protection (PIP)** is required in some states. This coverage pays medical expenses for the insured driver, regardless of fault, for treatment due to an auto accident.
- **Uninsured Motorist** - Pays your car's damages when an auto accident is caused by a driver who doesn't have liability insurance.
- **Underinsured Motorist** - Pays your car's damages when an auto accident is caused by someone who has insufficient liability insurance.
- **Rental Reimbursement** - This type of coverage will pay for a rental car if your car is damaged due to an auto accident. Often this coverage has a daily allowance for a rental car.

Many insurance policies combine a number of these types of coverage. The first step in choosing the insurance you want for your car is to know the laws in your state. This will tell you the minimum insurance you need for your car. It's good to keep in mind that, just because your state may not require extensive insurance, extra coverage may be worth the expense. After all, no one wants to be stuck with thousands of dollars worth of bills because of an auto accident.

Umbrella Liability Coverage

Umbrella insurance refers to a liability insurance policy that protects the assets and future income of the name insured in addition to his or her primary policies. It is distinguished from excess insurance in that excess coverage goes into effect only when all underlying policies are totally exhausted, while umbrella is able to "drop down" to fill coverage gaps in underlying policies. Therefore, an umbrella policy can become the primary policy "on the risk" in certain situations. The term "umbrella" refers to how the policy shields the insured's assets more broadly than primary coverage.

Typically, an umbrella policy is pure liability coverage over and above the coverage afforded by the regular policy, and is sold in increments of one million dollars. The term "umbrella" is used because it covers liability claims from all policies underneath it, such as auto insurance and homeowners insurance policies. For example, if the insured carries an auto insurance policy with liability limits of $500,000 and a homeowners insurance policy with a limit of $300,000, then with a million dollar umbrella, the insured's limits become in effect, $1,500,000 on an auto liability claim and $1,300,000 on a homeowners liability claim.

Umbrella Liability Coverage

Umbrella insurance provides broad insurance beyond traditional home and auto. It provides additional liability coverage above the limits of homeowner's, auto, and boat insurance policies. It can also provide coverage for claims that may be excluded by the primary policies. These may include, but are not limited to:

- **False arrest**
- **Libel**
- **Slander**
- **Invasion of privacy**

Medicare, Medicaid and Long-Term Care

Long-term care is a variety of services that includes medical and non-medical care to people who have a chronic illness or disability. Long-term care helps meet health or personal needs. Most long-term care is to assist people with support services such as activities of daily living. It is important to remember that you may need long-term care at any age.

Medicare and Long-Term Care:

While there are a variety of ways to pay for long-term care, it is important to think ahead about how you will fund the care you get. Generally, Medicare doesn't pay for long-term care. Medicare pays only for medically necessary skilled nursing facility or home health care. However, you must meet certain conditions for Medicare to pay for these types of care. Most long-term care is to assist people with support services such as activities of daily living like dressing, bathing, and using the bathroom. Medicare does not pay for this type of care called "custodial care". Custodial care (non-skilled care) is care that helps you with activities of daily living. It may also include care that most people do for themselves, for example, diabetes monitoring. Some Medicare Advantage Plans (formerly Medicare + Choice) may offer limited skilled nursing facility and home care (skilled care) coverage if the care is medically necessary.

Medicaid and Long-Term Care:

Medicaid is a State and Federal Government program that pays for certain health services and nursing home care for older people with low incomes and limited assets. In most states, Medicaid also pays for some long-term care services at home and in the community. Who is eligible and what services are covered vary from state to state. Most often, eligibility is based on your income and personal resources.

Choosing Long-Term Care:

Choosing long-term care is an important decision. Planning for long-term care requires you to think about possible future health care needs. It is important to look at all of your choices.

Long-term care is made up of many different services and may include help with activities of daily living (ADL), like dressing, bathing, eating, and using the bathroom, as well as help with care most people do themselves like taking medications. Long-term care can take place at home, in senior centers, at community centers, in special retirement or assisted living facilities, or in nursing homes. Someone with a long-term physical illness, a disability, or a memory or thought problem (such as Alzheimer's disease) often need long-term care.

Choosing long-term care is a very important decision. You should plan and think about long-term care before you need care or before a crisis occurs. Planning ahead allows you the time to talk with your doctor about your health and any problems you may be having. It is also very important to talk with your family about the kind of long-term care services you think you might need someday, how much they would cost, and how you would pay for them. The best time to talk about long-term care is **before** you need services.

Section 3

Investment Planning

Investment Planning

The Investment Planning Process

As with any investment in life - a family, a home, a college education, the best results are achieved by carefully constructing a plan and following that plan consistently over time. A well-crafted investment plan allows you to set specific investment goals and the strategies by which to attain those goals. While each investor's situation is unique, investment plans always address certain factors, including the reasons for the investment, the investing horizon and the degree of risk that an investor can comfortably tolerate. This process centers around six steps:

1. **Assess your goals and circumstances.** The investment plan process begins during the first meeting with a discussion of your financial and non-financial values and goals, as well as your existing assets.

2. **Set long-term investment objectives.** Taking into account the long-term nature of successful investing, set objectives for your portfolio that are appropriate for your attitude towards risk and investment horizon.

3. **Plan your asset allocation.** Because it is so important, asset allocation is the first investment decision. During this process, decide how much of your portfolio to invest in each of the different investment types, or asset classes, including stocks, bonds, real estate, annuities, life insurance, cash, short-term investments, domestic and international.

Investment Planning

The Investment Planning Process

4. **Select your investment approach.** With an asset allocation in place, select the investment vehicles that you will use to implement your portfolio strategy. Two key investing principles guide these decisions: the importance of diversification (both from a tax and risk standpoint) and the balance between guaranteed, fixed and variable choices.

5. **Build your portfolio.** Building on the first four steps, construct a portfolio suited to your needs, goals, investment horizon, and risk tolerance. The building blocks for the portfolio are based on asset classes, including strategic and tactical approaches, which provide the optimal way to implement a diversified portfolio.

6. **Report, Rebalance, Review Progress.** When an ongoing review of your situation indicates that changes and re-balancing in your portfolio are warranted, make those changes as needed. On a quarterly basis, review and discuss: portfolio performance, tax planning, progress towards your personal financial planning goals, and any changes in your personal circumstances that might warrant a change in strategy.

Types of Investments

Stocks: Buying part ownership in a corporation
When an investor buys shares of stock, he or she buys part ownership in a corporation. As such, the value of that corporation's stock will tend to reflect the earnings experience of the firm — up during profitable periods and down during periods of loss. Generally speaking, the higher the potential return, the higher the risk. For example, stock investors expect a fairly high rate of return because there is no schedule of repayment and no stated rate of return like that paid by fixed-income securities such as bonds.

Blue chip vs. small cap
Even within the world of stocks, there are variations in risk and reward. "Blue chip" stocks are issues of companies that are well established within their respective industries and have long histories of producing earnings and paying dividends.

Small capitalization, or "small cap," stocks represent shares in companies that are less established. Because of this, they have the potential for tremendous growth, which can translate into a large return for investors. Coupled with this, however, is a higher potential for decrease in their value than you would expect from well-established companies.

Bonds: Making a loan to a corporation

Bonds represent loans made by investors to companies and other entities, such as branches of government, that have issued the bonds to attract capital without giving up managing control. A bondholder, in effect, holds an IOU. Bondholders do not share in a company's profits. Rather, they receive a fixed return on their investment. This return, stated as an interest rate on the bond, is called the "coupon rate" and is a percentage of the bond's original offering price. Bonds are issued for specified time periods. When the bond expires and the principal (original investment) is returned, the bond is said to have matured. Bonds can take as long as 30 years to mature. Time to maturity and the issuer's ability to make good on its payment obligations are the two most important factors in choosing individual bonds to purchase. Every bond carries the risk that a promised payment will not be made in full or on time. As uncertainty of repayment rises, investors demand higher levels of return in exchange for assuming greater risk.

Potential bond buyers can assess an issuer's ability to meet its debt obligations by considering the bond rating assigned by agencies such as Moody's Investors Service or Standard & Poor's. A rating indicating a high likelihood of repayment will allow an issuer to sell its bonds with a lower coupon rate than one that received a poorer rating. Bonds, similar to common stocks, fluctuate in market value and, if sold prior to maturity, may produce a gain or a loss in principal value.

Government vs. corporate bonds
U.S. government and U.S. government agency bonds are considered the safest bond investments. They are not insured but are backed by the "full faith and credit" of the U.S. government with respect to both principal and interest. Also available are mortgage-backed securities, which in many cases are fully backed by a U.S. government agency. Corporate bonds are generally issued by industrial corporations, financial firms, public utilities, and transportation companies. They usually pay more interest than government bonds but carry a greater risk of default. If a corporation goes bankrupt, bondholders have priority claim, before stockholders, on the company's assets.

Choosing between stocks and bonds

An important distinction when weighing the rewards of stocks vs. bonds is that stocks have (theoretically) an unlimited ability for appreciation. That is, there is no upper limit to how valuable they can become. On the other hand, a bond buyer generally knows the upper limit to expect on such an investment, especially if it is held to maturity. It is true that a bond can sell at a premium prior to maturity, but the potential for appreciation here is nowhere near as great as it is for stocks. Both options have their risks as well. With stocks, although theoretically there may be no ceiling, there is a bottom. Stocks can drop in value and become worthless. With bonds, there is interest rate, inflation and credit risk. Credit risk is the risk that the bond issuer will be unable to make its payments on time or at all, effectively defaulting on the bonds.

Mutual Funds

A mutual fund is a type of professionally-managed collective investment system that pools money from many investors to purchase securities. While there is no legal definition of mutual fund, the term is most commonly applied only to those collective investment programs that are regulated, available to the general public and open-ended in nature. Hedge funds are not considered a type of mutual fund.

