Introduction to Personal Finance

Course Overview

Developing a better understanding of financial planning is an important first step in mastering personal finances. Financial planning is not just about investing-much more than that is involved. Personal finance encompasses many areas besides investing, such as spending, taxes, savings, insurance, and planning for major goals like education, purchasing a home, and retirement. And, because money should never be an end in itself, but part of your whole life, this course helps connect your financial problems and goals to the rest of your life. This course is designed to increase your knowledge of the financial planning process and to help you get on the way to implementing your own plan.

The *Introduction to Personal Finance* course is divided into the following sections:

1. Introduction
2. Assess Finances
3. Define Goals
4. Create Plan
5. Implement Plan
6. Monitor Plan

Learning Objectives:

1. Explain the Financial Planning Process
2. Calculate Your Own Net Worth and Net Income
3. Establish Personal Financial Goals
4. Understand the Components of Risk Management
5. Explain How to Implement a Financial Plan

Course Introduction

Let's face it. Financial planning is not the activity of choice for most individuals. If each of us had our way, the various pieces of our financial lives would just fall into place. All of our financial needs would be met effortlessly without our having to devote even a minute of time to planning.

Unfortunately, life doesn't work that way. Making sense of your finances requires more time and effort than ever in today's constantly changing economic environment. You are likely to have many different — and sometimes conflicting — financial goals. Deciding how to meet those goals requires careful planning. Higher earnings levels, increased wealth, shifting tax laws, and the sheer number of financial products available in the marketplace today also contribute to the need for financial planning.

Financial planning involves several steps. Each one is important, and all must be coordinated if your financial plan is to succeed. The four main steps in the process are:

- Knowing where you are today (*Evaluating Your Current Situation*)
- Deciding where you want to be sometime in the future (*Setting Your Goals*)
- Setting out a plan to get there and putting it into effect (*Putting Your Plan Together*)
- Reviewing the plan regularly to see that it continues to meet your needs (*Monitoring Your Plan*)

In this course, we'll look at these financial planning steps and explain how to go about setting up your plan. Included are a number of worksheets that can help you along the way. We'll also discuss some specific planning strategies you may find worthwhile.

Financial Planning is a process that involves:

1. Assessing your current financial picture
2. Defining your goals
3. Developing a plan to meet those goals
4. Implementing the plan
5. Monitoring and reviewing the plan

You can think of a written financial plan as your roadmap designed to get you to your desired destination. Every financial plan is unique because it is a written assessment of an individual's own goals and resources. However, personal financial plans are usually developed in the same way and have key components that are similar. Financial planning begins by determining your current financial status, setting financial goals, learning to budget, save and invest, and monitoring your progress.

Evaluating Your Current Situation

Knowing where you stand today in terms of your finances is the first step in developing any financial plan. Worksheet 1: "How Much Are You Worth?" is designed to give you a "snapshot" of your current financial situation. It will help you determine your *net worth* (your assets minus your liabilities) and what resources you can apply to meet your goals. Net worth is the main measurement of wealth. The most straightforward ways to increase your net worth are to increase your assets (by investing current assets and accumulating more) or to reduce your debts. The other number to look at in evaluating your current situation is your *net income* (your gross income minus your expenses). Try using the Worksheet 2: "Monthly Budget Worksheet" to track your expenses for a few months. It will tell you where your current income comes from and where it goes. This information can help you better budget your spending and determine how much money you can set aside to meet future needs and goals. Your net worth and net income includes assets and benefits that can be determined based on your salary and other benefits. All military personnel are paid based upon their rank and length of time in service. You can view current military pay information for active duty and inactive duty (drill pay) for all ranks at http://www.dfas.mil/money/milpay/pay/01-2002.pdf.

Every month, service members receive a one-page Leave and Earning Statement called an LES or the Defense Finance and Accounting Service (DFAS) Form 702. A detailed explanation of Form 702 is available at http://www.dfas.mil/money/milpay/les_djms.pdf.

Military members with questions regarding their pay should first address them to their local finance and administrative office. Civilian employees with questions regarding their pay must contact their customer service representative. The customer service representative will contact the payroll office directly with your request. To access more information and telephone numbers regarding payroll questions for the different branches of service, contact the Defense Financial and Accounting Service (DFAS) at http://www.dfas.mil/custsrvc/. Information about other money matters can be found at the Defense Finance and Accounting System at http://www.dfas.mil/money/.

The Veterans Administration web site Veterans Affairs has information regarding eligibility and benefits. This site contains information on veteran's benefits regarding burial, education, home loans, vocational rehabilitation and employment services, insurance, pension and health benefits.

In addition to regular military pay, allowances and benefits, members of the National Guard called (or ordered) to active duty not in conjunction with a contingency operation, are entitled to Basic Allowance for Housing (BAH) Type II when called to active duty for a period of 139 days or less. Basic Allowance for Housing (BAH) is based on geographic duty location, pay grade, and dependency status. The intent of BAH is to provide uniformed service members accurate and equitable housing compensation based on housing costs in local civilian housing markets, and is payable when government quarters are not provided. Effective January 1, 2000, most pay grades, at most locations, were entitled to increased housing allowances. You can find out more about other pay benefits and entitlements at the BAH information page or http://www.dtic.mil/perdiem/bahform.html.

Clothing Allowance. The Secretary of Defense prescribes the quantity and kind of clothing that shall be furnished to enlisted personnel of the Armed Forces, or the cash allowances in lieu thereof. This authority is exercised through implementing instructions issued by the individual Service Secretaries and applies to enlisted personnel of the Army, the Navy, the Marine Corps, the Air Force, the Naval Reserve, the Marine Corps Reserve, the National Guard of the United States, the Air National Guard of the United States, the Army Reserve, and the Air Force Reserve. Officers receive a one-time payment after commissioning to buy clothing. They do not receive any allowances to maintain their uniforms. Enlisted members are issued the standard wardrobe when they enter active duty. They get a clothing-replacement allowance on their anniversary month. The replacement allowance is paid at the "basic" rate for members with less than three years of service, and at the "standard" rate for members with three or more years of service. There are three types of clothing allowances that cover both initial allowances and replacement requirements:

Initial Clothing Allowances

Cash Clothing Replacement Allowances

Supplementary Clothing Allowances (as authorized by individual services)

More information about Clothing Allowances, can be found at the website:

http://www.military.com/Resources/ResourceFileView?file=Pay_Clothing.htm.

Budgeting and Debt Management

Many people find they are spending more than they bring in. It's difficult to increase your net worth (and meet your financial goals) if you are constantly falling behind on the income front. After reviewing the information you entered on the Monthly Budget Worksheet, you might have to ask some hard questions. For example, are you spending more on entertainment or other nonessential expenses than your income supports? Or are you spending more than you have to for necessities such as housing, an automobile, clothing, or other similar items? The answers will probably point you to one or more possible solutions, such as cutting back on the nonessentials or finding less expensive alternatives. Then, you can put the money you save to work toward meeting your goals.

Most causes of overspending can be addressed through use of a budget. Simply going through the process of putting together an annual budget can help you prioritize expenses and uncover areas where you may be able to free up more money to use for savings and investments. Many people find that they can develop the discipline needed to put money aside on a regular basis by budgeting for savings and investments the same way they do for other expenses. A good way to make sure your budgeted amounts actually do go into savings and investments is to set up an automatic saving/investing plan with a bank or a mutual fund company.

Worksheet 1: **How much are you worth?**	
Assets	**Current Value ($)**
Personal Bank Accounts (checking, savings, money market deposit accounts)	$_______
Certificates of Deposit	$_______
Other Income Investments (bonds, bond mutual funds, money market mutual funds)	$_______
Stocks and Stock Mutual Funds	$_______
Real Estate Investments	$_______
Business Interests (proprietorships, partnerships, company stock)	$_______
Retirement Plan Investments	
Individual Retirement Accounts (IRAs)	$_______
401(k) or 403(b) Plans	$_______
Keogh Plan	$_______
SEP	$_______

Profit Sharing Plan	$_______
Pension Plan	$_______
Market Value of Home(s)	$_______
Cash Value of Life Insurance	$_______
Personal Property (jewelry, collectibles, cars, furniture)*	$_______
Miscellaneous (trust interests, inheritances)	$_______
Total Assets	$_______
Liabilities	
Mortgages	$_______
Car Loans	$_______
Credit Cards	$_______
Student Loans	$_______
Other Loans	$_______
Outstanding Bills and Obligations	$_______
Total Liabilities	$_______
NET WORTH (Subtract Liabilities from Assets):	
Assets	$_________
Liabilities	$_________
Your Net Worth	$_________

*While items such as jewelry and collectibles may have a high retail value, their true net worth is closer to wholesale value.

