Planning Your Financial Endgame

Creating a Retirement Strategy

"It is better to look ahead and prepare than to look back and regret."

- Jackie Joyner-Kersee

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Preface

The strategies and principles presented in this book provide valuable insights into creating a better retirement experience. Some of this information you may already know, some you probably do not.

This information is not intended to be financial advice for a specific purpose. It is presented for educational purposes. I am NOT a licensed financial professional. Consult a licensed retirement professional before taking any action. Additionally, the information was accurate at the time it was written, with my best efforts to research and document it. Rules change frequently and the details should be verified.

Keep in mind that everyone's circumstances and needs are different. This is why it is important to work with a professional that can help you navigate your options to get what best fits your needs.

This book was inspired by my wife Susie. One of her roles is a retirement income specialist. She founded the SWE Ventures company to help people with various financial and asset protection needs. If you have questions or would like more information, please contact her via her website, she loves helping people.

SWE Ventures
www.sweventures.com

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Introduction

The initial concept for this book came to me many years ago thanks to a friend of mine, Walter Carpenter. As a hobby/side-gig he sold life insurance and was passionate about retirement savings. At that time, I was self-employed, and did not have a 401(k) or investment plan. He enlightened me about how saving for my retirement made sense and advised me to start investing in IRA's and annuities. He explained to me how putting money away at an early age grows over time. Time and compound interest are our friends. He also recommended that I keep investment diversification in mind and have a varied investment portfolio, keeping retirement investments in protected instruments and allowing wealth building funds in more risky stocks etc.

This was undoubtedly some of the best advice I've ever received, and it has not disappointed me. Unfortunately, Walt passed away many years ago, but the things we discussed still hold true today.

As I aged, and never attained multimillionaire status, I became more conscious of my needs for additional retirement savings and on multiple occasions reached out to find a financial advisor to help. In my quest I found several organizations that could help, but the fees were more than I could justify. Fortunately, I found out that retirement advisors still exist and are willing to help and able to provide retirement Instruments that do not charge management fees.

It is my desire that the strategies and principles presented in this book will be an inspiration to others to invest in their retirement. There's a phrase “What do I want to be when I grow up?” We should also be asking “How do we want to live when we grow old?”

. . .

Now on to the strategies and principles for building a retirement strategy.

Chapter 1

LIVING LIFE

The Journey from Birth to Death

Aging is a natural and inevitable part of life, and each decade brings its own unique challenges and rewards, which reveals a lot about how our priorities change and planning for the future becomes more important. For those of us that can look back and see just how accurate the descriptions of our previous decades are, should have an appreciation of the descriptions of how our future decades will be. Grasping the dynamics of the decades of life will help to create a better retirement experience.

This book is intended to help understand the essentials of retirement investing, explore why some choose to work beyond retirement age, and offer advice on finding a retirement professional to assist you. This information can also help in creating survivorship benefits for loved ones.

TEEN YEARS

Creating Social Bonds

The teen years, a crucial period of transition, are marked by significant physical, emotional, and social changes, as teenagers develop their identity and navigate independence. This stage is characterized by puberty, increased social influence, and the development of emotional maturity.

Teenagers experience rapid physical changes, including puberty, which is when hormone levels surge, leading to growth spurts, sexual maturation, and the development of secondary sexual characteristics. Hormonal fluctuations can contribute to mood swings and emotional intensity. Physical changes can lead to increased self-consciousness and body image concerns.

Teens grapple with questions of self-identity, exploring their values, beliefs, and place in the world. They begin to develop emotional self-regulation and empathy, learning to cope with a wider range of emotions. They also may find it harder to cope with stress, and they may respond to stress differently than adults. Additionally, A propensity towards substance use and addictions like nicotine, alcohol, drugs, pornography etc. is tested. It is important to avoid the temptation to fit in when it comes to these things.

Peers become a significant influence on teens' behaviors, beliefs, and values. Strong need for acceptance, success and rejection in social quests shape where teens fit into society. Teens often start to assert their independence from parents and family, pushing the boundaries of their relationships. Perhaps this is nature's way of pushing some to venture away to other villages to diversify genetics. They begin to explore romantic relationships and form deeper friendships, learning about intimacy and conflict resolution.

The teen brain is still developing, particularly areas related to social cognition and decision-making. It's important to have open and honest communication with teens about difficult topics, such as substance use, mental health, and sexual health. Establishing clear expectations and boundaries can help teens learn responsibility and develop healthy decision-making skills. If you or your teen are struggling, it's important to seek help from qualified professionals, such as therapists, counselors, or doctors.