In the United States, mutual funds must be registered with the Securities and Exchange Commission, overseen by a board of directors or board of trustees and managed by a registered investment advisor. They are not taxed on their income if they comply with certain requirements. Mutual funds have both advantages and disadvantages compared to direct investing in individual securities. They have a long history in the United States. Today they play an important role in household finances.

There are 3 types of U.S. mutual funds: open-end, unit investment trust, and closed-end. The most common type, the open-end mutual fund, must be willing to buy back its shares from its investors at the end of every business day. Exchange-traded funds are open-end funds or unit investment trusts that trade on an exchange. Open-end funds are most common, but exchange-traded funds have been gaining in popularity. Mutual funds are classified by their principal investments. The four largest categories of funds are money market funds, bond or fixed income funds, stock or equity funds and hybrid funds. Funds may also be categorized as index or actively-managed. Investors in a mutual fund pay the fund’s expenses. A single mutual fund may give investors a choice of different combinations of expenses by offering several different types of share classes.

Unit Trusts

In U.S. financial law, a unit investment trust (UIT) is an exchange-traded mutual fund offering a fixed (unmanaged) portfolio of securities having a definite life. A UIT is registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and is classified as an investment company. UITs are assembled by a sponsor and sold through brokers to investors.

Stock trusts

Stock trusts are generally designed to provide capital appreciation and/or dividend income. They usually issue as many units (shares) as necessary for a set period of time before their primary offering period closes. Equity trusts have a set termination date, on which the trust liquidates and distributes its net asset value as proceeds to the unitholders. (The unitholders may then have special options for the reinvestment of this principal.)

Bond trusts

Bond trusts issue a set number of units, and when they are all sold to investors, the trust's primary offering period is closed. Bond trusts pay monthly income, often in relatively consistent amounts, until the first bond in the trust is called or matures. When this occurs, the funds from the redemption are distributed to the clients via a pro-rata return of principal. The trust then continues paying the new monthly income amount until the next bond is redeemed. This continues until all the bonds have been liquidated out of the trust. Bond trusts are generally appropriate for clients seeking current income and stability of principal.

REITS

A real estate investment trust or REIT is a tax designation for a corporate entity investing in real estate. The purpose of this designation is to reduce or eliminate corporate tax. In return, REITs are required to distribute 90% of their taxable income into the hands of investors. The REIT structure was designed to provide a real estate investment structure similar to the structure mutual funds provide for investment in stocks. REITs can be publicly or privately held. Public REITs may be listed on public stock exchanges. REITs can be classified as equity, mortgage, or a hybrid. The key statistics to examine in a REIT are net asset value (NAV), funds from operations (FFO), adjusted funds from operations (AFFO) and cash available for distribution (CAD).

Annuities

An annuity is a contract between you and an insurance company that is designed to meet retirement and other long-range goals, under which you make a lump-sum payment or series of payments. In return, the insurer agrees to make periodic payments to you beginning immediately or at some future date. Annuities typically offer tax-deferred growth of earnings and may include a death benefit that will pay your beneficiary a specified minimum amount, such as your total purchase payments. While tax is deferred on earnings growth, when withdrawals are taken from the annuity, gains are taxed at ordinary income rates, and not capital gains rates. If you withdraw your money early from an annuity, you may pay substantial surrender charges to the insurance company, as well as tax penalties.

There are generally three types of annuities — fixed, indexed, and variable.

In a **fixed annuity,** the insurance company agrees to pay you no less than a specified rate of interest during the time that your account is growing. The insurance company also agrees that the periodic payments will be a specified amount per dollar in your account. These periodic payments may last for a definite period, such as 20 years, or an indefinite period, such as your lifetime or the lifetime of you and your spouse.

In an indexed annuity, the insurance company credits you with a return that is based on changes in an index, such as the S&P 500 Composite Stock Price Index. Indexed annuity contracts also provide that the contract value will be no less than a specified minimum, regardless of index performance.

In a variable annuity, you can choose to invest your purchase payments from among a range of different investment options, typically mutual funds. The rate of return on your purchase payments, and the amount of the periodic payments you eventually receive, will vary depending on the performance of the investment options you have selected. Variable annuities are securities regulated by the SEC. An indexed annuity may or may not be a security; however, most indexed annuities are not registered with the SEC. Fixed annuities are not securities and are not regulated by the SEC.

Section 4

College Education Planning

College Education Planning

Determining the most cost-effective, tax-efficient way to fund a college education is not always easy. Many parents would prefer not to think about it at all – hoping that things will somehow work out. Due to the "cross-your-fingers" approach, many families face limited choices for college. In order for families to best prepare for this future event, it is important to understand college pricing, the admissions process, financial-aid and how to best navigate the entire complex college-funding system. When it comes to planning, many high school students enter college without a game plan. After reviewing statistics, it is obvious that many college students change their majors multiple times during their college careers. Even though it is supposed to be a 4-year college experience, the national average for students to graduate undergraduate school takes over six years, which costs the family more time and money. Funding, therefore is a very crucial part in the college planning process. The Department of Education states that about 80% of families fill out the FAFSA (Free Application for Federal Student Aid) form incorrectly. By doing so, this can cost the family valuable financial aid that they may be eligible to receive. In the various states across America, there are many scholarships available. Many students and families do not know where to search for these scholarships and what the requirements are to receive them.

It's important to understand that **having a college degree is usually worth the cost.**

Here are example of the benefits of a college degree:

- **Higher lifetime earnings.** Figures vary from several hundred thousand to a million dollars or more over a lifetime. Regardless of the details, however, a person will have more income.
- **Knowledge to make more educated choices.** This relates to everything from mortgage rates, a car loan, retirement plans, and investment options.
- **More lucrative career options.** The difference in opportunities for someone with a college degree instead of just a high school diploma is quite significant. Add a graduate degree on top of that, and the sky's the limit.

College Degree Benefits (cont'd):

- **Doors open that may otherwise have been shut.** With a college degree often come the training, experience, and networking that are inaccessible to people without experience in higher education. Earning a college degree now will provide the graduate with the ability to at least get a foot in the door of many different and possibly lucrative opportunities in the future.

- **Experience indirect financial benefits.** While having a degree won't automatically improve a person's credit rating, for example, having a good job that was obtained because of a college degree *can* increase a credit score.

- **Access to jobs with better benefits.** There's more to any job than just the take-home pay. Better-paying jobs, most of which require a college degree, can also offer better benefits, like retirement matching, health savings accounts, childcare stipends, tuition reimbursement, and commuting costs.

Understanding financial aid and resources

1. Federal Financial Aid

The largest source of financial aid is that of the Federal Financial Aid and is from programs funded and/or administered by the federal government, with much of the support coming from student loans. Federal student loans offer borrowers many benefits not typically found in private loans. These include low fixed interest rates, income-based repayment plans, cancellation for certain employment, and deferment (postponement) options, including deferment of loan payments when a student returns to school. Also, private loans usually require a credit check. For these reasons, students and parents should always exhaust federal student loan options before considering a private loan.

Typical names for Federal financial aid are as follows:

- **Federal Pell Grant**—Pell Grants are designed to assist low-income undergraduate students and are awarded based on Expected Family Contribution (EFC). Only students with very low EFC's are awarded Pell Grants. These grants do not have to be repaid.

- **Federal Supplemental Educational Opportunity Grant (FSEOG)**—Like Pell Grants, FSEOG's do not have to be repaid. They are awarded to undergraduate students with exceptional financial need.

- **Federal Stafford Loans**—Available to undergraduate and graduate students, the Federal Stafford Loan is the most popular student loan program. Federal Stafford loans offer low, fixed interest rates and subsidized interest to eligible undergraduates.

- **Perkins Loan**—Perkins Loans are federal low-interest loans. They are awarded based on need and the availability of funds. No interest accrues while the student is attending school (must attend at least half-time). Repayment begins nine months after the student ceases to attend at least half-time.

- **Federal subsidized and unsubsidized loan programs**—There are two different loan programs available, with the same interest rates and repayment terms. Direct loans are made by the federal government, while FFEL loans are made by private lenders, such as banks or credit unions and are guaranteed by the federal government. A school will usually offer one program or the other. Subsidized loans made on the basis of financial need, do not accrue interest nor require repayment until six months after the student ceases to attend college at least half-time. Unsubsidized loans differ in that they are not need-based and therefore, interest accrues from the date the loan is disbursed.

- **Federal PLUS (parent loan for undergraduate student)**—The PLUS loan program allows parents to borrow on behalf of their student. Unlike the student subsidized and unsubsidized loans, approval of a PLUS application usually requires a good credit rating.

- **Federal Work-Study Program (FWS)**—The FWS program provides federally funded employment for qualified students in both on-campus and off-campus positions. The amount a student can earn is limited to the amount of the award.

Understanding financial aid and resources

2. Private Financial Aid

Private student loans are credit-based, non-federal education loans made by banks, credit unions, non-bank financial institutions, state agencies and colleges and universities. More than two dozen banks, non-bank financial institutions, credit unions and state loan programs offer private student loans with a variety of interest rates and loan terms.

Interest Rates on Private Student Loans—Private student loan interest rates, which can be fixed or variable, are set by the commercial lenders and state loan agencies offering the loans.

Private Parent Loans—Several lenders offer private loans specifically for the parents of college students.

State Loans—Some state agencies and state-chartered non-profit organizations offer private student loans to college students who are state residents or who are enrolled in colleges located in the state.

3. School Financial Aid

Institutional Loans—Many colleges and universities offer their own loans to help students and families pay for college. Institutional loan funds typically come from the college’s resources, alumni, corporations, foundations, donors and repayments from prior college loan borrowers.

Applying for Financial Aid

Free Application for Federal Student Aid: The first thing every student should accomplish is to completely fill out the F.A.F.S.A., also known as the Federal Student Aid Form. This document is quite versatile and assists many programs in making the deciding vote if the student is qualified for the assistance that they offer. By filling out this form, it also gives the college all the information required to contact the student with the funding options that are available. This includes family size, number of family members, income and assets, along with other pertinent information.