Worksheet 2: Monthly Budget Worksheet

Monthly Expenditures	
Food	$_______
Rent or mortgage payment	$_______
Child care	$_______
Utilities	$_______
Household maintenance	$_______
Saving/Investing	$_______
Retirement savings plan contribution	$_______
Auto loan payment	$_______
Auto maintenance	$_______
Transportation (gas, fares)	$_______
Income and Social Security taxes	$_______
Property taxes	$_______
Clothing	$_______
Insurance	$_______
Credit card payments	$_______
Contributions	$_______

Entertainment	$_______
Dues	$_______
Other	+_______
Total Monthly Expenditures	$_______
Monthly Receipts	$_______
Wages or salary	$_______
Interest (CDs, savings account, etc.)	$_______
Dividends (mutual funds, stocks, etc.)	$_______
Other	+_______
Total Monthly Receipts	$_______
Net Cash Flow	$_______
Total Monthly Receipts	$_______
Total Monthly Expenditures	-_______
Monthly Net Cash Flow*	$_______

*A positive net monthly cash flow means you have additional money available for saving and investing. If the figure is negative, you need to find ways to trim your monthly expenses, or you won't be able to achieve your financial goals.

Debt Management

The inability to defer gratification may be the single most significant cause of financial failure!

Why do we acquire debt?

Debt is paying, over time for a benefit already received. In some cases, acquiring debt is a realistic way of satisfying our needs. Having our own home provides a feeling of security and belonging to the community. It can take a lifetime of earnings to pay for a home, so a mortgage is a practical method for satisfying this need. In our mobile society, transportation is an essential. We need transportation to work before we can earn income. Again, short-term borrowing may become the practical solution. A good education is required for maximizing our earning potential. To get that education, the cost of borrowing may be an investment in the future. Emergencies must be dealt with and, again, borrowing becomes the fastest solution – if there is no emergency savings fund.

If not controlled, incurring debt can become a habit. Purchasing items on credit without considering the consequences is dangerous. The American way is laced with conspicuous consumption. We are bombarded with advertising and an endless variety of consumer goods. How can we buy? Easy credit! There are endless reasons to go into debt, but before you leap, carefully consider the reasons you are borrowing.

Is it necessary?
De the benefits justify the cost?
Is it truly an investment?
Will it increase in value to justify the cost of borrowing?

What is the cost of debt?

A man in debt is so far a slave.
Ralph Waldo Emerson

The reality of borrowing is the high cost of debt. Interest payments represent a double loss.
Compounded interest on the loan.
Compounded loss of earnings.

Our lives are riddled with stress. The nature of debt acts to compound that stress. We forfeit our flexibility when we borrow, and that is truly the highest cost of debt.

For each $100 interest paid monthly over 25 years at 10%, you have lost the opportunity to accumulate $124,000 in wealth.

Are your credit cards are out of control? Do you see an opportunity to lower your mortgage rate but don't know where to start? Debt has a way of twisting us in knots, but we don't have to stay in the trap. The key to getting a better credit-card deal is figuring out how much a given card really costs you. This section of your Personal Finance course has information and tips that will help you put it all together.

> *Is it any surprise that many people still carry credit cards with annual percentage rates (APRs) of 18% or higher. After all, there is a whole industry of card issuers out there devoted to using hidden fees and interest rate magic to charge you as much as they can.*

Fees

With more consumers getting smart about paying off their monthly balance, card issuers have gotten creative with their fees — from transfer fees to over-the-limit fees. That's why you need to actually read the fee disclosure, which should be listed in a box on the credit-card offer. Here are some things to look out for:

Annual fees. This one is simple — if you've got a good credit rating and pay off your balance in full, don't pay one. There are enough good cards out there that don't charge this fee that it can be easily avoided.

Closure fees. Some cards will actually charge you a fee for closing an account, sometimes as much as $50. This is highway robbery at its worst, and the only way to avoid it is to know up-front whether the card issuer charges this fee.

Late fees. Late fees can be charged if your payment is just one day late and can also lead to an increase in your interest rate.

Overseas transaction fees. Using your credit card instead abroad used to be a pretty good deal since the 1% fee charged by Visa and MasterCard sure beat the rates at those exchange kiosks. But these days, it's become increasingly common for issuers to tack an additional 1% or 2% on top of the credit-card company's fee.

Rates

Whatever you do, don't kid yourself when it comes to those tempting introductory offers. You may *think* you're going to pay off that balance in full by the time that low rate bumps up to a frightening 18% APR or higher. But those institutions are banking on the fact that you won't. You also want to make sure that the interest rate touted on the card offer doesn't only apply to the juicy balance you're going to roll over. Some card issuers actually charge you two interest rates — one for your transfer balance, and one for new purchases. Rates can also increase sharply if you're late on a payment. That's often a permanent rate change, so if you fall into that trap, you're probably going to have to change cards altogether. But you should first give your card issuer a call to see if you can return to the lower rate.

Debt Reduction – The Cost of Credit

As a result of the Truth in Lending Law of 1969, creditors are required to state the cost of borrowing as a dollar amount so that consumers will know exactly what the credit charges are and can compare credit costs and shop for the best rates.

- Finance charge is the total dollar amount you pay to use credit. It includes interest costs and other costs such as service charges.
- Annual Percentage Rate (APR) is the percentage cost (or relative cost) of credit on a yearly basis. **The APR is your key to comparing costs.**

Some Types of Interest

- Add-On Interest
- Compound Interest
- Discount Interest

Examples:
Add-On Interest – You borrow $1000.00 at 10% Add-On, for three years. Your total cost will be $1300.00 ($1000 + $300)

$1000.00 x 0.10 = $100
$100.00 x 3 years = $300.00 (total interest)
$1000.00 + $300.00 = $1300.00 (total loan note)
$1300.00 ÷ 36 months = $36.11 (monthly payment)
$300.00 ÷ $1000.00 = 30% (Actual interest rate)

Compound Interest - is calculated on the Principal (base amount you borrow) and **all** the interest accumulated to date. It is very expensive.
If you borrow $1000.00 at 10% for 5 years, and the interest is compounded annually, the following chart shows the interest you would pay.

Year	Principal (P)	Interest Rate (I)	Interest	P + I
1	$1000	0.10	$100.00	$1100.00
2	$1100	0.10	$110.00	$1210.00
3	$1210	0.10	$121.00	$1331.00
4	$1331	0.10	$133.10	$1464.10
5	$1464.10	0.10	$146.41	$1610.51

So, on a $1000.00 loan at 10% you actually pay:
$1610.51 - $1000.00 = $610.51 in interest, or
$610.51 ÷ $1000.00 = 61.05 % actual interest rate

This is one of the most expensive ways to borrow and should be avoided at all costs.

Discount Interest – is another method used to calculate interest for an installment loan. Interest and other fees are deducted from the amount borrowed before you receive the original amount of the loan.
Assume that you borrow $1000.00 at 5% for 1 year. The interest charged is $50.00 and there are no other charges or fees. You will receive $950.00 from the lender. This is the amount that you will repay.

How to eliminate Debt?

Problems invite resolutions. End your slavery to debt.
Get a debt liquidation schedule.
Consolidate your debts.
Establish a budget and stick to it.
Stop unnecessary spending.
Develop a plan for the future.

How to avoid debt in the future.

Have a plan and celebrate.

Save for emergencies
Save for cash purchases.
Save for freedom.

Make your commitment to freedom. If it means short-term pain, try to visualize the long-term gain. Our need for immediate gratification is a strong force. We gain financial health by having financial balance.

Trimming Your Budget

Cutting your expenses will take some effort. You may have to delay some purchases and find ways to spend less on the things that you need to buy. By cutting costs, you should be able to afford to contribute more to your savings and investments. Similarly, if large debt payments are making it difficult to save, you need to look at ways you can reduce this burden so you can move ahead toward your financial goal. Here are some money-saving ideas:

Reduce Housing Costs

One good avenue to explore is the possibility of refinancing your mortgage. The rule of thumb is to consider refinancing your home when mortgage rates drop two percentage points or more below your current rate. But people who plan to remain in their home for a while can come out ahead with a rate reduction of as little as one percentage point. The Veterans Administration web site Veterans Affairs has information regarding home loans eligibility.

Consolidate Debt with a Home Equity Loan

Refinancing isn't the only way you can use your home for additional investment funds. If you have high credit card balances, you may want to consider using a home equity loan to pay them off. With high credit card rates, consolidating your debt with a home equity loan could reduce the interest rate you're paying and cut your monthly payments considerably. As an added bonus, the interest you pay on your home equity loan may be tax deductible for federal income-tax purposes, which would increase your savings further. CAUTION: If the root causes of credit card debt are not addressed, you could repeat the bad spending habits and accumulate more credit card debt on top of the home equity loan.

Buy Smart

How and when you shop can make a discernible difference in your spending. Different items generally go on sale at different times during the year.

What's on Sale When

January	Coats, furs, diamonds, lingerie, cosmetics, luggage, televisions, radios

February	Furniture, furs, hosiery
March	China, glass, silver, washers and dryers
April	Air conditioners, diamonds, sleepwear, lingerie
May	Luggage, housewares, home furnishings
June	Sleepwear, lingerie, furniture
July	Swimwear, gardening supplies
August	Garden furniture, furs
September	Storewide sales
October	Coats
November	Coats, furs, furniture
December	After Christmas, storewide clearance sales

Source: National Retail Merchants Association

Review Insurance Costs

Insurance costs can be a major expense. Take a look at your policies and consider these cost-cutting measures: Raising the deductible on your homeowner's or automobile insurance from $250 to $500 could cut your premiums by more than 10%. Consolidating your home and auto policies with the same insurance company may knock another 5% to 15% off your premiums without sacrificing coverage.