In the mid-to-late teen years, teens are the smartest they will ever be. At this point in life, they know everything, and parents and elders have no clue about the world. Adolescence is the period of life when people transform from children into adults. To handle the transition successfully, people need to shed parental dependencies and become more autonomous and independent. So it makes sense that teens think -- or at least act like -- they know everything. Hobbies and specialized interests become more defined.

TWENTIES

Embracing Growth and Change

Our twenties are often described as a decade of self-discovery, growth, and transformation. It's a time when we begin to carve out our own identity, explore new horizons, and lay the foundation for our future. This period is marked by a series of significant changes and milestones that shape who we are and who we will become. From graduating college to starting a career, from forming lasting relationships to understanding our personal values, this decade is filled with opportunities and challenges that will define our journey.

The twenties mark the transition from adolescence to adulthood. This period often begins with the culmination of our academic journey, whether through graduating from college or completing vocational training. The shift from a structured educational environment to the responsibilities and freedoms of adult life can be both exhilarating and daunting. It's a time to embrace independence and take ownership of our decisions.

One of the most significant aspects of our twenties is the exploration of career paths. This decade is often characterized by the pursuit of professional goals and the establishment of a career. It's a time to experiment with different roles, industries, and work environments to discover what truly resonates with us. This period might involve changing jobs, pursuing further education, or even venturing into entrepreneurship. The key is to remain open to new experiences and to view each opportunity as a steppingstone toward our ultimate career aspirations.

Financial stability becomes increasingly important in our twenties. It's a time to develop good financial habits, such as budgeting, saving, and investing. Establishing a strong financial foundation early on can provide us with the security and freedom to pursue our goals without undue stress. This decade is also a good time to start thinking about long-term financial planning, including retirement savings and investments, to ensure a stable future.

Our twenties are a period of profound personal growth and self-discovery. It's a time to explore our interests, passions, and values. Engaging in hobbies, traveling, and meeting new people can help us gain a deeper understanding of ourself and the world around us. This decade is also an opportunity to reflect on our beliefs and to cultivate a sense of purpose and direction.

Relationships play a crucial role in our twenties. This period is often marked by the formation of deep and meaningful connections with friends, romantic partners, and mentors. The relationships we build during this time can have a lasting impact on our personal and professional life. It's important to invest time and effort into nurturing these connections, while also being mindful of maintaining healthy boundaries and communication.

Change and uncertainty are inherent aspects of our twenties. This decade is filled with transitions, from moving to new cities to starting new jobs, and from forming new relationships to letting go of old ones. Embracing change and being adaptable are essential skills that will serve us well throughout our life. It's important to view uncertainty as an opportunity for growth and to approach challenges with resilience and a positive mindset.

Prioritizing our health and well-being is crucial in your twenties. Developing healthy habits, such as regular exercise, balanced nutrition, and sufficient sleep, can have a lasting impact on your overall well-being. This period is also a good time to focus on mental health, practicing self-care, and seeking support when needed. Building a strong foundation of physical and mental health early on can set the stage for a fulfilling and vibrant life.

Effective time management and productivity are key skills to develop in our twenties. Balancing work, personal life, and self-care requires careful planning and prioritization. Learning to set goals, manage our time efficiently, and stay organized can help us make the most of this dynamic decade. It's also important to find a balance between productivity and relaxation, ensuring that we have time for rest and rejuvenation.

Setting and achieving goals is a central theme of our twenties. Whether personal, professional, or academic, having clear goals can provide you with a sense of direction and purpose. This period is an opportunity to dream big and to take actionable steps toward realizing our aspirations. It's important to set realistic and attainable goals, while also being flexible and open to adjusting our plans as needed.

Our twenties can be influenced by social and cultural expectations, which can sometimes create pressure to conform or achieve certain milestones. It's important to recognize that everyone's journey is unique and that there is no one-size-fits-all approach to life. Embracing our individuality and making choices that align with our values and goals is key to finding fulfillment and happiness.

Mistakes and setbacks are inevitable in our twenties. This period is a time of learning and growth, and it's important to view mistakes as valuable lessons rather than failures. Being kind to ourself, taking responsibility, and learning from our experiences can help you build resilience and confidence. Each mistake is an opportunity to grow and to become more self-aware and capable.

As we navigate our twenties, we should take time to create a vision for our future. Reflect on our values, passions, and aspirations, and consider how we want to shape our life in the years to come. This decade is a time to lay the groundwork for our future, and having a clear vision can guide our decisions and actions. Remember that our twenties are just the beginning, and the possibilities are endless.