Student Aid Report (SAR): Using the information supplied on the FAFSA, the government calculates the amount a family is expected to contribute toward a student's education, which is called the Expected Family Contribution (EFC). This information is reported on the SAR and is sent to the student. The same information is sent electronically to the financial aid offices of the colleges the student listed on the FAFSA.

CSS/Financial Aid PROFILE: Some schools will require a prospective student to complete an additional standardize financial questionnaire known as PROFILE. The data collected on this form is used to award a college's institutional aid.

Applying for Financial Aid

Cost of Attendance: To calculate financial aid eligibility, colleges need to first determine the cost of attendance at the institution. The cost of attendance includes tuition, books and fees, general living expenses, transportation and personal expenses. These costs are normally estimated to cover a ninth-month academic-year period. Cost of Attendance is set by each school. A family's EFC is subtracted from COA to determine the amount of eligibility for "need-based" aid. A family may pay more than the school's COA if the student travels often, eats in restaurants, etc. Transportation costs may not be reported in COA. However, some schools will include in COA the cost of two basic round-trips between home and school.

Funding: Types of funding could be that of scholarships, grants, and loans supplied by private funding companies. A person may get lucky and a company or organization in the area will offer up a scholarship to students of employers who complete some type of community service; or a person may not get lucky (which is what usually happens to most students). Working with a professional Coach will greatly enhance the chances for getting a scholarship.

Applying for Financial Aid

At times, a person may be able to receive a scholarship funded by a private institution. This is a great way to go since a scholarship never needs to be repaid. Sometimes, a person's place of employment will offer scholarships to continue their education. Many times, an employee can receive a grant from their place of employment as well. These do not need to be repaid but will have stipulations attached to them.

More often than not, the chosen college will offer their own brand of financial assistance. This may come in the form of a work study program or even a scholarship. Loans are not out of the question either. In order to understand each program that a school has available, applicants will have to talk to someone in the financial aid department since each school has their own guidelines and types of funding and can vary from one school to the next.

It is important to remember that nine times out of ten, a student will be required to meet a certain level of G.P.A. in order to qualify for the college money that the school offers. Another qualification a student might have to meet is that of the results on the F.A.F.S.A. They will look at this information to decide if the student is eligible to receive the benefits that they are offering. Contacting the school's financial aid department is the best bet in making sure that a student does not miss out on a scholarship, loan, or grant that is being offered.

Funding College Costs

College students who borrow graduate with an average of over $25,000 in debt. That's the equivalent of a new-car purchase or a down payment on a home. Even if some borrowing is inevitable for a person, they should first explore other options to help pay for college. A Coverdell, 529 plans and Roth IRAs come with tax advantages for college savers. Private scholarships are sources of free money. Custodial accounts offer investing flexibility. It's important to compare the alternatives.

529 Plans

A Qualified Tuition Program (QTP), also referred to as a section 529 plan, is a program established and maintained by a state, or an agency or instrumentality of a state that allows a contributor either to prepay a beneficiary's qualified higher education expenses at an eligible educational institution or to contribute to an account for paying those expenses. Eligible educational institutions can also establish and maintain QTPs but only to allow prepaying a beneficiary's qualified higher education expenses. An eligible educational institution is generally any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the Department of Education. The benefits of establishing 529's are that earnings accumulate tax free while in the account. Generally, the beneficiary does not have to include in income any of the earnings from a 529. No tax is due on a distribution as long as it is used to pay qualified higher education expenses. If the amount distributed is greater than the beneficiary's qualified higher education expenses, a portion of the earnings is taxable.

Funding College Costs

529 Plans

Sponsored by 50 states and the District of Columbia, two-thirds of states give residents a tax deduction or another tax break for contributions. Investors are permitted to invest in other states' 529 plans. The appeal of 529 plans lies in their easy access as well as their tax benefits. The plans set no income limit and have a high limit on contributions. If the student skips college, parents can change the designation to a sibling without losing the tax break. But use the money for non-college expenses and the parent will be on the hook for taxes and a penalty on earnings.

Another drawback of 529 plans is that the parent loses direct control. After choosing a portfolio, usually from a limited pool of investment options, the parent must wait 12 months before changing the mix or transferring the money to another plan. And a state-appointed firm manages the account, not the parent.

Prepaid-Tuition Plans

Planning to send a student to school in-state often leads to signing up for a prepaid-tuition plan. These plans, most of which are available only to state residents, let the parent lock in tuition at public colleges years in advance. They offer the same tax benefits as 529 savings plans, and the parent will pay the same tax and penalty if they don't use the money for qualified expenses. Currently, 20 states offer the plans of which nine are closed to new enrollment, while more than 270 private colleges let you prepay through the Private College 529 Plan. States use different methods for carving tuition and fees into sellable chunks, but they all require that the investor buy several years before the child starts college and charge somewhat more than the current year's tuition. If the student goes to an out-of-state or private school, the parent may normally transfer the value of the account or get a refund.

Coverdell

Coverdell education savings accounts are similar to 529s in that the money in the accounts grows tax-deferred and escapes tax if used for qualified education expenses. Coverdells expand the definition of "qualified," however, to include tuition at private elementary schools and high schools. If money is withdrawn for nonqualified expenses, the parent will be required to pay tax along with a 10% penalty on earnings. Parents can set up a Coverdell at a bank or brokerage firm and tweak the investments as often as desired, but the total amount contributed per child cannot exceed $2,000 a year, and the beneficiary has to be younger than 18. To contribute, the investor must have a modified adjusted gross income of less than $110,000 as a single filer or $220,000 as a married couple filing jointly.

Roth IRAs

A Roth IRA can help fund retirement and a student's college education, but only if started early enough. The money in a Roth grows tax-free, and avoids income tax on withdrawals that don't exceed contributions. Investors may also avoid a 10% early-withdrawal penalty on earnings if the money is used for educational expenses.

As an example, if both spouses each save $5,000 per year over 18 years, they'll accumulate $180,000 in contributions alone. With earnings of 8% a year, the total tops $400,000, which may be enough to fund tuition and help with retirement. Contribution limits are higher if the investors are 50 or older. Taxes will be owed on any earnings withdrawn unless the investor is 59½ years old and has held the account for at least five years. The ability to contribute to a Roth IRA disappears at specific modified adjusted gross incomes for married couples filing jointly and for single filers. These limits are adjusted regularly by the IRS.

Custodial Accounts

Custodial accounts, known as UGMAs (for the Uniform Gifts to Minors Act) and UTMAs (for the Uniform Transfers to Minors Act), let parents put money or other assets in trust for a minor child and, as trustee, manage the account until the child reaches 18 or 21, depending on the state of residence. At that age, the student becomes the account owner and may use the money for whatever he or she wants. Hopefully, that will be for college tuition, books and other necessary school costs. There's no limit on how much a parent can put in a custodial account. However, it's smart to cap individual annual contributions at the maximum annual gift amount to avoid triggering a gift tax. Investment choices in custodial accounts aren't restricted, as they are with 529 plans. That's a plus. On the downside, large balances in Uniform Gift to Minor Accounts (UGMA's) and Uniform Trust to Minor Accounts (UTMA's) can hurt chances for financial aid. Custodial accounts count as student assets, and the federal financial-aid formula calls for students to contribute 20% of savings (vs. 5.6% of savings for parents).

Private Scholarships

You don't have to be an all-star athlete, a musical prodigy or even an "A" student to collect on private scholarships. Many are awarded to students based on need or special interests. The best place to start a search is often through a professional college coach. The high school guidance office may also provide some assistance. A financial-aid officer at the college you're applying to can also help, although a personal college coach is usually best. Web sites for exploring scholarships abound, but again, a good coach can help a student navigate through these by providing guidance, especially relative the student and their specific needs, skills, etc. While there are plenty of national scholarships, students should look closer to home as well. Many local organizations offer private scholarships and the competition for these awards is less intense. Good ties may lie no further than an employer (student's or parent's) or a community group, club or lodge. Schools may reduce aid if scholarships and aid combined equal more than a student's calculated need. But that might mean a reduction in loans.

Student Loans

Saving for college ahead of time is, of course, preferable to taking on considerable debt. But if a parent or student must borrow, then borrow smart. Go with government-sponsored loans, such as Staffords (also called Federal Direct), which offer flexible repayment options and fixed interest rates. Stafford loans are subsidized, meaning the borrower doesn't owe any interest on the loans while still in school for qualifying students. Application may be made for federal programs, as well as federal work-study, state programs and institutional aid, with the Free Application for Federal Student Aid, or FAFSA form. Parents can also look into federal PLUS loans, money borrowed by Mom and Dad on behalf of a student to pay for college.

U.S. Series EE Bonds

The savings bond education tax exclusion permits qualified tax-payers to exclude from their gross income all or part of the interest paid upon the redemption of eligible Series EE savings bonds and Series I savings bonds issued after 1989, when the bond owner pays qualified higher education expenses at eligible institutions.

Section 5

Tax Planning

As taxpayers advance from one year to the next under the existing marginal income tax system within the United States, the importance of tax management and tax-sensitive investing becomes ever more obvious. The current system is designed to provide varying tax rates, which apply to increasing levels of taxable income. All filers are treated to a range of rates, from 10% to nearly 40%. It would seem reasonable to take advantage of the lowest possible tax rate (and corresponding tax bill) each and every year by using strategies that reduce taxes as much as possible during each respective year. An example would include maximum contributions to 401(k) and other qualified plans, along with any tax deductions.

A serious drawback to this type of strategy, however, may be the deferral of a potentially huge tax liability until retirement, when income earners may experience income that is 100% taxable. We might think of this as 'making oneself subject to an unknown tax by an unknown congress', since we really don't know what our lawmakers will do to solve a shortfall in future governmental needs. This is especially true since statistics from several government agencies and departments themselves have been warning us for some time about a shortage of funds and cash flow necessary to provide continued support for many existing social programs. This fact should cause us to seriously consider a review of the various tax codes in our income tax system in order to develop strategies for a "balanced" tax planning approach to investing and preparing for retirement.