Setting Your Goals

No matter what your age or financial status, you have financial goals. Your goals are the things you want to make the future brighter for you and your family. It's easy to come up with some general goals for ourselves: "to be successful" . . ."to be financially secure" . . . "to live the good life," and so on. But the easiest goals to work toward are those that are more specific. They may include, among others:

- An emergency fund
- A comfortable retirement
- College education for your children
- A new home (or a second home)
- Capital to start a business

One key element of financial planning, therefore, is to clearly define your goals in writing, and then prioritize them. With specific and measurable goals, you can estimate the time frame in which each goal must be realized. Some goals are long term. Others are short term, ones you will want to achieve in five years or less — money for a new car, a down payment on a home, or next year's vacation, for instance. Having specific goals also helps you determine the amount of money that you'll need to meet each goal. Then, you can plan for how you will obtain the necessary funds within your desired time frame. A difficult problem for many people is that they have multiple goals. For example, you might want to save for retirement at the same time you want to finance your children's college education. You might feel that you have only so much money to go around and that one or the other goal may have to be abandoned. Once you prioritize your goals, though, you can look for ways to make each of your major goals achievable. Yes, some trade-offs may be necessary. But getting the most out of the resources available to you is only possible if your goals are spelled out in as much detail as possible.

Putting Your Plan Together

Now that you've collected your financial information and set your goals, the next step in developing your plan is to analyze your information and develop and implement your plan. You will need to consider any planning strategies you already have in place. For example, if you have investments, one or more retirement plans, a Will, life insurance policies, and other financial documents, these must be examined and, if needed, revised. Your financial plan should consider all aspects of your financial life. It should include an annual budget or spending plan. If your debt load is significant in relation to your assets, a debt reduction plan may be an important part of your overall financial plan. Also, your plan should cover each of the following areas to the extent needed to reach your goals:

- Life Insurance and Disability Planning
- Investment Planning
- Education Funding
- Retirement Planning
- Estate Planning

Life Insurance and Disability Planning

What would happen to your goals and your family's financial security if you were to die or were disabled and no longer able to work? With adequate insurance planning, major lifestyle changes due to a lack of income should not be necessary.

Life Insurance

With life insurance planning, the first question is always, "How much is enough?" Whether you need life insurance at all and, if you do, the best amount of insurance coverage needed depends on your particular circumstances. Many people start thinking about life insurance when they marry and have children. But, even if you aren't married, you may have someone else, such as a parent or sibling, who depends on you for financial support. The longer your dependents need support the greater your need for coverage. Worksheet 3 will help you figure out how much additional coverage you need, if any. Start by estimating the income your spouse and/or dependents will continue to receive after your death. Then, estimate their annual expenses. Any shortfall between the expenses and expected income is the amount of income your insurance proceeds will need to replace. One method financial planners use to calculate the amount of life insurance coverage needed is to figure $100,000 of coverage for each $5,000 of additional income needed. If you discover you need additional coverage and you are still relatively young, term life insurance is generally the least expensive way to go because it provides "pure coverage"; you build no cash value in the policy. (Note that the cost of term insurance goes up as you grow older.) Term insurance provides protection for a specific number of years, with the death benefit paid to your beneficiaries if you die during the policy's term. When the term ends, so does your coverage, unless you renew the policy. Cash-value life insurance, such as whole life, universal life, and variable life policies, provides protection over your entire life. For younger people, cash-value insurance is more expensive than term. But the premiums generally are fixed, so as the years go by, it can become less expensive. Cash values and interest accumulate in these policies tax-deferred, and you can borrow from the cash value.

Service Member's Group Life Insurance (SGLI) is a program of low-cost group life insurance for service members on active duty, ready reservists, members of the Commissioned Corps of the National Oceanic and Atmospheric Administration and the Public Health Service, cadets and midshipmen of the four service academies, and members of the Reserve Officer Training Corps. See SGLI information online @ http://www.insurance.va.gov. You may find general information about SGLI on the SGLI page of the Department of Veteran's Affairs web site. It includes this SGLI-VGLI Handbook, available for viewing and downloading in Adobe Acrobat PDF. Click this link to obtain Adobe Acrobat Reader.

Remember, how much life insurance you need depends on your personal situation. For more information, contact the Office of Service Members' Group Life Insurance (OSGLI) at (800) 419-1473 or email osgli.osgli@prudential.com. SGLI is available in $10,000 increments up to the maximum of $250,000. SGLI insured have two options available to them upon release from service. They can convert their full-time SGLI coverage to term insurance under the Veterans' Group Life Insurance program or to a permanent plan of insurance with one of the participating commercial insurance companies. Military members may purchase a Servicemen's Group Life Insurance (SGLI) policy available through military pay deduction. It is currently limited to $250,000 (since 1 April 2001). See Service Members Get More Life Insurance Coverage.

National Guard Association of the United States Insurance Trust is available at http://www.ngaus.org/whatisngaus/ngausitmain.asp. The NGAUS Insurance Trust offers all members of the National Guard an opportunity to benefit from their participation in the NGAUS and the EANGUS. The Insurance Trust provides for many different types of programs specifically designed to provide what soldiers or airmen need to provide for their families' well being. You may learn more about the benefits of the NGAUS Insurance Trust from informational pamphlets on a wide variety of products to brochures and applications for the Vision Care program. The **Enlisted Association of the National Guard of the United States**, http://www.eangus.org/default.htm, has Insurance programs at http://www.eangus.org/benefits.htm that EANGUS members can participate in which are sponsored by EANGUS through the NGAUS Insurance Trust. These products are available only to Guard members and their families, and each plan is designed for particular needs and budgets.

If a soldier or airman becomes a casualty, a **Casualty Assistance Officer (CAO)** is usually assigned to assist family members during the bereavement period. When a member of the National Guard dies on active duty, active duty for training, inactive duty for training, or while performing funeral honors duty, the Armed Forces will provide a death gratuity and care and disposition of remains.

Disability Protection

Like life insurance planning, disability insurance planning is based on your particular needs, circumstances, and resources. Completing the disability portion of the worksheet should help you determine if you need additional coverage to protect your family should you become temporarily or permanently disabled. In addition, you may want to include long-term care insurance in your financial plan to help preserve your assets for your family in the event you suffer a prolonged illness. But disability and long-term care insurance aren't the only aspects of disability planning. You also need to think about who will manage your assets if you become incapacitated and can no longer handle this responsibility yourself. A power of attorney may be a good solution. With a power of attorney, you choose someone to make financial decisions for you if you are unable to do so yourself. Creating a living will and/or a durable power of attorney for health care will help ensure your wishes concerning the care you receive are carried out if you are unable to make healthcare decisions yourself. A living will generally is used to express the desire not to receive extraordinary medical treatment. You determine the kind of medical care you want under the circumstances you describe. You should express your wishes in as much detail as possible. A durable power of attorney for health care — sometimes called a "health-care proxy" — designates someone else to make decisions for you. The scope of a durable power of attorney generally goes beyond that of a living will. A durable power of attorney can address nearly any healthcare decision. Your attorney can advise you concerning applicable law and draft the relevant documents for you.

Incapacitation Pay A member of the National Guard may be entitled to incapacitation pay if physically disabled as a result of an injury, illness or disease incurred in the line of duty, while traveling directly to or from such training or while remaining overnight, immediately before the commencement of inactive duty training or funeral honors duty, or while remaining overnight between successive periods of Inactive Duty Training. A member of the National Guard who is physically unable to perform his or her military duties is entitled to full pay and allowances equal to a member of the active service of like grade and years of service. The total pay and allowances will be reduced by the amount of income the member earns from non-military employment or self-employment during the disability period. A member of the National Guard who is physically able to perform military duties, but who sustains an injury, illness, or disease while in the line of duty, that prevents the member from performing his or her civilian job will receive his or her demonstrated loss of income. This loss of income will not exceed the equivalent rate of full pay and allowances for his or her rank and length of service. If you have questions about Incapacitation Pay, see your unit administrator or talk to your State Family Program Coordinator who will direct you to the individual who handles Incapacitation Pay issues in your state.