This illusion of grandeur causes young adults to believe that the rules that apply to others don't apply to us. We feel invulnerable and immortal and therefore lack impulse control -- engaging in risky behaviors without fear of the consequences. This is the time to get a meaningful job, start a career, finish college.

THIRTIES

Exploring the Vibrant Decade of Growth, Challenges, and Fulfillment

Life in our 30s is a fascinating and transformative journey. This decade is often seen as a time of personal and professional growth, where the experiences and lessons of your 20s converge to shape a more defined and purposeful existence. It is a period filled with opportunities, challenges, and the pursuit of true fulfillment.

In our 30s, personal growth and self-discovery take center stage. You begin to understand yourself better, embracing your strengths and working on your weaknesses. This decade is marked by a deeper sense of self-awareness, as you reflect on your past decisions and their impact on your present and future.

As we navigate through your 30s, you may find yourself redefining your priorities. The pursuits that once seemed paramount in your 20s might now take a backseat to new goals and values. Career ambitions, personal relationships, health, and well-being often become focal points as you strive for a balanced and meaningful life.

Relationships in our 30s tend to evolve and deepen. Friendships that have withstood the test of time become more significant, while new connections are often formed through shared interests and life stages. Romantic relationships may also take on new dimensions, with many people choosing to settle down, get married, or start families during this period.

Our 30s are a pivotal time for professional growth and career stability. By this stage, you have likely gained valuable experience and skills, positioning yourself for advancement and new opportunities. This decade is often characterized by a clearer sense of direction and purpose in your professional life.

For many, the 30s are a time of significant career achievements. You may find yourself climbing the career ladder, taking on leadership roles, or even starting your own business. The confidence and expertise garnered in your 20s serve as a strong foundation for tackling new challenges and reaching new heights in your career.

Finding a healthy work-life balance becomes increasingly important in your 30s. As you take on more responsibilities, both professionally and personally, striking a harmonious balance between the two can be challenging but essential for overall well-being. Prioritizing self-care, setting boundaries, and managing time effectively are crucial skills to master during this decade.

Financial stability and planning are key aspects of life in your 30s. This is a time when you start to think more seriously about your financial future, including saving for retirement, investing, and managing expenses.

For those that have not put a full effort into financial planning, it is not too late.

- Contribute to retirement accounts like 401(k)s and/or IRAs.
- Establish a budget and start saving a portion of your income.
- Focus on paying off high-interest debts.
- Build an emergency fund for unforeseen expenses.

In your 30s, saving and investing become top priorities. Building an emergency fund, contributing to retirement accounts, and exploring investment opportunities are important steps toward securing your financial future. This is also a good time to seek advice from financial professionals to make informed decisions about your money.

Managing debt, whether it's student loans, credit cards, or mortgages, is a critical aspect of financial planning in your 30s. Creating a budget, paying off high-interest debts, and maintaining a good credit score are essential strategies for achieving financial stability.

Health and well-being take on new importance in your 30s. This decade is often a wake-up call for many, as the body begins to show signs of aging and the need for a healthier lifestyle becomes more apparent.

Staying physically active, eating a balanced diet, and getting regular check-ups are vital for maintaining health in your 30s. This is also a time to address any lingering health issues and adopt preventive measures to ensure long-term well-being.

Mental and emotional health are equally important. The 30s can be a time of significant stress and pressure, making it essential to prioritize mental well-being. Practices such as mindfulness, therapy, and maintaining a strong support system can help manage stress and promote emotional resilience.

Your 30s are also a time to embrace change and seek new experiences. Whether it's traveling to new destinations, pursuing hobbies, or learning new skills, this decade offers countless opportunities for personal growth and enrichment.

Traveling and exploring new cultures can be incredibly rewarding in your 30s. With more financial stability and a better sense of what you enjoy, you can embark on adventures that broaden your horizons and create lasting memories.

The pursuit of knowledge doesn't stop in your 30s. Whether it's going back to school, taking up a new hobby, or attending workshops and seminars, continuous learning keeps the mind sharp and opens up new possibilities for personal and professional growth.

FORTIES

Embracing Midlife with Grace and Wisdom

The 40s are often seen as a pivotal decade in life, a time when many individuals reassess their goals, values, and priorities. This is a period marked by both personal and professional growth, as well as a deeper understanding of oneself and the world. While it can bring its challenges, the 40s also offer an opportunity for enrichment and transformation.

Our 40s are a time for significant personal development. With a wealth of life experience behind us, this decade often brings a clearer sense of identity and purpose. Many people find themselves more confident and self-assured, able to make decisions with greater conviction and clarity.