The most obvious codes include tax-deductible, tax-deferred and tax-free choices. Examples of these would be 401(k) plans, 403(b) plans, tax-deductible IRA plans, Roth plans, TSA's and other employer-sponsored retirement plans. Of course, other choices may include either a tax-deduction (such as the deductible portion of a charitable remainder trust) or a tax-deferral, such as the earnings on life insurance and annuities, U.S. Savings bonds, or Roth IRA'S and Coverdell plans.

The tax-exclusion represents another beneficial option for reducing or eliminating taxes. An example is the $250,000 exclusion of capital gains taxes, subject to certain rules, available to homeowners who choose to sell a personal residence.

Tax credits are yet another example of a tax code available to investors. Examples in this case would include historic rehabilitation and low-income housing projects, to name a few and of course, college credit programs, such as the Hope Scholarship credit and the Lifetime learning credit. Additionally, we would be remiss if we didn't mention one of the most important tax codes of all; tax-free investments. Examples in this category include income from the Roth IRA, income from municipal bonds and municipal bond funds and income from life insurance contracts (according to Section 7702 of the Internal Revenue Code). Of course, capital gains tax is another important option in the reduction of taxes, as well. Each of these areas may play an important role when providing strategies for reducing taxes both during our accumulation years, as well as during our retirement years.

As an example of the application to this strategy, an investor might consider contributing an amount "up to" the employer match within their company's 401(k) plan, while simultaneously starting a Roth IRA plan (if eligible). Additional contributions to the 401(k) Plan may then occur, although additional monies might also be contributed to other tax-advantaged vehicles, such as municipal bonds or funds, cash value life insurance, annuities, real estate, tax-credit opportunities, tax-efficient funds (funds that take advantage of long-term capital gains rates) and other choices. By balancing monies contributed to these tax-varied options, an investor may actually have more "control" over the amount of income taxes owed during retirement.

As a further illustration of this example, imagine that an investor contributed to the above choices over a period of years and then began withdrawing income during retirement. Care could be taken that fully taxable withdrawals, as from a 401(k) plan, plus taxable income from social security did not exceed the 15% tax bracket. Additional monies could be withdrawn from investment choices that provide long-term capital gains treatment. This income may be subject to only a 5% federal income tax, since the ordinary income tax bracket never exceeded the 15% marginal level. Further income needs could be taken from tax-free investment choices, which would require no payment of income taxes. By following this example, it's possible to receive more than $100,000 of annual income during retirement, while remaining below an effective tax rate of 10% (and that's not even including any deductions!).

While the examples illustrated above require serious planning, the results could be worth the time and effort. Financial trends in America today strongly indicate that those of us who plan carefully and work to balance our investment portfolios from both a risk and tax managed point of view, stand a much greater chance of managing and controlling our tax liabilities in the future. Naturally, most investors would be wise to utilize a professional in the tax and investment arena.

Section 6

Retirement Planning

The Tripod of Economic Security

Retirement for many Americans is based upon the Tripod of Economic Security. A tripod may be illustrated as a three-legged stool and in this case, would include the financial legs of:

- **Government programs**
- **Employer retirement plans**
- **Individual savings**

Statistics indicate that individual savings, in particular, have dropped relative to the other two sources over the years. This means that individuals are depending much more on the government and their employers currently, than they were in the past.

Social Security

If you are 26 years old today and expect to begin receiving Social Security benefits at age 62, you may be in for a surprise. In 2041, benefits for retirees may be reduced by 27 percent, and continue to be cut back each year thereafter.

Now Is the Time to Begin Planning for Retirement

It certainly appears that the Social Security program will not be as generous for tomorrow's retirees as it is for today's. People who hoped to be enjoying their retirement after 2017 should probably start saving more now if they want to maintain a comfortable standard of living after retiring. Usually, the necessary amounts needed for retirement cannot be saved during the last few working years; it is recommended that they be accumulated over a much longer period of time. Even if the bonds can be redeemed without any problems, Social Security will most likely have serious problems beginning in 2041 and will need to change. Today's workers need to know that the future of Social Security is uncertain so they can design their retirement plans accordingly.

Inflation, Longevity and Estimating Needs

There is good news and bad news about the way Americans are planning for their retirement years. The good news is they are aware of the importance of creating a lifetime stream of income. The bad news is their awareness falls short when it comes to accurately estimating how long their retirement lifetimes will last.

Let's summarize what LIMRA found when researching this issue. When they asked pre-retirees and retirees to list their most important income priorities for retirement, lifetime income topped the list. So you don't have to sell them on that–they know it's the key element for a secure retirement. Where the "disconnect" happens is when you ask them how many years they expect to live in retirement. This is a critical issue in developing a financial plan that will ensure lifetime income. If they get it wrong, and underestimate their longevity, they are at risk of setting themselves up for retirement's worst-case scenario–still alive but with no more checks arriving in the mailbox.

Research found that large numbers of pre-retirees and retires do underestimate the number of years they will live in retirement. This is most prevalent among pre-retirees, especially those furthest away from retirement. Of those five to 10 years away, 65 percent estimate their longevity window as 20 years or less. Retirees have a more realistic view of longevity, with a majority estimating they will live 20 years or more. But a significant number, 34 percent of those retired three to five years, also hold to the 20 years or less estimate.

Number One Priority

Fortunately, the people who read this understand the importance of longevity. When advisors were asked to rank four retirement priorities–health care, inflation, longevity and volatility–they chose longevity as number one. When retirees were asked to do the same, they ranked longevity dead last.

So advisors/educators get it. You know longevity is the big destroyer of retirement dreams and, as such, you are the best source to help your clients understand retirement risks in the right order. We know from research conducted in 2009 that retirees were using their advisors primarily to help them manage assets. Only 34 percent were going to their advisors for help with retirement planning. But that's changing and advisors are driving the change. In a recent LIMRA survey, one of the most interesting findings was that six of 10 advisors said they were spending more time on retirement planning than they did two years ago. And they anticipate the need for retirement planning will continue to grow.

Estimating Retirement Income Needs

Life expectancy is unique to individuals. Some of us will reach our twilight years in excellent physical condition, while others will develop diseases that will rob them of their full complement of retirement years. When life expectancy values are quoted in the news, the age they're talking about is life expectancy at birth. For example, a female's life expectancy is 80.0 years of age while a male's life expectancy is 74.7 years (at birth). But if you're lucky enough to reach retirement age, then your projected life expectancy is going to be very different. If you're planning for retirement, then you need to be more aware of your life expectancy as you're approaching those retirement years.

Life Expectancy Examples

Let's say you're a 50 year-old white male thinking about your retirement needs. Given your age, gender, and race you can expect to live for another 28.7 years. That means your life expectancy is around the age of 79. Another way to use this table is demonstrated by this second example. Let's say you're a black female that expects to retire at age 65. At that point in your life, you can expect to live for another 18.3 years or roughly to age 83.

Retirement Income

Now that we have a better understanding of life expectancy, it's time to talk a little bit about retirement income needs. It's important to calculate how much you spend today and compare that to what you will likely spend in the future. This "retirement spending plan" is critical to calculate. Don't make the mistake of assuming you'll need a certain percentage of what you earn today.

Retirement Income Calculations

As you work on building a household budget and try to project your future income needs, you also need to remember that inflation is going to result in decreased buying power in the future. You'll need to take some pretty accurate educated guesses, including answers to the following questions:

- *What will be the rates of return on your investments?*
- *How much money is held in pre-tax retirement accounts such as traditional IRAs?*
- *How much money is held in non-taxable retirement accounts such as 403b and 401k plans?*
- *Are you utilizing tax-free choices, such as a Roth plan?*
- *What tax rates or brackets will exist in the future?*
- *Will Social Security be available?*
- *Will you have a pension you can use to supplement your retirement income?*

Making Retirement Income Last a Lifetime

Tip #1 - Start Saving Early
The most effective way to save for retirement is starting early. Adopting this strategy allows you to maximize the benefit of compounding interest, and makes saving for retirement far less financially demanding.

Tip #2 - Create a Retirement Plan
There's a saying "You've got to have a dream to make a dream come true." The same hold true for retirement planning, you need to have a plan to make your plan come true.

Tip #3 - Delay Retiring
While some of you might find this tip distasteful, it certainly is a very good way to make your retirement funds last longer. By delaying retirement, you have more time to save, and you may also qualify for a higher monthly Social Security benefit. It's also arguably the most effective way to make your retirement income last a lifetime. It's certainly good news that Americans are living longer, but that fact makes it even more imperative that we create plans that will provide enough retirement income to supply us with the quality of life we deserve.

Section 7

Retirement Plans

Retirement plans help you to be financially stable in the long run. The importance of the retirement plans can be more understood in this current economic down slum. They can be very useful to cope with the present recession. You need to select your proper retirement plan as per your preferences and enjoy great financial returns even if you have retired from the job. There are various types of retirement plans that you can opt for.

Types of Retirement Plans

401(k) Retirement plans

The 401 k plans rank among the well known retirement plans in the US. It is usually funded by the employee elective deferrals along with the employer matching which may be optional. The 401 k plans provide compounded increase on your money and make you financially secure in the post retirement period. Even after an employee leaves the job, his or her 401 k plan stays active.

Types of Retirement Plans

403b Retirement plans

403b plans are applicable to the non-profit business organizations and employers, public education organizations, government entities and other non-profit organizations. Apart from these, health care institutions, universities, colleges, and others are included in the plans. In most cases, the 403b plans are funded by the optional employer matching and the employee elective deferrals.

IRAs (Individual Retirement Accounts)

The IRAs are the perfect choices if you are wishing to save money on a tax deferred basis, although specific qualification rules must be met. Those who are covered under the IRAs are allowed to make contributions and make the savings without being liable to local, state or federal taxes. The taxes are only applicable if you make the withdrawals through the IRA before attaining the age of 59. An advantage of the IRA plans is that you can reduce your contributions when the business is doing well. There are 2 types of IRA accounts: traditional IRA or Roth IRA.