Worksheet 3: Insurance		
Household Income without Your Earnings	**Life**	**Disability**
Spouse's (dependent's) earnings	$____________	$____________
Social Security benefits	$____________	$____________
Retirement plan benefits	$____________	$____________
Investment portfolio income	$____________	$____________
Income from investing the proceeds of any existing life insurance policies on your life	$____________	$ NA
Income from any current disability coverage you have	$ NA	$____________
Total Annual Income	$____________	$____________
Annual Expenses	$____________	$____________
Additional Annual Income Needed from Life and/or Disability Insurance	$____________	$____________
	÷ $5,000	
	x $100,000	
Additional Life Insurance Needed	$____________	

Healthcare Provisions

TRICARE is a regionally managed health care program for active duty and retired members of the uniformed services, their families, and survivors. TRICARE brings together the health care resources of the Army, Navy and Air Force and supplements them with networks of civilian health care professionals to provide better access and high quality service, while maintaining the capability to support military operations. If you do not know your region number, view the regional map to find your region number and phone number for more TRICARE information. http://www.TRICARE.osd.mil/NewsReleases/ will link you to current news releases with detailed information about changes to TRICARE coverage. A full explanation of benefits can be found at http://www.TRICARE.osd.mil/. Members of the Reserves and National Guard who are called to active duty under Executive Order 13223, in response to the Sept. 11, 2001, terrorist attacks are eligible for the same health care and dental benefits under TRICARE as other active duty service members. (http://www.TRICARE.osd.mil/reserve/demo.htm). Families of activated reservists and National Guard members become eligible for healthcare benefits under TRICARE

Standard or TRICARE Extra on the first day of the military sponsor's active duty, if his or her orders are for a period of more than 30 consecutive days of active duty, or if the orders are for an indefinite period. Persons called up in support of contingency operations remain eligible for an additional 30 days (TA30) following expiration of the order. Families of Reserve and National Guard members who are called to active duty for 179 days or more may enroll in TRICARE Prime, if they live where Prime is available. **TRICARE Prime** is an HMO-style plan. When you enroll in TRICARE Prime, you agree to coordinate all of your healthcare through a Primary Care Manager (PCM). Your PCM will make sure you get the right kind of care in the most appropriate setting. When you need care from a hospital or specialist, your PCM will make those arrangements for you. This not only maintains high-quality care, it helps control healthcare costs for patients. TRICARE Prime is the right choice for you if you want the consistent care you get when you deal with the same civilian providers or group of providers at the Medical Treatment Facility all the time. And, because of the low co-payments and the absence of deductibles, it's your best choice if you want quality care that's easier on your budget. Family members of reservists and National Guard activated on indefinite orders cannot enroll in TRICARE Prime until the 179th day of active duty. Until the 179th day, these families are eligible for the TRICARE Standard and Extra options. TRICARE Prime enrollment will not be retroactive. There are no enrollment fees for active-duty family members. But enrollment forms must be completed, and military medical facilities and/or TRICARE Prime network providers must be used. Activated reservists and National Guard members should check with their Reserve centers or unit commanding officers to make sure that all information about them and their family members is current and accurate in the Defense Enrollment Eligibility Reporting System (DEERS) database. Incorrect information can result in delayed claims processing, problems with the use of retail pharmacies and the National Mail Order Pharmacy benefit, and other difficulties. For information about DEERS enrollment, contact the DEERS Telephone Center from 6 a.m. to 5 p.m. Pacific Time, toll-free, at (800) 334-4162 (California only), (800) 527-5602 (Alaska and Hawaii only), or (800) 538-9552 (all other states). You may also visit http://www.TRICARE.osd.mil/DEERSaddress/ To make changes to your DEERS enrollment e-mail TRICARE- ON@CSDMAIL.MEDCOM.AMEDD.ARMY.MIL. If you have other health insurance in addition to your TRICARE Standard benefits, be aware that TRICARE Standard pays after all other plans you may have, except for Medicaid (a public assistance program) and certain insurance policies that are specifically designated as TRICARE supplements. This means that if you have another health plan in addition to TRICARE Standard, the other plan must pay whatever it covers before TRICARE Standard will make any type of payment. You may have coverage for yourself and your family through an employer, an association or a private insurer. This also includes the medical portion of an auto insurance policy, or any coverage that students in the family may have through their schools.

Investment Planning

Good investment planning can turn your goals from dreams into realities. This planning involves more than trying to pick the "right" investments. How you allocate your money among different types of investments can have a greater effect on investment success than the individual investments you choose. So, your first step in investing toward your goals is to work out an asset allocation for your investments.

Asset Allocation

Very simply, asset allocation is the process of deciding what percentage of your money to put in the different investment classes: stocks, bonds, money market, and other investments, such as real estate. Your asset allocation will depend on your investment time frame, your savings goal, and how much risk you are willing to take to achieve that goal.

Diversification

After you decide on an asset allocation, the next step is to diversify your money within the different investment classes. By putting your money in several different investments, you "spread the risk." To illustrate: Rather than invest in one stock, you might invest in a variety of stocks. That way, if one stock performs poorly, it represents a smaller portion of your overall stock portfolio. Before you can set an asset allocation and diversify your investments, though, you need to know more about the choices that are available. Following is a brief overview of the basic investment choices.

Stocks

Investing in stocks gives you an ownership interest in the corporation issuing the stock. If the corporation does well, your investment should do well. If not, you could lose some (or all) of your money. The advantages of investing in stocks include the potential for higher returns over time than those offered by most other investments and returns that historically have outpaced inflation. Both of these advantages make stock investments an appropriate part of a portfolio designed to achieve long-term investment goals.

Bonds

Bonds and other fixed-income investments pay a set income over a set term. At the end of the term, the amount you have invested is returned to you. Fixed-income investments offer a steady income stream and historically less volatile price fluctuations than stock investments. But fixed-income investments aren't without risk. Sometimes a bond issuer, for example, can run into financial difficulties, default on its bonds, and not be able to return the face amount of the bonds to investors. Also, bond prices move up and down, largely in reaction to interest-rate swings. Thus, investors in bond mutual funds, as well as investors in individual bonds who don't plan on holding them until maturity, face the possible risk of losing principal.

Money Market Investments

Like fixed-income investments, money market investments pay a defined income over a set term. (The income may be fixed or variable.) The advantage of money market investments is that the U.S. government backs many of them or the Federal Deposit Insurance Corporation (FDIC) insures them, so return of your principal is practically guaranteed. This makes money market investments an attractive choice for investors with short-term goals. The major disadvantage of this investment class is that the investments historically have not produced returns much greater than the inflation rate.

Mutual Funds

Mutual funds are one of the most popular ways to invest. With a mutual fund, your money is pooled with that of other investors to purchase a variety of securities (stocks and/or bonds). The fund is professionally managed as a single investment account. Mutual funds offer you automatic diversification because each fund invests in several different securities. When you buy shares in a stock mutual fund, for example, you are actually buying an investment in the stocks of many different companies. If one company or industry has a problem, the fund will be less likely to suffer a major loss because it is diversified. You can choose from thousands of stock, bond, balanced (stocks and bonds), and money market mutual funds. Each fund is managed toward a particular investment objective, such as growth, income, or asset preservation. The mutual fund's prospectus will explain the fund's investment objective and tell you what types of securities the fund can hold. When choosing investments, potential return is a key consideration. The higher your return, the faster your investments will grow and the sooner you will reach your goal. But be aware that the annual percentage returns and yields you see published in ads, prospectuses, and articles don't take into account inflation or taxes, two factors you need to consider in your investment planning.

Risk

You also need to weigh an investment's risk. Generally, the more risk involved with an investment, the higher its potential return. Consequently, the more risk you are willing to take, the more potential your savings have to grow over the long term. Before choosing an investment, you should make sure you understand the investment, the risk it carries, and how that risk relates to your investment goal. For instance, if you are investing for your two-year-old child's college education, you can probably afford to assume more risk in your investing than someone whose child will begin college in two or three years. With more than 15 years before you'll need your money, you should have time to make up any short-term losses your investments may experience. Of course, there can be no assurance that any losses will be made up in a 15-year time period. As the Potential Return chart below shows, short-term investments, such as money market funds, offer the least risk. Fixed-income investments offer potentially higher returns with added risk. Stock investments offer the highest potential returns with the greatest amount of risk. A combination of money market, fixed-income, and stock investments can provide potentially higher returns than either money market or fixed-income investments alone, with only slightly greater risk. As you near your goal, your risk tolerance may drop and you may want to change your asset allocation. Protecting and preserving your savings might become more important. You may be willing to give up the growth potential of most of your long-term investments in favor of the greater security offered by short-term investments.

A. Potential Return				
Low		**Middle**		**High**
Money Market	Fixed-Income Funds	Stock Funds	Growth Stock Funds	International Stock Funds
Low		**Middle**		**High**
Potential Risk				

Education Planning

Montgomery GI Bill: (http://www.gibill.va.gov/) The Montgomery GI Bill (MGIB) was enacted by Congress to attract high-quality men and women into the Armed Forces. The program provides up to 36 months of educational benefits to eligible persons enrolled in degree and certificate programs, apprenticeship and on-the-job training, and correspondence courses approved for veteran's training. The program is administered by the Department of Veterans Affairs. An on-line MGIB pamphlet provides more detailed information. In-State College Tuition Assistance may be available to qualifying National Guard personnel. To find out more about College Tuition Assistance, contact your state Education Officer at Education Officer Points of Contact.htm.

When should you start planning for a child's college education? Ideally, as soon as the child is born. The cost of four years at a private college or university currently averages about $79,000. The average four-year cost for a public college is about $32,000. With college-cost inflation now at an average rate of 5% — it has been considerably higher in the past — a child born today could need at least $77,000 to attend a public college for four years and more than twice that amount — $190,000 — for a four-year stint at a private college.

Personal Investing for College Funds

Don't become alarmed if you haven't started planning for your child's college education. No matter what the child's age, strategies are available to help you come up with the necessary funds. For young children, start putting money away regularly now, investing in higher-potential-growth securities and mutual funds as you would for other long-term goals, such as retirement. As your income increases, try to increase the amount you're investing. When a child reaches high school age, you'll probably want to begin moving college investments into lesser-risk investments. At this point, if you own appreciated assets that you intend to sell to meet college expenses, consider giving them to the child, and letting the child sell them. The advantage? Potentially more after-tax money to meet expenses. If you sell the assets, you'll have to pay capital gains tax at your rate, probably 20%. A child in the 15% federal tax bracket will be taxed at just 10% on the same gain.