Change is inevitable, and the ability to adapt is crucial. In our 40s, we may experience shifts in career, relationships, and health. Embracing these changes with a positive mindset can lead to new opportunities and personal growth. It's a time to let go of fears and embrace the unknown with courage.

Maintaining physical and mental health becomes increasingly important in our 40s. Regular exercise, a balanced diet, and mindfulness practices can greatly enhance your quality of life. It's also a time to address any lingering health issues and establish routines that promote long-term wellness.

Professionally, the 40s can be a period of peak performance and accomplishment. With years of experience and knowledge, many individuals find themselves in leadership roles or undertaking significant projects. This decade is an opportunity to leverage your expertise and make meaningful contributions to your field.

Whether we're aiming for a promotion, considering a career change, or starting your own business, our 40s offer a prime opportunity to pursue professional goals. It's a time to reflect on what brings us fulfillment and take bold steps towards achieving our aspirations.

Achieving a healthy work-life balance is crucial. The 40s often come with increased responsibilities, both at work and at home. Prioritizing time for family, hobbies, and self-care is essential to maintaining overall well-being and avoiding burnout.

Relationships play a vital role in your 40s. This decade can bring deeper connections with partners, children, and friends. It's a time for nurturing and strengthening these bonds, as well as reevaluating relationships that may no longer serve our growth.

For many, the 40s involve navigating the complexities of parenting. Whether we're raising young children or supporting teenagers, this period is filled with unique challenges and rewards. It's an opportunity to impart wisdom and create lasting memories with our children.

Friendships in your 40s can be particularly enriching. With a shared history and common experiences, these relationships often provide unwavering support and understanding. It's important to invest time and effort into maintaining and deepening these connections.

Financial planning becomes a critical focus in your 40s. Ensuring financial security for the future involves careful management of assets, savings, and investments. This decade is a time to solidify our financial foundation and make strategic decisions for long-term stability.

- Increase contributions to retirement accounts as our income grows.
- Diversify investments to balance risk and growth potential.
- Review and adjust financial goals periodically.
- Consider additional savings options like Health Savings Accounts (HSAs).

Retirement planning takes on greater significance. Assessing our retirement goals and creating a comprehensive plan can provide peace of mind. Consulting with financial advisors and exploring various retirement options can help ensure a comfortable and secure future.

Developing effective investment strategies is key to growing our wealth. Diversifying our portfolio, understanding market trends, and staying informed about financial opportunities can enhance our financial position and prepare us for future needs.

Our 40s are an ideal time to explore and cultivate personal interests. Engaging in hobbies, learning new skills, and pursuing passions can add joy and fulfillment to our life. This is a decade to rediscover old interests and embark on new adventures.

Lifelong learning is a valuable pursuit. Whether through formal education, workshops, or self-study, continuing to expand our knowledge and skills can enrich our personal and professional life. It's never too late to learn something new or deepen our expertise.

Traveling and exploring new places can be incredibly rewarding. Our 40s offer the chance to experience different cultures, landscapes, and perspectives. Whether it's a solo adventure or a family vacation, travel can create lasting memories and broaden our horizons.

FIFTIES

Kicking Retirement Planning into High Gear

Turning 50 is a significant milestone in one's life, a half-century mark that brings with it a wealth of experiences, memories, and newfound wisdom. It is a time to reflect on the journey so far and to look forward to the years ahead with optimism and enthusiasm. The golden jubilee is not just a number; it encapsulates a lifetime of achievements, challenges, and growth. It is a time to accelerate preparations for your retirement financial position.

Being in our 50s often brings a new perspective to life and priorities often change. Some of us start to worry that we may outlive our retirement savings.

- Maximize contributions to retirement accounts, taking advantage of catch-up contributions.
- Review retirement income sources, including Social Security and pensions.
- Plan for healthcare costs and potential long-term care needs.
- Consider downsizing or relocating to reduce expenses.
- At age 59 ½ we can move funds from a 401(k) (even if we are still contributing to it) to another qualified investment product of our choice without penalties or income tax liabilities. This is a great opportunity to earn more for our retirement. The average 401(k) APY is 5-8%, Annuity based products have 8-14% APY.

Reaching the age of 50 is an opportune moment for introspection. It is a chance to look back on the various phases of life -- childhood, adolescence, young adulthood, and middle age. Each phase has contributed to shaping the person we are. Reflecting on the past fifty years can bring a sense of accomplishment and gratitude. It is a time to acknowledge the lessons learned, the goals achieved, and the hurdles overcome.