Types of Retirement Plans

Social Security

Social Security is a federally sponsored plan and provides a number of benefits such as pensions, disability benefits, retirement incomes, survivor benefits, health care benefits and so on. Social Security is a good way to cope up with the present recession. In case of the death of the main applicant, his or her spouse or the nominee is entitled to the survivor benefits. Those who are fully or partially disabled are also covered under the Social Security plans.

Annuities

By investing in various types of annuities, you can bag great deals and make yourself secure and financially stable in the post retirement period. In case of immediate annuities, you will get the benefits right away. On the other hand, the payment is made on a deferred basis in case of deferred annuities.

457 plans

The 457 plan is a type of retirement contribution plan in which both the government and the non-government employers are covered. The employer in the 457 plan provides the plan while it is the employee who defers the contribution. It is done on a pre-tax basis. The benefits offered by the 457 plan are more or less similar to the 401 (K) or 403 (b) accounts. However, in case of the 457 plans, you need not pay any 10 % deduction or penalty if you withdraw before you reach the age of 59 ½.

Types of Retirement Plans

Self Employed Retirement Plan

Self employed retirement plan help you get great deals out of your investments and enjoy financial stability even after you have retired from the job. They are lucrative, easy and hassle-free source of getting money after you retire from the job. Get any one of the self-employed retirement plans now and enjoy the benefits in the future years. There are various types of self employed plans that are available. In order to get the right plan that is ideal, you need to have an idea of the various features and benefits of the plans. Different plans have different benefits and you need to choose the right one that will help you financially. Some of the well-known self employed retirement plans are:

Simple IRA: They rank among the major self employed plans in the US. By being enrolled into the plan, you can enjoy a compounded increase on your savings and also get various types of tax benefits. Apart from self employed people, partnership firms can as well opt for the SIMPLE IRA plan. The plan is made on the basis of the pretax salary reduction. The deductions that are made are applicable to Medicare, Social Security and other related benefits. Compared to the other plans, the cost of administration is also lower.

Types of Retirement Plans

Keogh Plans: Ranking among the most well-known self-employed retirement plans, the Keogh plan is ideal for self employed people such as medical practices, law partnerships, and family businesses and so on. The main objective of the plan is to provide the aged with extra funds and make them financially stable. Usually, the plan is applicable for organizations which have 10 or less employees who are well paid. It is mostly an employer sponsored plan and is made according to the employee contributions. They are easy to make and provide you with good financial benefits even after retirement. Some of the well known retirement plans consist of Solo 401k plans, Roth IRA plans, Spousal Deductible IRA plans, and Simplified employee pensions plans and so on. You can also enjoy tax exemptions by being enrolled in these plans.

Defined Benefit Plans

In a defined benefit pension plan, an employer commits to paying its employee a specific benefit for life beginning at his or her retirement. The amount of the benefit is known in advance and is usually based on factors such as age, earnings, and years of service. Defined benefit plans do not have contribution limits. The employer is responsible for making the decisions about how much money to contribute and how to invest it. Employer contributions to the defined benefit plan are based on a benefit formula that calculates the investments needed to meet the defined benefit. These contributions are actuarially determined. Actuaries use statistical analysis to calculate the costs of future risks. The calculation takes into consideration the employee's life expectancy and normal retirement age, possible changes to interest rates, annual retirement benefit amount, and the potential for employee turnover.

Employees are always entitled to the vested accrued benefit earned to date. If an employee leaves the company before retirement, the benefits earned so far are frozen and held in a trust for the employee until he or she reaches retirement age. The defined benefit plan must allow its vested employees to receive their benefits no later than the 60th day after the end of the plan year in which the latest of the following occurs:

- They reach age 65 or the normal retirement age specified in their plan. Starting in 2002, the maximum benefit is now reduced for retirement prior to age 62, and increased for retirement after age 65.
- They have been in the plan for ten years.
- They leave their employer.

The plan cannot force you to receive your benefits before normal retirement age unless you have less than $5,000 vested in the plan. However, you must begin to receive your benefits no later than April 1 following the last year of employment or age 72, whichever is later.

Defined benefit plans distribute their benefits through life annuities. In a life annuity, employees receive equal periodic benefit payments (monthly, quarterly, etc.) for the rest of their lives. If you are married and you choose the joint and survivor option, upon your death your surviving spouse can continue to receive distributions of at least 50 percent of your periodic payment amount. Some plans may also allow you to receive your entire benefit in one lump sum at your retirement. Defined benefit plans are the only retirement plans that are guaranteed by the Pension Benefit Guaranty Corporation.

The Roth IRA

A Roth IRA is a special retirement account that you fund with post-tax income (you can't deduct your contributions on your income taxes). Once you have done this, all future withdrawals that follow Roth IRA regulations are tax free. Although contributions to a Roth IRA will be on an after-tax basis, distributions will be tax free if the distribution meets the following requirements:
Distributions are made at least 5 years after the contribution, AND the owner

- **Is age 59 1/2 or older,**
- **dies,**
- **becomes disabled, or**
- **uses the distribution for first time home buyer expenses**

The Roth IRA also allows contributions to continue beyond age 72 and does not require distributions to start at age 72.
These features provide additional flexibility which will encourage taxpayers to participate.
There is also a conversion privilege. Taxpayers with regular IRAs and Adjusted Gross Income under $100,000 may convert to a Roth IRA. When the conversion is completed, all income will be taxable in that tax year. A conversion to a Roth IRA is not subject to the 10% early withdrawal penalty. Does it make sense to convert an IRA to a Roth IRA and pay the tax now? If the taxpayer expects his or her tax rate to drop the answer is usually no. On the other hand, if the tax payer is likely to earn and save a lot during his or her working years, the answer is probably yes. Other issues to consider include:

- number of years of contributions
- when will withdrawals start
- can taxes be paid on the conversion without using dollars from the IRA

A Roth IRA provides an excellent opportunity for taxpayers to diversify their tax consequences at retirement, while getting tax-deferred growth. Tax free distributions from a Roth IRA provides a great opportunity for taxpayers to save for retirement on a tax-deferred basis and receive retirement income tax free.

The Roth 401(k) and Roth 403(b)

The Roth 401(k) and Roth 403(b) plans are retirement plans that have characteristics of both the Roth 401(k) or Roth 403(b) and the Roth IRA. They give employees the opportunity to count all or part of their own contribution amount, as a Roth contribution, which will give them basically the same tax treatment as that of an ordinary Roth IRA. Of course, this also means that the amount treated as a Roth will not result as a current federal tax deduction. On the other hand, the growth and subsequent withdrawals is not subject to income taxes as traditional plans are. If a person has 2 plans, one traditional 401(k) and the other a Roth 401(k) with the same amount of money in each, the Roth 401(k) plan should be of greater value since the income taxes imposed on withdrawals from the traditional 401(k) reduce its overall value. This makes a choice similar to the decision between making a Roth IRA contribution or a deductible traditional IRA contribution.

While Roth 401(k)s and Roth IRAs are similar, there is one really big difference which is worth paying attention to. The amount of contribution that can be made to the Roth 401(k) and the Roth 403(b) vastly exceeds the amount that can be contributed to the Roth IRA. This should open some incredible opportunities for individuals to save more and to take advantage of tax deferred and tax free cash flow during their retirement years.

The Roth 401(k) and Roth 403(b)

Other important rules that are the same with both Roth 401(k)s and Roth IRAs include "qualified", that is tax free distributions may be allowed in the event of a death, disability or attainment of age 59 ½ as long as it has been at least 5 years since the initial Roth contribution was made. It is also important to know that Roth 401(k) accounts can be rolled into other Roth 401(k)s or Roth IRAs, likewise with Roth 403(b)s.

While the Roth 401(k) and the Roth 403(b) offers wonderful opportunities for employees to increase their amount of tax free wealth, that opportunity still depends on whether or not an employer will adopt these plans. One issue here has to do with the accounting which will be required by the employer to make certain that the plan allocations amounts are recorded properly. Once an employer embraces the benefits of the Roth 401(k) and the Roth 403(b) plans they create a wonderful opportunity for employees to do a more effective job of balancing their taxes both before and during retirement.

Section 8

Estate Planning

Estate Planning

Estate planning can be regarded as a difficult task. It can also be regarded as unpleasant; pondering on our own eventual demise is usually not a topic that most of us want to think about. However, it is an important responsibility that we owe to our families and the people and causes that we care about. Reluctance to face death and procrastination are possibly the two biggest reasons most people do not have a will and have not done any estate planning. It is interesting to note that many people who do not have a will, do have life insurance. Of course this life insurance is normally group insurance, which they automatically receive through their employer. An ignorance of laws and rules effect many people as well. Not realizing that a death tax may apply to their estate or that they may accidentally disinherit their children or a spouse might be a real motivator for people to take action if they understood the basic laws and rules of estate planning. Many others believe that they are simply not worth enough; that somebody else will take care of the process for them. While this may be true, (such as through the process of going through a particular State's probate system) the proper transfer of assets, guardianship for minor children, and the application of poor decisions or no decision could be improperly applied at the worst possible time. Sometimes estate planning is not completed because individuals are simply unsure as to what to do or they are concerned about the unreliability of those that will receive their assets.

Steps to proper Estate Planning:

Step 1: Define your Estate Planning Goals:
- What do you want to happen?
- How do your assets get distributed? Family, friends, charity, etc.?
- Who will handle your estate?
- What are your concerns about privacy and family harmony as it relates to your estate?
- Do you know if you are affected by estate taxes?

Step 2: Gather and Organize your Financial Data:
- Gather your documents.
- Determine your net worth.
- Review your beneficiary selections.
- Determine how you hold title to property.

Step 3: Analyze & Discuss:
- Engage with a professional advisor or estate planner.
- Flowchart what your existing estate plan looks like.