If you are eligible, you may want to consider using an Education IRA to help you save for your children or grandchildren's higher education. The Education IRA lets you contribute toward a child's future education expenses until the child turns age 18. Your contributions and the account earnings generally can be withdrawn from the IRA tax free to pay qualifying education expenses of the child.

Prepaid Tuition Plans

Some states offer prepaid tuition plans. Generally, with a prepaid tuition plan, you make a series of payments or a lump-sum payment to a state program and designate your child as the beneficiary of the program account. If the plan meets all the applicable tax law requirements, the earnings on your account accumulate tax free and can be used to pay for the college tuition or expenses of the child. Some individual colleges and universities offer prepayment programs, as well. By paying in advance, you can lock in current tuition costs for your child's college education years from now. A growing number of tuition plans even allow students to use the money saved in the prepaid plan at a different school. If your child chooses not to attend college, most programs refund some or all of your account balance. Be sure to check the refund terms of any tuition program you're considering before making a decision.

Loans

What if you haven't been investing regularly for your child's education or your investment plan is falling short? You may need to borrow. A variety of government-subsidized and unsubsidized education loans are available to students and parents. Interest paid on qualifying student loans is tax deductible. Another strategy used by many parents is a home equity loan. With a home equity loan, the interest you pay on the loan also may be tax deductible. You also might consider a loan from your employer-sponsored retirement savings plan. Or you may be able to take penalty-free withdrawals from your individual retirement account to pay for qualified higher education expenses incurred by you, your spouse, your children, or your grandchildren. Be aware, though, that you may have to pay federal income tax on some or all of the money withdrawn from your IRA. And use caution when borrowing or withdrawing money from any retirement account. You don't want to short-change your retirement.

College Investment Options through your Life Insurance Policy

Many life insurance policies offer an investment component along with the insurance component. If you choose such a policy, you will have access to the policy's cash value as it accumulates. When your child is ready for college, you can borrow against the cash value to pay education expenses. In addition, adequate life insurance on both your and your spouse's lives can ensure your children will have the needed funds for college should something happen to either one of you.

Educational Tax Credits

If you already have children in college, see if you can make use of the Hope Scholarship and/or Lifetime Learning Credits on your federal income tax return. The Hope Scholarship Credit is available for a student's first two years of post-secondary education. Students must be enrolled at least half-time to qualify. The Lifetime Learning Credit can be used for courses to acquire or improve job skills, as well as for undergraduate and graduate level courses at an eligible educational institution.

Retirement Planning

Are you old enough to remember the good old days when a worker stayed with one employer and retired with a "nice pension" plus Social Security? Those days seem to be gone, maybe for good. Today, you need to take charge and plan for your own retirement security. Relying on Social Security for the bulk of your retirement income is an iffy proposition at best. Also, many companies today don't have traditional pension plans. One of the many benefits of serving in the National Guard is the opportunity to qualify for a non-regular or Reserve retirement. The basic requirements to qualify for a Reserve retirement are:

- Attain 20 qualifying years of service - a qualifying year of service is credited for each year in which the member has earned at least 50 points during his or her anniversary year.
- Served the last eight years in a Reserve Component. During the draw down period, which expired December 31, 2001, the eight-year requirement was reduced to the last six years.

How much income should you plan on needing when you retire? A financial-planning rule of thumb is to figure on needing 70% to 80% of your pre-retirement income. That income is the income you'll be earning at the time you retire, not the amount you're earning now. In doing your projections, be sure to consider the dramatic effect inflation can have on earnings and expenses. Even at the relatively low 3% annual inflation we've been seeing in recent years, someone earning $30,000 today may be earning $40,000 in 10 years, $54,000 in 20 years, and $73,000 at retirement in 30 years if he or she receives nothing more than cost-of-living raises. You can use the worksheet below to estimate what your retirement income needs might be and how much money you should be investing now to be able to meet those needs when you retire.

Retirement Income Needed	
Annual Salary Before Retirement	Needed Retirement Income in Today's Dollars
$20,000	$16,000
$30,000	$24,000

$40,000	$32,000
$50,000	$40,000
$75,000	$60,000
$100,000	$80,000

Once you've determined your retirement income needs, you need to plan for meeting those needs. The most advantageous way to invest for retirement is to take advantage of various opportunities to defer or avoid federal income tax on retirement investment earnings.

The Thrift Savings Plan (TSP) is a **defined contribution plan**. The retirement income that you receive from your TSP account will depend on how much you (and your service, if you receive matching contributions) have contributed to your account during your working years and the earnings on those contributions. The TSP is a retirement savings plan both for civilians who are employed by the United States Government and for members of the uniformed services. Congress established the FSP in the Federal Employees' Retirement System Act of 1986. The purpose of the TSP is to provide retirement income. The TSP offers the same type of savings and tax benefits that many private corporations offer their employees under so-called "401(k)" plans. TSP regulations are published in Title 5 of the Code of Federal Regulations, Parts 1600 - 1699, and are periodically supplemented and amended in the Federal Register. The Thrift Saving Plan (TSP) can be accessed at http://www.tsp.gov. Members of the uniformed services can sign up to participate in the TSP by submitting a TSP Election Form (TSP-U-1) to their service from the member's unit. Those who are members of the military services can also enroll electronically through the Employee/Member Self-Service System (E/MSS). For 2002, all members of the uniformed services can contribute up to 7 percent of their basic pay. Members can contribute up to 100 percent of incentive and special pay, including bonuses. For more information, see the Summary of the Thrift Savings Plan for the Uniformed Services, which is available from the TSP Service Office, or contact your service TSP representative.

401(k) and 403(b) Plans

Participating in an employer-sponsored 401(k) or 403(b) tax-deferred retirement plan is a smart way to build savings for retirement. You contribute part of your pay to a plan account set up just for you. You don't pay taxes on the amount you contribute or on the investment earnings in your plan account until you withdraw funds from the plan, usually at retirement. If your employer matches any of your contributions, this is an added benefit.

Traditional Individual Retirement Accounts

Anyone who is employed or self-employed can open an individual retirement account (IRA) and contribute up to $2,000 a year (or their earned income, if less). Married couples can contribute up to a total of $4,000, even if one spouse isn't employed outside the home. Depending on your individual circumstances, you may be able to deduct part or all of your IRA contributions on your federal income-tax return. All investment earnings in your IRA compound on a tax-deferred basis. You pay tax on your earnings and any deductible contributions when you withdraw the money from your account. Any withdrawals you make before age 59 1/2 may be subject to a 10% early withdrawal penalty in addition to income tax.

Roth IRAs

Roth IRAs are a variation on the traditional IRA that offers an opportunity for tax free, rather than tax-deferred, investment earnings. If you qualify, you can contribute up to $3,000 a year to a Roth IRA. Contributions are not deductible, but you generally have access to them at any time. After you've had a Roth IRA for at least five tax years, you can withdraw investment earnings tax free if: (1) you are at least age 59 1/2, (2) you make the withdrawal in a year that you have paid qualified first-time home buying expenses (up to $10,000 lifetime cap), or (3) you become disabled. After the five-year waiting period has been met, distributions from the account to your beneficiaries or estate at or after your death also would be income tax free. A traditional IRA can be converted to a Roth IRA if certain requirements are met. Other rules and an income-based phase-out apply.

Annuities

Annuities are another tax-deferred way to save for retirement. While contributions to annuities are not deductible, the annual earnings on the annuity's investments are tax deferred. When you buy an annuity, you enter into a contract with a life insurance company. The company agrees to make payments to you and/or your beneficiary over your lifetime(s) or a set period, usually beginning at retirement. If you die before payouts begin, a death benefit is payable to your beneficiary. As with most other tax-deferred savings plans, you will have to pay federal income tax on any earnings you withdraw from the annuity during retirement or before, and withdrawals before age 59 1/2 may be subject to the 10% early withdrawal penalty. Also, surrender charges may apply if funds are withdrawn before the contract's surrender period has expired.

Self-employed Plans

If you are self-employed, you have other alternatives for building a tax-deferred retirement fund, such as a Keogh plan, a Simplified Employee Pension (SEP), or a SIMPLE (Savings Incentive Match Plan for Employees). Contributions to these plans (within tax law limits) and any earnings on the plan investments are not taxed until distributed from the plan. Your plan also must cover any eligible employees you may have. Other tax law restrictions apply.

Estate Planning

Estate planning starts with a Will. If you die without a Will, you lose the privilege of choosing how your assets will be distributed. Instead, your state's particular estate laws (called intestacy law) will decide to whom your assets will be distributed and the amount each person will receive. You also give up the right to choose an executor (or personal representative) to settle your estate and select a guardian for your children. A state court will choose an administrator and guardian for you. And, without a Will, you can't take advantage of certain planning opportunities that can reduce estate taxes and protect your assets for your family. Married people often think that a simple Will that leaves all of their assets to their spouses is an adequate estate plan. Usually, it's not. Such a Will can pave the way for a substantial federal estate-tax bill at the death of the surviving spouse. In addition, a simple Will can't address concerns you may have about how well your heirs will be able to manage your assets or what may happen to your business after your death. So, in addition to a Will, you may want to include other planning strategies in your estate plan.