By the age of 50, many have established themselves in their careers, built families, and nurtured personal relationships. Professional achievements, whether it be climbing the corporate ladder, starting a business, or mastering a craft, are often at their peak. Personal milestones such as raising children, forming lasting friendships, and contributing to the community also stand out. These achievements are a testament to the hard work, dedication, and resilience that has been put in over the years.

One of the most valuable aspects of turning 50 is the accumulation of wisdom. Experience brings with it a deeper understanding of life and its complexities. The ability to approach situations with a balanced perspective, to empathize with others, and to make well-informed decisions is often enhanced at this age. The wisdom gained from fifty years of living is a priceless asset that can be shared with others, enriching not only one’s own life but also the lives of those around them.

SIXTIES

Embracing the Journey of Life

Reaching our 60's is a significant milestone in our life, often marked by reflection, celebration, and a sense of renewal. It symbolizes the transition into a new phase of maturity, wisdom, and freedom. This age is not just a number; it represents years of experiences, memories, and stories that have shaped who we are today.

Reaching our 60's means traversing through various phases of life, from the innocence of childhood to the responsibilities of adulthood. It means having navigated through personal and professional challenges, savoring achievements, and learning from failures. This journey is characterized by the relationships we have built, the love we have shared, and the lessons we have learned along the way.

One of the most cherished aspects of being in your 60s is the wealth of relationships that have been nurtured over the decades. From raising children to becoming a grandparent, the family bonds have grown stronger. The support and love from family members create a foundation of security and belonging. Friendships, both old and new, add richness to life, providing companionship and shared memories.

When we are in our 60's, many have reached the pinnacle of their careers or transitioned into retirement. Reflecting on professional achievements, contributions, and the impact on one's field can be a source of immense pride. It is also a time to mentor and inspire the younger generation, passing on the knowledge and expertise gained over the years.

As we age, maintaining health and well-being becomes increasingly important. Being in our 60's often prompts a renewed focus on physical and mental health. Regular exercise, a balanced diet, and routine health check-ups become essential to ensure a vibrant and active life. Mental well-being is equally crucial, with mindfulness practices, hobbies, and social connections playing a significant role in maintaining a positive outlook.

Staying physically active is key to enjoying life in our 60s and beyond. Engaging in activities such as walking, swimming, or yoga can enhance mobility, strength, and overall health. Embracing an active lifestyle not only improves physical health but also boosts mental clarity and emotional well-being.

Cultivating mental and emotional health is essential for a fulfilling life. Whether through meditation, creative pursuits, or meaningful conversations, finding ways to stay mentally sharp and emotionally balanced is vital. Celebrating the small joys and practicing gratitude can significantly enhance one's quality of life.

Being in our 60's often marks the beginning of retirement for many. Ensuring financial security and stability is crucial during this phase. Planning for retirement involves assessing savings, investments, and potential sources of income. Consulting with financial advisors and making informed decisions can lead to a stress-free and comfortable retirement.

At 65, individuals become eligible for various benefits, including Social Security and Medicare. Understanding and navigating these benefits can provide financial relief and access to essential healthcare services. Being well-informed about the options available can help maximize the advantages of these programs.

Legacy planning is an important consideration as we enter this stage of life. Creating a will, establishing trusts, and making end-of-life decisions can ensure that our wishes are respected and that loved ones are taken care of. Legacy planning provides peace of mind and allows us to leave a lasting impact on future generations.

Being in our 60's does not mean slowing down; rather, it is an opportunity to explore new passions and interests. Whether it is traveling, volunteering, or pursuing a long-held dream, this age brings the freedom to dedicate time to activities that bring joy and fulfillment.

With children grown and careers established, many find being in your 60's is the perfect time to travel and explore new destinations. Experiencing different cultures, cuisines, and landscapes can be incredibly enriching. Travel not only broadens horizons but also creates lasting memories and a sense of adventure.

Giving back to the community by volunteering can be a deeply rewarding experience. Sharing skills, knowledge, and time with others in need fosters a sense of purpose and connection. Volunteering provides an opportunity to make a positive difference in the lives of others while enhancing personal growth.

Being in our 60's is a celebration of life and all that it encompasses. It is a time to honor the past, appreciate the present, and look forward to the future with hope and enthusiasm. Each day is a gift, and embracing this milestone with a positive mindset can lead to a fulfilling and joyful journey ahead.

SEVENTIES

Harvesting From the Seeds You Have Sewn

Our 70s can be a time of great fulfillment, joy, and discovery. This period, often referred to as the "golden years," offers an opportunity to reflect on the past, cherish the present, and look forward to the future with optimism.