Steps to proper Estate Planning:

Step 4: Develop your Estate Strategies:
- What strategies are best for your circumstances?
- Build your estate plan.

Step 5: Implement your Estate Plan:
- Draft, review, edit, and then sign estate planning documents.
- Coordinate title to your properties and beneficiary selections with your plan.
- Where will your documents be located? Does the person who will handle your estate know where your documents are located?

Step 6: Track & Monitor your Progress:
- Check your estate plan annually or any time your family situation changes.

Estate Planning Concepts and Strategies

Wills: The cornerstone of all estate plans
A will is a personal declaration of your intentions about the disposition of your property at death. Everybody should have one. Because a will does not become legally enforceable until your death, it may be changed at any time before the maker's, or testator's, death or mental incompetence. A properly drafted will contains instructions for your personal representative, the executor. The executor is responsible for administering your estate. A will offers many advantages, enabling you to control, to a large extent, what happens after you're gone.

With a will, you can:

- Choose the executor.
- Designate a guardian for minor children or others unable to fully care for themselves.
- Distribute your property to beneficiaries you choose.
- Be generous to charity at death.
- Minimize estate tax.
- Get a sense of accomplishment and peace of mind.

Estate Planning Concepts and Strategies

A person who dies without a will dies “intestate.” Dying intestate can be unnecessarily costly for your heirs and leaves you with no specific say about who receives your assets or in what proportion those assets will be distributed. Some assets, such as individual retirement accounts and life insurance proceeds, bypass a will entirely and go directly to the beneficiaries listed and filed with the financial firm that handles those products. Otherwise, the state decides who gets what. Each state has a prescribed order for the distribution of property of those who die with no will.

Having your property items pass according to your state’s succession statutes is a rather rigid default distribution scheme because predetermined, specific percentages of your estate assets will go to your closest blood relatives only — the state’s way, not yours. Whether you have a will or not, your property that does not pass according to its title or beneficiary designation goes through probate — that is, the state court’s system for monitoring its distribution.

Characteristics of a will

- A simple will is a relatively inexpensive document, often costing a couple of hundred dollars. This guesstimate varies according to complexity, size of the estate and geographic location.
- A will only transfers property that you own in your name alone. Therefore, property you own as a joint tenant with right of survivorship or property that passes by beneficiary designation, such as life insurance proceeds or retirement assets, cannot be transferred by will.
- Even if you have a trust, you should still have a will for any assets the trust does not cover.

Trusts as a complement to wills

You establish trusts during your lifetime. Trusts involve the transfer of your property to an individual or corporate trustee who manages the assets within the trust's control for the benefit of one or more others — the beneficiaries.

A living, or inter vivos, trust is one that is effective during your lifetime; a testamentary trust is one that is contained within the provisions in your will. A testamentary trust does not become operative until your death. Because the will can be changed prior to death, assuming the testator, or creator of the will, is mentally competent, the trust terms are amendable. Living trusts can be created to be revocable or irrevocable. With a revocable trust, the creator of the trust, or grantor, has access to the trust corpus — another word for "principal" — while alive; the trust assets within an irrevocable trust, however, no longer belong to the grantor. Once transferred to the trust, they are owned by the trust entity.

The reasons for trusts are as varied as their creators. These are some motives behind their creation.

Purposes of trusts

- Obtain professional management and investment of trust property.
- Minimize gift and estate taxes.
- Distribute assets to beneficiaries efficiently and without the delay, expense and, especially, publicity of probate.
- Place conditions on how and when your assets should be distributed. You may not want your son to squander his inheritance on a BMW!

The estate tax system: How it works

Estate and gift taxes are part of a transfer tax system that is separate from the income tax system we all know and love so well each April. Gift taxes apply to certain transfers of assets or interests in property that a person, the donor, makes to another, the donee, while still alive. Estate taxes come into play after a person's death. In 2017, a deceased's estate is not subject to estate tax at the federal level until its value is in excess of $5.45 million, as indexed for inflation. This means the great majority of U.S. taxpayers do not have to worry about the federal estate tax diminishing what they plan to leave to their loved ones. Before you summarily dismiss the federal estate tax, however, be aware there are some types of property you may not consider to be part of your estate but the government does. A prime example is life insurance that you or your employer own on your life. Yes, that seems unfair because you will not live to receive the insurance proceeds … but the Internal Revenue Service's emphasis is on the "value passing to others as a result of your death" concept. Other sometimes-overlooked assets that can significantly increase an estate are pension and retirement plan funds and the value of sizable gifts you made over time.

Estate Planning definitions and information

Probate is … the legal process of transferring your assets to your survivors after your death. This occurs if you have a will or if you die without one (intestate). If you have a will, the purpose of probate is to distribute your assets according to the instructions in your will. If you have no will, the court will distribute your assets according to state intestate rules.

A Holographic Will… is a will written entirely in the testator's own handwriting.

Dying Intestate … means that you die without a will, allowing state laws to provide for the distribution of your property.

Beneficiary designation – automatic transfer of joint ownership to spouse.

Joint ownership – automatic transfer of ownership to spouse

Qualified Terminable Interest Trust (QTIP) – Property qualifying for the marital deduction at the election of the donor of the deceased's executor. The spouse enjoys a qualified income interest in the property for life, with income payable at least annually. The property ultimately passes to a specified remainderman.

Estate Planning definitions and information

Marital (Marital Deduction) Trust – A trust consisting of property that qualifies for marital deduction.

Family Trust (Credit Shelter Trust) – A trust which provides assets for children, with income payable to a surviving spouse. This trust allows each parent to double the amount that may be transferred estate tax-free to the children.

Crummey Trust - Provides for the transfer of property that qualifies for the annual gift tax exclusion. Beneficiaries may demand annual withdrawals, but usually don't. Income is taxed to the beneficiary.

Totten Trust – Informal and revocable, donor maintains all control, so income and estate taxes apply to the donor.

2503c (custodial trusts) – Gifts can be made to trusts, which may provide benefits for your children and/or grandchildren. (Illustration on page 60)

Generation Skipping Trust – An exemption is available to each taxpayer to be applied against taxes for potential generation skipping transfers. The exemptions may be applied against transfers during life or at death. This trust applies to benefit your grandchildren.

Estate Planning definitions and information

Revocable (Living Trust) – A trust created during the grantor's lifetime. It operates during the grantor's lifetime as opposed to testamentary trust, which does not operate until the grantor dies.

Life Insurance Trust – A life insurance trust is often used to provide management of insurance proceeds on behalf of the beneficiary. Rather than allow the insurance company to hold proceeds and pay fixed income or interest only, the owner may wish that the full proceeds be invested, managed and paid out on a discretionary basis. Proceeds may also be used to pay estate settlement costs and estate taxes.

Special Needs Trusts Special Needs Trusts (SNTs) are a category of irrevocable third-party trusts designed to protect the assets of an estate while preserving a person's access to governmental assistance benefits such as Social Security Disability (SSD), Supplemental Security Income (SSI), and Medicaid. Current federal and state legislation limits eligibility for governmental assistance to those whose assets and income are below certain maximum levels. Often, this requirement creates problems for parents and guardians who have to see the value of their estate dwindle in the payment of medical expenses and nursing home care before they could have access to government assistance programs.

Estate Planning definitions and information

GRATs AND GRUTs: Grantor Remainder Annuity Trusts and Grantor Retained Unitrusts are forms of trust whereby the trust creator (grantor) gifts the remainder interest in the trust property to a donee (such as a child) after receiving income from it for a fixed term of years. If the grantor survives the GRAT's or GRUT's term, the value of the remaining property for gift tax purposes may be significantly less than its value.

QPRTs: A Qualified Personal Residence Trust is a form of Grantor Retained Income Trust (GRIT) for a residence owned by the grantor. The remainder interest for gift tax purposes may be considerably less than the actual value of the residence. This could be an effective method of gifting a residence, such as a vacation home, with a reduced gift tax value after retaining an ownership interest in it for a term of years.

Family Limited Partnership: The FLP allows you to transfer ownership of significant assets to family member – typically, children and grandchildren – during your lifetime without having to relinquish control. Once in an FLP, assets are out of easy reach of creditors and litigators.

Irrevocable Trust: A trust is irrevocable if the grantor cannot revoke or terminate it after it is created.

Disclaimers: A disclaimer is a refusal to accept property as a gift or bequest. It is also sometimes called renunciation. Disclaimers can have both tax and dispositive benefits.

Section 9

The Role of the Instructor

Working with Adult Learners

Teaching adults requires a different set of rules than when teaching children. The term, *pedagogy* refers to teaching children, while the term, *andragogy* refers to teaching adults (Knowles, 1984). While our intent in this chapter is not to explore the differences in those individual concepts in any detail, it is important to recognize the unique characteristics relative to the adult learner, especially in terms of how this will aid the instructor in relating to and applying techniques for adult effective learning that leads to behavioral change.

The Effective Instructor

An effective instructor should always keep the *most important goal in mind:* Your primary purpose is to bring about positive behavioral change. This will require you to focus on several important goals, all leading to the same necessary conclusion.

Understanding Yourself

Recognizing your own motivations, attitudes and beliefs is of particular importance when teaching others. What you “believe in your own heart” may easily affect what and how you communicate to your adult students. Adult learners are often keen listeners and will be quick to interpret your comments as “leading” or as an attempt to influence them. Be cautious to offer objective viewpoints when possible. Remember that adults are “volunteers in the classroom” and while they are here to learn, they will also scrutinize what you have to say much more readily than child learners. Keep personal opinions out of your teaching curriculum. Focus on the learning objectives that are relevant to each subject area. You have a wonderful opportunity to become a *change agent* for your adult students, providing them with guidance and support that will literally help them to accept a new, improved set of behaviors, acquired through a logical process and supported through emotional commitment. All of this may be brought to them by an effective instructor who combines information, skills and better ways of *handling their day-to-day* financial planning and decisions.