Testamentary Trusts

A trust established in your Will can provide asset management for your family after your death. You also may be able to use a testamentary trust to reduce estate tax on your and your spouse's estates and to give your spouse income for life while ensuring your children will receive your assets at your spouse's subsequent death.

Life Insurance Trusts

Most people do, and should, own life insurance. Owners of family businesses often use life insurance to provide family members with the cash needed to pay estate tax without having to sell part or all of the business. If you have a substantial amount of life insurance, you may want to create a life insurance trust to help beneficiaries manage the proceeds and potentially reduce estate taxes.

Charitable Trusts

Gifts to qualified charities can provide income, gift, and estate tax savings, as well as help further the work of organizations you believe in. Using a charitable remainder or charitable lead trust to make lifetime gifts can give you a current income tax deduction in addition to removing assets from your taxable estate, thus reducing estate taxes.

Other Lifetime Gifts

A well-planned program of lifetime gifts to family and friends can save estate and gift taxes, preserve more of your assets for your family and other heirs, and ensure your property goes to the people you want to have it. Each year, you can give any number of people up to $10,000 each in assets ($20,000 if your spouse joins in the gift) without triggering any gift or estate tax consequences. Making gifts of appreciating property to family members now may significantly reduce the amount of assets subject to estate tax later.

Monitoring Your Plan

Financial planning is an ongoing process. At different stages of your life you'll have different financial needs and goals. As you achieve one goal, another will take its place. Consequently, most financial planners advise that you to review your financial plan annually — or more frequently if a major change occurs in your circumstances.

By looking at your plan each year, you can see where you stand, check the progress you've made toward your goals, and decide if you need to revise any of your current goals or set new ones.

Glossary of Terms

A

Add-on interest -- Interest that is computed at the beginning of the loan, and then added to the principal, so that all must be repaid, even if the loan is paid off early.

Additional principal payment -- Extra money included with a loan payment to pay off the amount owed faster. Over time, this practice reduces the amount of interest paid.

Adjustable Rate Bond (or Preferred Stock) - A security with an interest rate (or dividend rate) that is adjusted each payment period according to a recognized market rate (such as the "prime" interest rate that banks charge, the rate on Treasury bills, etc.).

Adjusted Gross Income - The amount used in the calculation of an individual's income tax liability. It is equal to one's income after certain adjustments are made, but before standardized and itemized deductions and personal exemptions are made. Includes all of the income you received over the course of the year such as wages, interest, dividends and capital gains minus things such as business expenses, contributions to a qualified IRA, moving expenses, alimony and capital losses.

Advisory Service - A service that offers investment information (usually buy and sell advice) for a fee.

American Depository Receipts (ADRs) - Negotiable certificates, issued by U.S. depository banks, which represent the actual shares of a foreign company's stock that an overseas branch of the depository bank or a custodian is holding.

American Stock Exchange (AMEX) - The second largest national stock exchange in the U.S., where primarily securities of small to mid-size companies are bought and sold. Options on many NYSE stocks are also traded on the AMEX.

Amortization - An accounting term that refers to the reduction in the value of an intangible item, such as a patent or trademark, through periodic reductions in income.

Anniversary Date - The annual recurrence of the policy's effective date. The anniversary date is often the time the owner of a universal life policy is permitted to make changes to the policy, such as increasing the death benefit.

Annual fee -- A bank charge for use of a credit card levied each year, which can range from $15 to $300, billed directly to the customer's monthly statement. Many credit cards come without an annual fee.

Annual percentage rate (APR) -- A yearly rate of interest that includes fees and costs paid to acquire the loan. Lenders are required by law to disclose the APR. The rate is calculated in a standard way, taking the average compound interest rate over the term of the loan, so borrowers can compare loans. In mortgages, it is the interest rate of a mortgage when taking into account the interest, mortgage insurance, and certain closing costs including points paid at closing. There is no APR in an automobile lease; instead, the cost of money is expressed as the money factor.

Annual Report - The formal financial statement that a corporation issues annually to its shareholders.

Annual Return - The percentage increase in the value of an investment over a 12-month period or a series of 12-month periods, taking into account compounding of investment dividends or capital gains.

Annuitant - The individual who is entitled to receive the benefits of an annuity.

Annuity - Regular payments to an individual according to a contract, for a specified or an indefinite time period.

Asset - Any item of economic value owned by an individual or corporation. Usually refers to items that can be sold and converted to cash. Examples are cash, securities, financial accounts, a house, a car, jewelry and other property.

Asset Allocation - The process of dividing investor funds among several classes of assets to limit risk and increase opportunities for gains.

Asset-Backed Securities - A bond backed by loans or account receivables originated by banks, credit card companies or other credit providers.

Assumed Investment Return (AIR) - The guaranteed rate of return used in variable annuities to set the initial annuity payment.

Average daily balance - This is the method by which most credit cards calculate your payment due. An average daily balance is determined by adding each day's balance and then dividing that total by the number of days in a billing cycle. The average daily balance is then multiplied by a card's monthly periodic rate, which is calculated by dividing the annual percentage rate by 12. A card with an annual rate of 18 percent would have a monthly periodic rate of 1.5 percent. If that card had a $500 average daily balance it would yield a monthly finance charge of $7.50.

Average Tax Rate - An individual's average tax rate is the result of total income taxes paid divided by taxable income. For example, if an individual has taxable income for the year of $50,000 and paid income taxes of $10,000, the average tax rate would be 20%. ($10,000 w $50,000 = .20).

B

Balance Transfer -- The process of moving an unpaid credit card debt from one issuer to another. Card issuers sometimes offer teaser rates to encourage balance transfers coming in and balance transfer fees to discourage them from going out.

Balance Transfer Fee -- Fee charged customers for transferring an outstanding balance from one card to another.

Bankruptcy Code -- The informal name for Title 11 of the United States Code (11 U.S.C. § 101 - 1330), the federal bankruptcy law.

Chapter 11 -- A reorganization bankruptcy, usually involving a corporation or partnership. (A Chapter 11 debtor usually proposes a plan of reorganization to keep its business alive and pay creditors over time. People in business or individuals can also seek relief in Chapter 11.)

Chapter 12 -- Chapter of the Bankruptcy Code designed to give special relief to a family farmer with regular income.

Chapter 13 -- The chapter of the Bankruptcy Code providing for adjustment of debts of an individual with regular income. (Chapter 13 allows a debtor to keep property and pay debts over time, usually three to five years.)

Chapter 7 -- The chapter of the Bankruptcy Code providing for "liquidation," i.e., the sale of a debtor's nonexempt property and the distribution of the proceeds to creditors.

Chapter 9 -- Chapter of the Bankruptcy Code addressing the adjustments of debts of a municipality.

Bankruptcy Trustee -- A private individual or corporation appointed in all Chapter 7, Chapter 12, and Chapter 13 cases to represent the interests of the bankruptcy estate and the debtor's creditors.

Beneficiary - The party who will receive the death benefit of the contract upon the insured's death.

Bereavement period - A period of time during which the survivors adjust emotionally and financially to the loss of a loved one.

Billing Cycle -- The number of days between the last statement date and the current statement date.

Billing Statement -- The monthly bill sent by a credit card issuer to the customer. It gives a summary of activity on an account, including balance, purchases, payments, credits and finance charges. Important changes to a credit card account are often included in small-print fliers that are sent with the statement.

Blue Chips - The high-quality stocks of major corporations with long records of uninterrupted earnings and dividends, capable management, and good growth prospects.

Bonds - The debt instrument of an issuer (essentially an I.O.U. for money you lend to the issuer) that promises to pay the holder a specified amount of interest, for a specified time period, with principal to be repaid on the maturity date.

Bond Mutual Fund - An investment company that invests primarily in bonds and debt securities. The objective of most bond funds is to provide current income while protecting the principal from decreasing in value. Both the net asset value and the monthly income can fluctuate with changes in interest rates.

Broker - An agent who executes buy and sell orders for securities or commodities for a fee.

C

Capital Gain (Loss) - Profit (loss) from the sale of securities or other capital assets.

Cash Surrender Value - The value a policyowner receives upon termination of a permanent life insurance policy for any reason other than death of the insured. The cash surrender value of a life insurance contract is equal to the cash value less any surrender charge imposed by the insurance company. Cash surrender values are typically not available during the first year or two of the policy's life. Usually, the policyowner is allowed to take the cash surrender value in the form of cash, a reduced amount of paid-up life insurance, or extended term life protection.

Cash Value - The "savings" element of all permanent forms of life insurance. The cash value is the amount of money a policy owner can get for surrendering the policy. The cash value of whole life is pre-determined and fixed when the policy is issued. The cash value of a universal life policy depends on the amount and timing of premium payments, the expense and risk charges the insurance company charges for providing benefits and the interest rate the company credits. The cash value of a variable life or variable universal life policy will vary depending upon the performance of the investment accounts selected by the contract owner. Increases in cash values are not taxable until withdrawn. Some policies may allow the owner to borrow against the cash value.

Cash Value of Life Insurance - The amount of money accumulated in a whole life, universal life or a variable life insurance policy. The cash value is accumulated based on the return of the underlying investments in the policy.

Certificates of Deposit (CDs)- An FDIC-insured account offered by banks and savings and loans. As with a bond, they are usually opened with a single deposit, earn a fixed return and have a set maturity date. Their maturities normally range from three months to five years.

Commission - A fee an investor pays a broker for buying or selling securities.