Maintaining good health is paramount in our 70s. Regular physical activity, a balanced diet, and mental stimulation are essential components of a healthy lifestyle.

Staying active is crucial for physical health. Engaging in low-impact exercises such as walking, swimming, and yoga can improve cardiovascular health, strengthen muscles, and enhance flexibility. It is also important to attend regular check-ups with healthcare providers to monitor and manage any chronic conditions.

Mental well-being is equally important. Staying mentally active through hobbies like reading, puzzles, and learning new skills can help keep the mind sharp. Social interactions also play a significant role in mental health. Engaging with family, friends, and community groups can provide emotional support and reduce feelings of loneliness and isolation.

Family and relationships are often at the heart of life in our 70s. This decade can be a time to strengthen bonds with loved ones and create lasting memories together.

Many individuals find great joy in spending time with their children and grandchildren. Whether it's sharing stories, playing games, or simply being present, these moments can be incredibly rewarding.

Maintaining friendships and social connections is also vital. Joining clubs, attending social events, and participating in group activities can provide opportunities to meet new people and build meaningful relationships.

Our 70s can be an excellent time to pursue passions and hobbies that may have been put on hold due to the demands of earlier life stages. Whether it's painting, gardening, traveling, or volunteering, engaging in activities that bring joy can greatly enhance the quality of life.

Creative pursuits such as painting, writing, and crafting can provide a sense of accomplishment and fulfillment. These activities also offer an outlet for self-expression and can be a wonderful way to share experiences and insights with others.

For those who enjoy travel, this decade can be a perfect time to explore new destinations. Whether it's visiting historical sites, experiencing different cultures, or simply enjoying nature, travel can be both educational and rejuvenating.

Many individuals find purpose in giving back to their communities through volunteering. Whether it's mentoring young people, participating in community projects, or supporting local charities, volunteering can provide a sense of purpose and connection.

Financial security is an important aspect of life in our 70s. Proper planning and management of finances can provide peace of mind and allow for a comfortable lifestyle.

At age 73 we must take annual distributions from qualified retirement products. Failure to do so will result in the IRS confiscating a portion of what you did not take (at the time of this writing, it is 25%).

Creating a budget and sticking to it can help manage expenses and ensure that resources are used wisely. It's also important to continue saving and investing for future needs and unexpected expenses.

Healthcare costs can be a significant concern in this decade. Ensuring that we have adequate health insurance coverage and understanding our benefits can help manage these costs. It's also a good idea to plan ahead for long-term care needs.

Our 70s offer a unique opportunity to reflect on our life and consider the legacy we wish to leave behind.

Sharing our knowledge and experiences with younger generations can be incredibly meaningful. Whether it's through storytelling, writing memoirs, or simply offering advice, our insights can have a lasting impact on those around us.

Thinking about the legacy we want to leave can be a powerful motivator. This could involve planning our estate, making charitable donations, or creating lasting memories with loved ones.

EIGHTIES

A Journey of Wisdom and Grace

The eighth decade of life, being an octogenarian, is often viewed as a period of reflection, wisdom, and serene grace. It is a time when life's experiences culminate into a rich tapestry of memories, knowledge, and profound insights. While each individual's journey through their 80s is unique, there are common themes that shape this remarkable stage of life.

As one enters their 80s, there is an unparalleled opportunity for deep reflection. The countless experiences, triumphs, and challenges faced over the years become sources of stories and lessons not only for oneself but also for younger generations. These reflections can bring a sense of fulfillment and contentment, knowing that a life well-lived has left an indelible mark on the world.

One of the most cherished aspects of being in our 80s is the wealth of wisdom accumulated. This wisdom, honed through decades of living, learning, and adapting, becomes a treasured asset to share with family, friends, and community. Whether it is life advice, historical anecdotes, or practical knowledge, the ability to impart this wisdom can foster deeper connections and leave a lasting legacy.

The 80s are a time to celebrate achievements, big and small. It is a period to look back at personal milestones, professional accomplishments, and the impact made in various spheres of life. This celebration of achievements fosters a sense of pride and reinforces the value of our contributions to society.

While aging brings its own set of challenges, maintaining physical and mental well-being remains paramount. Engaging in regular physical activity, such as walking, swimming, or yoga, helps to keep the body agile and strong. Additionally, mental stimulation through reading, puzzles, or learning new skills can enhance cognitive function and delay the onset of age-related decline.

Regular health check-ups and preventive care become increasingly important in the 80s. Monitoring vital health parameters and managing chronic conditions with the guidance of healthcare professionals ensures a better quality of life. Embracing a healthy diet, adequate hydration, and sufficient rest also play crucial roles in sustaining health and vitality.