Understanding Your Adult Students

Adult learners come in all shapes and sizes, and yet the vast majority of them are similar in important, identifiable ways. All deserve respect; all deserve the opportunity to learn and improve and most come with specific issues on their minds. Adults have a rich reservoir of experience that can serve as a resource for learning. Since adults' readiness to learn is frequently affected by "their need to know" or "do something", they tend to have a task, or problem-centered orientation to learning as opposed to a subject-matter orientation. Adults are generally motivated to learn due to internal or intrinsic factors (such as a desire to retire comfortably) as opposed to extrinsic forces (such as a raise in salary).

As much as possible, an effective instructor will attempt to interpret the best learning style to apply to each learner. While classroom environments, time, number of adult learners in each class and teaching techniques will impact an instructor's options and effectiveness, the ability to observe adult learners during class, talk with participants on breaks and meet during individual coaching sessions will greatly improve the instructor's opportunities to positively enhance this critical area.

Understanding Your Environment

Financial education classes may be taught in a public setting or at an employer's location. Respecting the employer's physical equipment and hardware is important, but it's only the tip of the iceberg. Many firms have strict policies regarding "visitors" which must be adhered to, along with administrative requirements, ethical standards and business codes and mission statements. The instructor should familiarize themselves with these details, realizing that the human resource personnel will often be the best source for obtaining this important information. Additionally, learning specific details regarding any *special issues* regarding an organization's population (employees), such as language or culture requirements, unique learning needs, teaching restrictions, etc., should be understood ahead of time. Any of these circumstances can impact the effectiveness of the learning environment.

Classroom Presentation Suggestions

While a confidential meeting with an attendee regarding a request for help from a practitioner might certainly represent the beginning of a new relationship, the possibility of that relationship ever occurring depends on the very first meeting between the two, which happens in the classroom. The importance of what takes place in the classroom, therefore, is critical to "getting off on the right foot". First impressions often make an indelible impact. That is why these suggestions are absolutely critical for the instructor.

Establish credibility

This takes place early on, since the instructor is working with a non-profit organization, which is endorsed by colleges and universities, so the instructor doesn't need to overdo it. The instructor should simply explain their credentials and then discuss their desire to work with adult learners, emphasizing that the sharing and learning process is helpful for the instructor as it will be for the participants.

Be light-hearted and have fun

The instructor may wish to use a little (carefully thought-out) humor. They should be willing to share through stories, staying away from confrontations, whenever possible.

Stay on "their" level
The instructor shouldn't "talk down" to the audience. At the same time, they also shouldn't spend time apologizing or demeaning themselves. Remember that adults are volunteers in the class—they "choose" to be there.

Don't necessarily try to cover all of the material
The instructor may not have time, especially depending on questions and comments from the attendees. Carefully selecting the slides and subjects that are most important to the instructor to the specific participants is key.

Watch the audience
Their actions, both spoken and non-verbal will provide a guide (usually) as to how they "feel" about an instructor's style and effectiveness.

Don't worry about providing expertise in every area
The instructor shouldn't get backed into a corner by trying to answer a question they aren't certain they can correctly answer. Be willing to admit when you're wrong, is important.

Keep "key" points crisp
Participants will remember the things that are effectively emphasize. "Enlightenment" at this stage is as important as education.

Respect the participants
The instructor should respond to their questions, their feelings (especially when they disagree) and *always finish on time.*

CONCLUSION

The adult learner deserves an effective instructor who strives to create a classroom environment, complimented by a teaching style that aids with the learner's development and ultimate positive behavioral change. By seeking to understand the learner, the environment and themselves, effective instructors can become a change agent that provides each willing adult student with an incredible opportunity for growth.

If there is a single recurring theme that runs through the subject of financial education and financial wellness, it is the "acceptance of responsibility" (or the lack thereof). This extends to the instructor and to the adult learner alike, and yet, only the adult learner can make the individual decision to learn, be enlightened and take action. This concept is critical for ultimate success and a true change of behavior. We must embrace our own responsibility to change; it is the first step to financial security.

Section 10

The Role of the Adult Learner

Taking Responsibility

This is a very important principle. As an adult, you are solely responsible for all the choices in your life. So many people look to blame others or circumstances for the things that are not right in their lives. This attitude is self-delusional; pretty much every long term situation that happens to us in adult life can be traced back to some decision or lack of decision made by us either at a conscious or subconscious level sometime in the past. Once we stop denying, blaming and whining and accept that we had our part to play in the circumstance we are in a better position to move forward and to learn from our mistakes.

What people often forget is that it is most often by our mistakes that we learn; if we deny our mistakes or fail to take responsibility we fail to learn and improve. It is often those who go out into life, make mistakes and try again that are the most interesting people. Every mistake, each catastrophe is a life experience, part of their life story. By getting out there, willing to make mistakes, learning from each chapter of their lives, they grow in wisdom and as a person. We all want to avoid mistakes and do things well, but when things go wrong you should embrace the moment as an opportunity to learn and do better next time.

We must also recognize that we are responsible for the way we respond to people, actions, and events in our life. In fact, one of the key determinants of how we perform in life is not defined by what actually happens to us, but rather how we respond to the events life puts in our way. If relationships with others is not going well, you need to examine your own behavior. It is often the case that people you interact with will "mirror" your attitude at a subconscious level. So if you are angry or full of resentment, this may come across in your words or body language and you may receive an angry or resentful response. The reality is that if you had approached the situation in a positive and open frame of mind, the outcome would almost certainly have been considerably different, with a positive outcome.

The adult learner, who enters the classroom looking to blame someone, anyone, for their current financial or personal situation, may find it difficult to move forward. We must learn to “leave the baggage at the door”, so to speak. While this may be difficult, it’s important.

How to Take Responsibility

Accepting responsibility for where we are in life and for the way things are going is not always easy; but it’s important. Any adult learner who enters the financial wellness classroom has more than just financial issues to deal with, and yet in most cases, nearly all of the issues we deal with are interconnected in one way or another. One problem, no matter which part of our life it resides in, affects the other parts. We need to have a plan to overcome and start anew.

Realize the Cost of Not Acting

Not taking responsibility may be less demanding, less painful and mean less time spent in the unknown. It seems more comfortable. You can just take it easy and blame problems in your life on someone else. But there is always a price to pay. When you don't take responsibility for your life you give away your personal power. Every adult learner that comes to class soon realizes that they have one person (perhaps two, if you have a partner) that they can count on; look in the mirror.

Re-build Your Self Esteem

Self esteem begins with taking responsibility. From childhood, if we learn to accept our role, we gain the opportunity to receive credit for our good and bad decisions. Successful behavior leads to more successful behavior and by the time we reach adulthood, there is little question about who's responsible for our individual actions. Good decision making is rewarded and we are less likely to blame someone else for the bad things that happen. This helps to avoid the creation and empowerment of a "victim mentality". As Brian Tracy says:
"Disciplining yourself to do what you know is right and important, although difficult, is the high road to pride, self-esteem and personal satisfaction."

Allow Yourself to Live the Life you Want

Perhaps George O'Neil said it best: "When we have begun to take charge of our lives, to own ourselves, there is no longer any need to ask permission of someone."

By taking responsibility for our lives we not only gain control of what happens. It also becomes natural to feel like you deserve more in life as your self-esteem builds and as you do the right thing more consistently. You feel better about yourself. This is critically important.

It may be that you are standing in your own way and in the way of your success. You may be starting to self-sabotage or hold yourself back in subtle or not so subtle ways once you are on your way to the success you dream of. To remove that inner resistance you must feel and think that you actually deserve what you want. You may be able to do a little about that by affirmations and other positive techniques. But the biggest impact by far comes from taking responsibility for yourself and your life.

Let "Taking Action" Become Natural

It is often said that your thoughts become your actions. But without taking responsibility for your life, those thoughts often just stay on that mental stage and aren't translated into action. Taking responsibility for your life is that extra ingredient that makes taking action more of a natural thing. You don't get stuck in just thinking and wishing so much. You become proactive instead of passive. Through the financial education process, adult learners are encouraged to apply learning objectives to their lives. Working with an instructor, following the class can really be a helpmate for this.

Understand What's Your Responsibility and What's Not

Taking responsibility for your life is great. But that is also all that you have control over. You can't control the results of your actions. You can't control how someone reacts to what you say or what you do. It's important to know where your limits are. Otherwise you'll create a lot unnecessary suffering for yourself and waste energy and focus by taking responsibility for what you can't and never really could control. Keep this in mind when you consider other family members and friends. Fix your situation first. After that, recommend that they enter into a similar experience if you believe it will help them, but remember....it's their life.

Don’t Forget the Small Stuff

Helen Keller once said: “I long to accomplish a great and noble task, but it is my chief duty to accomplish small tasks as if they were great and noble.”

These are wise words that lead us to understand the importance of the “little things”, like sticking to a well-designed budget and staying out of unnecessary debt. Those small details will help the bigger financial dreams become a reality. And as the financial situation is being mastered, it’s amazing how many of the same concepts apply to other parts of our lives.

Life consists of each day. Not just the big events sometime in the future. So don’t forget to take responsibility for the little things today too. Don’t postpone it. Taking responsibility for your life can be hard and taxing on you. It’s not something you master over the weekend. So you might as well get started with it right now.

Be the Best You Can Be

Don’t try to escape from your life, your responsibility. Instead take control, face what’s going on and allow new options open up for you. Start taking action, but not just when you feel like it. Improvement isn’t about short spurts once in a while. Consistent action is what really pays off and can help you achieve just about anything. Build your self-esteem to higher levels. You may discover that many smaller problems you experience regularly such as negative thinking, self-defeating behaviour and troubled relationships with yourself and others start to correct themselves as your self-esteem improves. You gain an inner stability and can create your own positive feelings within without the help of validation from other people. Doing the right thing in every situation is hard to do and also hard to always keep in mind. So don’t aim for perfection. Just try to be as good a person as you can be right now. When you review these very important suggestions, it becomes a lot easier to stick with taking responsibility. And to not rationalize to yourself that you didn’t really have to take responsibility in various situations. It all counts.