Common Stock - Securities that represent an ownership interest (with voting rights) in the issuing corporation. See preferred stock.

Consumer Credit Counseling Service -- A service that offers counseling about how to work out a realistic budget and debt repayment plan and work with creditors. The goal is to ensure that debts are paid back over time.

Consumer Price Index - A measure of the change in prices of a fixed basket of goods and services, including food, clothing, medical care, transportation, housing and electricity.

Controllable Expense - An expense over which an individual has control as to how much is spent. Examples of controllable expenses include entertainment, clothing, food, investments and savings.

Conversion Period - The period of time during which the owner of a term policy may convert it to a permanent policy without evidence of insurability.

Convertible - A provision in a term life insurance contract that allows the contract owner to convert the term policy to a permanent life policy without evidence of insurability.

Corporate Bonds - A bond issued by a corporation, which creates an obligation by the corporation to pay interest for a specified period and to repay the principal amount at the bond's maturity date.

Co-signer -- A person who signs a promissory note that is also signed by one or more other parties. All parties take responsibility for the debt if any of the others renege.

D

Death Benefit - The amount of money paid to the beneficiary when the insured dies. The death benefit is generally equal to the policy's face value, although the death benefit can be reduced dollar-for-dollar by the amount of any outstanding policy loan.

Debit card -- A payment card that is linked directly to a customer's bank account. Some cards require a personal identification number. Others require a customer's signature. A PIN-based or direct debit card removes a purchase price from a customer's checking account almost immediately. A signature-based or deferred debit card has a Visa or MasterCard logo and removes the purchase price from a customer's bank account in two or three days.

- Obligations in the form of bonds, loans, notes or mortgages, owed to another person or institution and required to be paid by a specified date.

Debt Consolidation -- The replacement of multiple loans with a single loan, often with a lower monthly payment and a longer repayment period. It's also called a consolidation loan.

Debt-to-income ratio -- The percentage of before-tax earnings that are spent to pay off loans for obligations such as auto loans, student loans and credit card balances. Lenders look at two ratios. The front-end ratio is the percentage of monthly before-tax earnings that are spent on house payments (including principal, interest, taxes and insurance). In the back-end ratio, the borrower's other debts are factored in.

Debtor -- Technically, a person who has filed a petition for relief under the bankruptcy laws. More generally, anyone who owes.

Default -- The condition that occurs when a consumer fails to fulfill the obligations set out in a loan or lease.

Depreciation - An accounting term that refers to the reduction in the value of physical assets, such as manufacturing plants and equipment, through periodic reductions in income.

Disability Insurance - An insurance policy designed to pay a specified monthly income to the policyholder in the event that he/she becomes either temporarily or permanently incapable of working.

Discount Broker - A broker who charges a lower commission for buy and sell orders than a full-commission broker. Typically, a discount broker does not give investment advice.

Discretionary Income - The amount of an individual's income available for spending after all fixed and necessary expenses (such as food, clothing and shelter) have been paid.

Diversification - Investing in several different companies in various industries or in several different types of investments in order to spread risk.

Dow Jones Industrial Average - An average of thirty blue chip stocks commonly used as an indicator of whether the stock market is moving "up" or "down."

Down payment -- An initial, partial payment on a purchase.

E

Economic Value - The value of the tasks a family member provides to the rest of the family. The economic value for a non-working spouse would be equal to the cost the family would incur to hire someone to complete the tasks in the absence of the non-working spouse less the cost of that spouse's personal maintenance. These costs usually include childcare and housekeeping but may also include transportation, the cost of eating out more often, tutoring and the like.

Emergency Fund - An emergency fund is money set aside to allow you to weather any unexpected events or expenses in your life. Emergency funds are often used to pay for expenses not incorporated into the budget such as property losses or medical expenses not covered by insurance, or living expenses during a period of unemployment. It is generally recommended that your emergency fund equal three to six months of your living expenses.

Estate Planning - The process of planning for the efficient transfer of assets at one's death. Estate planning begins with preparing a will and may also include naming a power of attorney, establishing trusts and making pre-death gifts.

Estate Tax - Tax imposed by a state or the federal government on the transfer of property from a deceased to his/her heirs.

Evidence of Insurability - Proving that you are a good risk for the insurance company by answering health and lifestyle related questions and possibly submitting to a medical exam.

Executor - An individual or institution that is tasked with the settling of an estate for the deceased. Activities may include gathering the assets, paying the taxes and distributing the estate in accordance with the Will.

Expense - An individual's cost or obligation to meet a need or pay a debt.

F

Face Amount - The named dollar amount of coverage provided by a life insurance policy. Generally, for a whole life or term policy, the face amount is the same as the death benefit - the amount paid to the named beneficiary upon the insured's death.

Final Expenses - Expenses that occur at the death of an individual that must be paid before concluding the probate process. Examples include estate taxes, medical bills, funeral expenses, legal fees, probate costs, outstanding debts, appraisal fees and the like.

Fixed Annuities - An investment contract offered by an insurance company that pays a fixed return (which may be periodically adjusted by the insurance company) principal that is guaranteed by the insurance company to be repaid at a specified date. Any earnings on the account remain tax-deferred until the interest is withdrawn from the contract. The contract can be converted to a guaranteed stream of fixed payments to the owner, either for life or for a specified period.

Fixed Expenses - Expenses that are set and difficult to change or minimize. Examples include mortgage payments, car payments, utility bills, and income and social security taxes.

Fixed-Income Securities - Investments, primarily bonds and bond funds that generate a predictable flow of income over a specified period.

Fixed Investment - A security or investment account that pays a fixed rate of return.

401(k) - A qualified, tax-deferred retirement plan offered by employers, which allows employees to save a percentage of their current salary for retirement.

Front-End Load (Sales Charge) - A front-end load (or front end sales charge) is usually associated with Class A shares of a mutual fund. It is a sales commission, over and above the net asset value of the shares purchased, which is charged at the time you purchase shares. It's computed as a percentage of the dollar amount you're investing. For example, if you pay a front load of 3% on a $10,000 transaction, $300 of your $10,000 is paid to the mutual fund distributor, and the remaining $9,700 is used to purchase shares. The fund distributor keeps a small portion of the sales charge for its services, and the bulk of the sales charge is paid to the selling broker/dealer firm or financial institution. The agent selling the funds to you receives a portion of the sales charge from his/her firm. You can find a listing of the sales charges you will pay in the front of your fund's prospectus, or you can ask your broker.

Fund Objective - A fund's primary goal — for example, current income, capital appreciation or preservation of principal.

G

Gross Income - Total personal income before taxes or other deductions.

Growth Stock - The stock of a corporation whose sales and earnings are expanding faster than the general economy.

Guaranteed Renewable - A provision in term insurance contracts that allows the owner to renew the policy at the end of its term without evidence of insurability.

H

Health Insurance - Insurance that covers medical expenses or health care services.

High-grade Bonds - Debt securities or bonds with an AAA or AA rating from an independent rating organization.

Homeowners Insurance - Insurance that combines liability insurance and hazard insurance and protects homeowners against property and casualty damage.

I

Income Stock - Common stock that pays out a relatively large portion of earnings as dividends, resulting in a high yield for investors.

Individual Retirement Account (IRA) - A tax-favored retirement account that allows all earners to make contributions (in many cases, tax deductible contributions) of up to $2,000 a year and defer income tax on the IRA earnings until distributions are made from the IRA.

Inflation - The general increase in the cost of goods and services. Inflation is often measured by the Consumer Price Index, which represents a fixed basket of goods such as food, utilities, transportation, and medical care.

Insurable - An individual is insurable if he or she is able to obtain life insurance under the insurance company's underwriting criteria. Insurability is usually based upon the individual's age, health, occupation and lifestyle.

Insurer Risk - The risk that an insurance company will be unable to meet its obligations to policyholders.

Interest Rate Risk - The risk that a rise in interest rates will cause the price of bonds to fall. In general, there is an inverse relationship between interest rates and bond prices so that when interest rates rise, bond prices fall and vice versa.

Investment Vehicle - An investment product that usually provides the investor with a diversified portfolio of securities. Examples are mutual funds, unit investment trusts and variable annuities.

IRC- The Internal Revenue Code, which is the federal tax law in the United States.

J

Junk Bonds - Below investment-grade bonds that provide high yields with high risk.

K

L

Large Cap Funds - Mutual funds that primarily invest in stocks of large corporations such as those found in the S&P 500 like General Electric, Wal-Mart or Microsoft. Large-Cap funds typically invest in companies with a market capitalization greater than $5 billion.

Leading Economic Indicators - A group of economic activity reports that tend to foretell an upswing in general economic activity.

Liabilities – A financial obligation, debt, or claim against a person or institution. Simply put, liabilities are the debts you owe. You subtract your liabilities from the total value of the assets you own to determine your net worth. Liabilities include your mortgage, credit card debt, installment and auto loans, loans against a life insurance policy, students loans and loans against your investments (such as margin loans with a brokerage firm). Other liabilities include any taxes you owe -- even taxes you would owe if you sold all of your investments today.

Life Insurance - An insurance policy that pays a death benefit to the beneficiaries when the insured dies.

Living Trust - A trust established during the lifetime of the person creating the trust, rather than under the person's will.