Maintaining strong social connections is essential for emotional well-being. Engaging with family, friends, and community groups provides a sense of belonging and combats feelings of loneliness. Participating in social activities, volunteering, or joining clubs can foster new friendships and keep the spirit lively and invigorated.

The 80s can be a wonderful time to rediscover and pursue passions that might have taken a backseat during the busier phases of life. Whether it's painting, gardening, writing, or traveling, indulging in hobbies brings immense joy and satisfaction. These activities not only provide a creative outlet but also contribute to a sense of purpose and fulfillment.

The journey of learning never truly ends. Many in their 80s find joy in picking up new skills or deepening their knowledge in areas of interest. This continuous learning keeps the mind sharp and opens new avenues for personal growth. It is a testament to the idea that age is but a number, and the spirit of curiosity and exploration can thrive at any stage of life.

Giving back to the community remains a significant aspect of life in the 80s. Volunteering time, sharing expertise, and participating in community projects create a sense of purpose and belonging. These contributions not only enrich the community but also enrich the lives of those who give, creating a cycle of positive impact and fulfillment.

Change is a constant in life, and the 80s are no exception. Adapting to new circumstances, whether it involves health, living arrangements, or technology, is part of the journey. Embracing change with a positive outlook and a willingness to learn makes the transition smoother and more rewarding.

In today's digital age, technology offers remarkable opportunities for staying connected and engaged. Learning to use smartphones, tablets, and social media platforms can open new worlds of communication and information. Virtual gatherings, video calls, and online communities provide avenues to maintain relationships and access resources, regardless of geographical barriers.

Creating a comfortable and safe living environment is crucial in the 80s. This might involve adapting living spaces to accommodate mobility needs, incorporating safety features, and ensuring easy access to essentials. A well-organized and welcoming home contributes significantly to overall well-being and peace of mind.

A positive attitude can greatly influence the quality of life in the 80s. Focusing on gratitude, embracing laughter, and finding joy in everyday moments enhance emotional resilience and overall happiness. Cultivating a mindset that sees the beauty in life's simplicities can turn ordinary days into extraordinary experiences.

Practices such as mindfulness and meditation offer profound benefits for mental and emotional health. These practices encourage being present in the moment, reducing stress, and fostering inner peace. Taking time each day for mindfulness exercises can create a sense of calm and clarity, enriching the overall experience of life in the 80s.

Expressing gratitude for the people, experiences, and blessings in life nurtures a sense of contentment. Reflecting on the positive aspects of life, despite its challenges, cultivates a heart full of appreciation and joy. This gratitude becomes a source of strength and inspiration, illuminating the path forward.

NINETIES

Embracing the Golden Years

Entering your 90s is a remarkable milestone that signifies a life rich with experiences, wisdom, and memories. While aging brings its own set of challenges, it also offers opportunities for reflection, connection, and joy.

Maintaining health and well-being is crucial in one's 90s. Regular medical check-ups, a balanced diet, and staying physically active are essential. Gentle exercises such as walking, swimming, and yoga can help maintain mobility and strength. Mental health is equally important; activities that stimulate the mind, like reading, puzzles, and social interactions, can keep cognitive functions sharp.

A nutritious diet tailored to the needs of older adults can enhance quality of life. Focus on consuming a variety of fruits, vegetables, whole grains, lean proteins, and healthy fats. Staying hydrated is also vital.

Consulting a dietitian or nutritionist can help create a meal plan that addresses specific dietary needs and restrictions.

Physical activity remains a cornerstone of healthy aging. While high-impact exercises may no longer be suitable, there are many ways to stay active. Chair exercises, tai chi, and gardening are excellent options. Engaging in regular physical activity can improve balance, prevent falls, and boost overall well-being.

Maintaining social connections is crucial for emotional health. Loneliness and isolation can be significant risks for older adults. Staying connected with family, friends, and community groups can provide emotional support and companionship. Participating in clubs, attending social events, and volunteering can foster a sense of belonging and purpose.

The 90s can be a time to indulge in hobbies and interests that may have been set aside earlier in life. Whether it's painting, writing, knitting, or playing musical instruments, engaging in creative activities can bring immense joy and satisfaction. Continuing to learn and pursue new interests can also add excitement and novelty to life.

Reflecting on one's legacy and sharing life stories with younger generations can be deeply fulfilling. Writing memoirs, creating photo albums, and recording oral histories are meaningful ways to preserve personal history and impart wisdom. Engaging in legacy projects, such as establishing scholarships or making charitable donations, can leave a lasting impact.