Section 11

Getting the Adult Learner to take Action

"Education by Itself is of Little Value"

Motivation is defined as "a force, stimulus or influence; incentive or drive". Certainly, it's a critical element in the learning process, but even more important, relative to taking action. It has been said that "adults are volunteers in the educational process". They don't come to class to get a grade…they come to class to gain knowledge that they can apply to their lives. And they want to apply that knowledge right away, if possible. The initial motivation that drives them to a particular class or subject offering is usually related to an immediate issue that they are dealing with; like a trip to the fast-food restaurant, they're seeking a quick solution. It's important, therefore, to provide both short and long-term solutions to problems during the learning process. In particular, the problem-solving process must recognize and deal with both of these needs.

Of course, getting the adult learner to take action involves much more than providing solutions for immediate needs. But its importance shouldn't be overlooked. Maslow's hierarchy of needs is a theory in psychology, proposed by Abraham Maslow in his 1943 paper, A Theory of Human Motivation. He extended his original idea to include observations of humans' innate curiosity, while keeping a key focus on a description of the stages of human growth. Maslow referred to the most fundamental human needs as "deficiency needs"; those that relate to esteem, friendship, physical and security issues.

If we extend that concept to the field of financial education, it would seem reasonable that once an adult's immediate, urgent question is answered and in turn, the corresponding financial issue is dealt with, a natural progression would follow, enticing the adult to deal with and master the next "level" of financial literacy issues. Indeed, this has been the results experienced by many CFE Certified Financial Educators®.

The "life position" and maturity level of each adult will certainly impact this path of progression, including the speed and commitment with which it is pursued, but rest assured that most people want to improve their lives and will usually follow the course, at least to some degree, when they can see improvement taking place. It is especially important, therefore, to understand the basis for developing and promoting motivation within adult learners.

Basis for Motivation is Built upon Specific Values

Adults will accept both content and "intent" when each applies to an obvious issue. In other words, the learner must "see" the problem. Rather than learn for the sake of learning itself, an adult will become motivated when the problem is obvious and the solution is readily available.
Progressive mastery is predictive and leads to successful application. An adult learner usually learns best by understanding and applying one solution at a time. This observable mastery will lead to progressive success, with one piece building upon the other.

Reinforcement by the instructor/coach is important for continued progress. People at any age may have a tendency to slow down or give up on a project, especially when the complexity requires continued application at sometimes higher levels of discipline and practice. An effective instructor transitions from teacher to coach as this application intensifies by the student.

Positive feedback to support "learned" material and ideas is important for the instructor to provide. If information is misunderstood or incorrectly assessed, the instructor will have the opportunity to provide clarification in a positive, supportive manner. Adult learners will progress on a self-directed basis when an effective instructor understands the proper teaching method, associated with the learner's preferred style. Learning is progressive and results best from stimulation. This is particularly true for adults as they seek to apply solutions to various issues in their lives.

Basis for Motivation is Built upon Specific Values

Along with varying learning styles, each adult will learn at a different rate. An instructor must never expect or overly reward the idea of a "quick" understanding to successful application. The goal should always be to "take action" as opposed to exactly "when" the action takes place.
While speed isn't essential, true learning results best from doing. The ultimate application of the solution to the problem is the only way to bring a real improvement to any given situation. Education without action is of little value. An instructor's real reward is in seeing the student improve their financial life through changed behavior.

Timing is critical. The solution must meet the motivated circumstances. Forcing the issue is of little value and an instructor should take care in determining the appropriateness of content to any group or individual.

Keeping the Adult Learner Interested

Malcolm Knowles devoted many years trying to determine the difference between adult learners and the more traditional students; children. He used the term, “andragogy” to explain his basic concept regarding the “way adults learn”. Perhaps by understanding Knowles’ basic implications, along with a study completed by the Heartland Institute of Financial Education, we can learn more about some effective ways to keep adult learners interested in learning and in taking action to change behavior which will ultimately lead to improved behavior.

Knowles collected ideas about a theory of adult education from the end of WWII until he was introduced to the term "andragogy." In 1966, Knowles met Dusan Savicevic in Boston. Savicevic shared the term andragogy with Knowles, and explained how it was used in the European context. In 1967, Knowles made use of the term "androgogy" to explain his theory of adult education. Then, after consulting Merriam-Webster, he corrected the spelling of the term to "andragogy" and continued to make use of the term to explain his collection of ideas about adult learning. Initially, his theory received reasonable support, but in time, more educational “experts” came to challenge his assumptions.

In more recent years, controversy regarding the acceptance and application of Knowles' theory has continued to exacerbate any compromise of a universal substantiation. Still, the term andragogy has been used by many to allow discussion of contrast between self-directed and 'taught' education. Let's look more closely at some of Knowles' thoughts to see how his assumptions "play out" in the context relative to what the Heartland Institute of Financial Education has discovered after fifteen years of research in this area.

Knowles' theory can be stated with six assumptions related to motivation of adult learning:

1. Adults need to know the reason for learning something (Need to Know)
2. Experience (including error) provides the basis for learning activities (Foundation).
3. Adults need to be responsible for their decisions on education; involvement in the planning and evaluation of their instruction (Self-concept).
4. Adults are most interested in learning subjects having immediate relevance to their work and/or personal lives (Readiness).
5. Adult learning is problem-centered rather than content-oriented (Orientation).
6. Adults respond better to internal versus external motivators (Motivation).

Taking these assumptions one at a time, we'll begin with "Need to Know" or the concept that an adult needs to understand the reason for learning something as opposed to simply learning for the sake of learning.

1. Adults need to know the reason for learning something. Interestingly, this assumption seems to have some validity, but not with all the adults all the time. While most adult learners attend classes based on the subject and its potential application to their specific situation, there are those who appreciate and pursue knowledge simply because they enjoy learning. Still, for the most part, we've tested this area by offering classes that offered financial education (in general) versus classes that detailed the exact content of the financial education class. In every case, the attendance was better when the content was detailed. This has caused us to focus on a specific demand of our adult students, regarding content and procedure on next slide(s).

There is a need for the instructor to explain why specific things are being taught. In discussing choices of subject matter with our adult students, the overwhelming majority wanted subject matter that applied directly to the important issues in their lives. But simply listing the subject wasn't good enough; they also wanted to make certain they understood the subject and its application. This was accomplished by offering an information session regarding the class content before making a final decision concerning actual class attendance. And, just as important, the participants wanted subject matter that was detailed enough so that they could make a judgment regarding whether or not it might apply to their personal situation at a later date. On the other hand, if the subject was regarded as one that may never apply, less than 15% of the adult learners were interested in attending the class for those particular subjects right now. This seems to support the idea that adult learners prefer to make decisions on a Need to Know basis and that they are more interested when the subject applies directly to their own situation.

2. Experience (including error) provides the basis for learning activities (Foundation). Life experiences have a huge impact on how an adult learner functions, reacts and relates in the classroom. An instructor should remember that it is impossible to know ahead of time what inner feelings and individual biases might affect a learner's ability or willingness to participate and work toward positive change in personal behavior. While this may evidence itself to some degree in the classroom, there is a greater chance that the instructor will have the opportunity to discover positive and negative influences within each learner on an individual basis.

3. Instruction should be task-oriented instead of memorization -- learning activities should be in the context of common tasks to be performed. This is especially important in the area of financial wellness theories and techniques. Each adult learner will need to apply learning tasks to their specific situation in order to get the most out of the instruction. Still, the impact of emotional issues, attitudes and perceptions regarding the immediacy of specific needs will influence the application of the newly-learned principles.

4. Instruction should take into account the wide range of different backgrounds of learners; learning materials and activities should allow for different levels/types of previous experience with computers. While this is true, the application of new knowledge and resources should be aided on a one-on-one basis by the instructor whenever possible. In the world of financial wellness, this becomes a long, sometimes lifetime process for successful implementation.

5. Since adults are self-directed, instruction should allow learners to discover things for themselves, providing guidance and help when mistakes are made. This may happen to some degree within the classroom environment but will be particularly helped through individual guidance and implementation.

6. Each adult learner enters the classroom with preconceived notions concerning "why" they are there and "what" they are interested in learning. As has been discussed previously, that is precisely why each individual is more internally, than externally motivated. The instructor's responsibility is to work to uncover each individual's needs and expectations, but it is each adult learner's responsibility to help the instructor understand their specific situation and immediate needs. This isn't always revealed in the classroom situation, which is why a personal meeting is very important for each adult learner.

Where do we go From Here?

This course was designed to serve as a guide into the relatively new world of financial education by financial advisors. But it is only that……just a guide. It's not meant to be a replacement for common sense, work ethic or a willingness to help others.

We make this point because when it's all said and done, those of us who represent the Heartland Institute of Financial Education find ourselves miffed at how such an outstanding program that provides so much uniqueness, step-by-step guidance and value could possibly have individuals who join us and yet fail to achieve success.

Over the years, we've studied this phenomenon, with every intent to discover what we might do better, more completely or effectively for the benefit of those advisors who have joined us. We want so much for them to succeed; to help those people that so greatly need the help of a caring educator/advisor.

Interestingly enough, the answer was not only right in front of us all the time, but really, even more obvious than you might think. We'll call it "human nature."
It seems that the better the program is, the more instructors expect. The easier we make it for them, the less they are willing to do themselves. The more they are provided, the more they want.

We know that there is one primary reason that instructors fail in our program……… they simply don't follow the guide—they don't use the system!

- They don't teach enough classes
- They don't learn their presentations
- They don't follow-up effectively with the attendees
- They don't build a team
- They get in a hurry to sell a product
- In short; they don't do the job

Our hope is that you will put the same effort into your role, your responsibility as we have into ours. If you do, this will become the greatest marketing opportunity that you have ever undertaken!