Liquidity - The ability of an asset to be converted into cash quickly and without significant loss of value.

Load - A sales charge on the purchase of certain mutual funds.

Long-Term Care Insurance - An insurance policy that provides medical and nursing home benefits for the chronically ill or disabled.

Long-Term Growth of Principal - Increase in the value of an investment over a sustained period-typically 12 months or longer.

M

Money Market - The market for borrowing and lending large amounts of short-term funds. Money-market instruments include notes, negotiable certificates of deposit, Treasury bills, and the like.

Money Market Accounts - Federally insured accounts (with banks and other financial institutions) that pay rates established by the bank based upon money-market yields. Money Market Mutual Funds, however, are similar to Money Market accounts but are not federally insured.

Money Market Deposit Accounts - A highly liquid account offered by banks that typically provides a higher interest rate than that of a savings account. The account is FDIC insured and its rate of interest is usually sensitive to changes in market rates.

Money Market Funds - Mutual funds that invest in money-market instruments.

Money Market Mutual Fund - An open-end mutual fund that invests only in cash or cash equivalents. The fund's net asset value remains a constant $1 per share, although not guaranteed, and the interest rate fluctuates with the market.

Morningstar - A mutual fund and variable annuity research and reporting company.

Mortality Cost - The amount of money the insurance company charges (usually monthly) for providing the death benefit in a universal life policy or a variable universal life policy.

Municipal Bonds - A bond issued by a state, a municipality, or a state agency or authority for the purpose of funding some governmental function, which pays interest that is exempt from federal income tax.

Municipal Bond Fund- A mutual fund that invests primarily in bonds and debt securities issued by states or municipalities. The objective of most municipal bond funds is to provide current income that is exempt from federal income taxes while protecting the principal from decreasing in value. Both the net asset value and the monthly income can fluctuate with changes in interest rates.

Mutual Fund - An investment company that enables its shareholders to pool their funds for professional management as a single investment account.

N

NASDAQ - The National Association of Securities Dealers Automated Quotations system is a computerized system where prices are quoted for many small over the counter (OTC) securities along with many NYSE listed securities.

Net Income - For an individual, gross income minus expenses.

Net Worth - Total assets minus total liabilities of an individual or company.

NYSE - The New York Stock Exchange is the largest national stock exchange in the U.S. where the securities of large American companies are bought and sold. The NYSE also maintains regulatory authority over firms that are members of the exchange.

O

Ordinary Life - A whole life policy where the premiums are paid throughout the life of the insured. Also known as "straight life".

Over-the-Counter Market - A market for trading stocks not listed on an exchange.

P

Pension Plan - A qualified retirement plan established by a corporation or organization to provide income for its employees when they retire.

Policy Holder - The individual or entity that owns the life insurance policy. The Policyholder may different from the insured. For example, a grandparent (the Policyholder) may own a life policy on a grandchild (the insured).

Policy Value - A Universal Life policy's equivalent of a cash value. The policy value is built by the accumulation of premiums plus interest less charges for expenses and mortality costs and other risk charges. In Variable policies, this accumulation depends on the performance of the underlying assets and not on an interest rate set by the insurance company.

Political and Legislative Risk - The risk that governments of many foreign nations are not as stable as the U.S. and any change in power could affect the value or ownership rights of that nation's securities. It also includes the risk that new laws may adversely affect the companies you invest in, including companies in the U.S.

Portfolio - An individual's or institution's total investment holdings.

Preferred Stock - A class of stock that has preference for dividend payments over the common stock and, in many cases, also for the liquidation of the company's assets. See common stock.

Premium - The money the owner pays to the insurance company in order to obtain life insurance protection.

Prime Rate - The base interest rate that commercial banks charge on loans.

Prospectus - A printed offering to sell a security that fully discloses relevant information on that security.

Q

R

Recession - A period of general and sustained economic decline.

Renewal Rate - The fixed rate the insurance company will pay after the initial rate period expires. Usually set annually at the end of each policy year.

Return on Investments - The money you earn or lose on your investment, expressed as a percentage of your original investment.

Revocable Trust - A living trust that the creator of the trust may amend or end (revoke). See living trust and trust.

Risk - The measurable possibility of economic loss. There is risk involved if the outcome of an investment is uncertain at the time the investment is made. Although the outcome is uncertain, it is measurable.

Risk Tolerance - An investor's ability to withstand declines in the value of his/her portfolio, financially and emotionally.

"Rollover" IRA - An IRA (individual retirement account) started to receive all or part of the taxable portion of an eligible distribution from a tax-qualified retirement plan. The eligible distribution amount transferred to the IRA (together with any earnings on that amount while in the IRA) escape taxation until distributions are made from the IRA.

S

S&P 500 - The Standard & Poor's 500 is an index made up of 500 blue chip stocks. The index is commonly used to measure stock market performance.

Sales Commission - A fee an investor pays a broker for buying or selling securities.

Securities - An instrument issued by a corporation or government that denotes a debt or ownership interest. Stocks and bonds are referred to as securities.

Shares Outstanding - The shares of a corporation's stock that have been issued to the public and are in the hands of investors.

Single-Pay Life - A whole life policy purchased with one premium payment.

Small Cap Funds - Mutual funds that primarily invest in small, start-up or very specialized companies. Small cap funds typically invest in companies with a market capitalization greater than $300 million but less than $1 billion.

Stock - Stock represents ownership in a company. The stock holder's percentage of ownership in the company can be calculated by dividing the number of shares he or she owns by the total number of shares outstanding. The value of a stock will fluctuate with the company's performance and the stock market in general.

Stock Dividend - A dividend paid in stock (or other securities) rather than in cash.

Stock Fund - A mutual fund that invests in many stocks, offering investors diversification and professional management.

Stock Mutual Fund - An investment company that invests primarily in stocks. The investment objective of most stock funds is growth, although some funds also have a secondary objective of income.

Stock Split - An allocation of newly issued stock to shareholders according to their current holdings so that there is no change in the shareholders' relative ownership positions. A company generally uses a stock split to reduce its stock's price to what the company believes will be a more marketable trading level.

Surrender Charge - The fee an insurance company would assess against the cash value of a life insurance policy if the owner were to surrender the policy. The amount of the surrender charge will usually be highest in the first year of a policy and decreases over time until eventually it is zero.

Surrender Charge Period - The number of years during which the insurance company would charge the owner a fee if the owner chooses to surrender the contract.

Surrender Charge Schedule - A schedule illustrating the fee the insurance company charges for making early withdraws from the annuity contract. The surrender charge is generally on a sliding scale that decreases the longer you have owned the annuity.

Survivors - Individuals, usually family members, who face emotional and sometimes financial setbacks because of your death.

T

Tax-Deferred Investment - An investment whose income and/or capital gains are not taxed until they are removed from the investment. Examples of tax-deferred investments include annuities and the cash value of life insurance. Tax-deferral can also be accomplished through the use of IRAs and corporate retirement plans such as 401(k)s.

Tax Shelter - In general, any means used to provide favorable tax treatment for all or part of an individual's or corporation's income. More usually, "tax shelter" is an investment device that generates tax deductions larger than the income from the investment.

Taxable Income - The amount used in the calculation of an individual's income tax liability. It is equal to one's income after certain adjustments have been made and standardized or itemized deductions and personal exemptions have been deducted.

30-Day Treasury Bill - A U.S. government security that matures 30 days after it is issued. They are sold at weekly auctions at a discount and are redeemed at face value.

Treasury Bills - U.S. government securities that mature (are redeemed) sooner than one year after issue. They are sold at weekly auctions at a discount and are redeemed at face value.

Treasury Bonds - U.S. government securities with a maturity longer than seven years.

Treasury Notes - U.S. government securities that mature between one and seven years after issue.

Trust - A legal arrangement that one party (the grantor) uses to transfer assets to a second party (the trustee). The assets are held and invested for the benefit of one or more third parties (the beneficiaries). See living trust and revocable trust.

Trustee - The institution or individual that is named to hold, manage, and distribute a trust's assets.

U

Underwriter - Makes the determination of who can be insured and at what rate.

Uninsurable - An individual who is unable to obtain life insurance coverage due to the high risk he or she represents to the insurance company. For example, most insurance companies would consider an individual with a serious life threatening disease to be uninsurable.

U.S. Treasury Bills - U.S. government securities that mature (are redeemed) sooner than one year after issue. They are sold at weekly auctions at a discount and are redeemed at face value.

V

Value Stocks - Overlooked or under performing companies that have a low price to earning ratio (P/E), and are trading at relatively low prices compared to their earnings.

Variable Annuity - An annuity contract whose growth and subsequent income payout are based on the performance of the securities held in the underlying sub-accounts selected by the contract owner. All income and capital gains produced by the sub-accounts are tax-deferred.

Volatility - A measure of price stability. An investment is volatile if its price is subject to wide swings.

W

Waiting Period - The length of time a disability policy holder must wait after submitting a claim before disability income benefits begin.

Will - A legally enforceable document allowing an individual to direct the distribution of his/her property after death.

X

Y

Yield - The interest or dividend payable on a security, expressed as a percentage of the price of the security. Some investment advisors also include capital gain as part of the yield.

Z

Zero Coupon Bond - A bond that pays no periodic interest, but is sold at a deep discount from the face value payable at maturity. See bond and municipal bond.