Access to quality healthcare and support services becomes increasingly important in one's 90s. Having a reliable healthcare team, including doctors, nurses, and caregivers, can ensure that medical needs are met promptly and effectively. Exploring options for home care, assisted living, or nursing facilities can provide peace of mind and additional support.

Choosing the right living arrangement is a key consideration. Some may prefer to stay in their own homes, while others might find comfort and convenience in senior living communities. Safety features, such as grab bars and ramps, can make living spaces more accessible and secure. Discussing preferences and planning ahead can help ensure a comfortable and safe living environment.

Financial security is essential for a worry-free life in one's 90s. Reviewing and updating financial plans, managing expenses, and ensuring access to necessary funds can prevent financial stress. Consulting with financial advisors and exploring options like reverse mortgages or long-term care insurance can provide additional financial support.

While it may be a difficult topic, end-of-life planning is an important aspect of aging. Having clear directives for healthcare decisions, estate planning, and funeral arrangements can alleviate stress for both the individual and their loved ones. Open and honest conversations about preferences and wishes are vital.

Despite the challenges that may come with aging, finding moments of joy and practicing gratitude can enhance quality of life. Celebrating small victories, appreciating the beauty of nature, and cherishing time with loved ones can bring happiness and contentment. Cultivating a positive outlook and focusing on the good can make the 90s a truly golden era.

A LIFE PLAN

Failing to Plan is Planning to Fail

Now that we have journeyed through the decades of life and know what is likely to come, we can get a mental picture of what we need to do to be better prepared. Preparing a retirement nest egg takes a deliberate action plan. Regardless of where you are in life, it is important to have a plan. If you do not already have a plan, start one now. Anytime is better than never. The earlier in life you start, the better the results will be, there are ways to catch up to some degree, but time is our friend when it comes to growing money.

The concepts in the book may seem overwhelming to some, but breaking the activities into small pieces will make them easier to grasp and implement.

Q: How do you eat an elephant?
A: One bite at a time

Even if you only read and apply what is in this section, it will be worth way more than the cost of the book. The remaining chapters in this book will go into more detail about these activities for a plan.

Activities

Twenties

- Begin contributing to retirement accounts like a 401(k) and/or IRAs.
- Establish a budget and start saving a portion of your income.
- Focus on paying off high-interest debts.
- Build an emergency fund for unforeseen expenses.

> Invest into your future retirement early and often

Thirties

- Increase contributions to retirement accounts as your income grows.
- Review and adjust financial goals periodically.
- Consider additional savings options like Health Savings Accounts (HSAs).

Forties

- Continue to increase contributions to retirement accounts as your income grows.
- Diversify investments to balance risk and growth potential.
- Continue to review, monitor and adjust financial goals periodically.
- Seek professional retirement advice.

Fifties

- Maximize contributions to retirement accounts, taking advantage of catch-up contributions.
- Review retirement income sources, including Social Security and pensions.
- Plan for healthcare costs and potential long-term care needs.
- Consider downsizing or relocating to reduce expenses.
- At age 59½ roll over your 401(k) into higher yield products such as Annuities or IRAs.

> You can roll a 401(k) into a personal investment tool, even if you are still working and contributing to the 401(k).

Sixties

- If you have not rolled over your 401(k), consider doing it now.
- At Age 65 you must sign up for Medicare part A, even if you already have other insurance. It is free and failing to do this will incur penalty premiums when you do eventually sign up.
- You must also sign up for Medicare Parts A, B and D at this time, otherwise a late enrollment penalty (LEP) will be added if you ever decide to get Part D.
- Finalize retirement date and transition plan.
- Review and optimize retirement income and withdrawal strategies.
- Ensure legal documents like wills and power of attorney are in place.
- Explore part-time work or consulting opportunities if desired.
- Age 67 is the full retirement age for Social Security (SS) if you were born after 1960. Taking SS before age 67 will result in permanently lower payments. This can be a significant amount. Note, the longer you wait to take SS, the higher your benefits will be.

Seventies

- Age 70 is when your social security benefits are maxed out. The benefits will not grow any bigger, so if you have not started, this is the best time to start taking social security.
- At age 73 you must take annual distributions from qualified retirement products. Failure to do so will result in the IRS confiscating a portion of what you did not take (at the time of this writing, it is s 25% penalty).

Chapter 2

HOW MONEY WORKS

Money makes the world go 'round

In order to fully appreciate the process of building a comfortable retirement, it is necessary to understand how money works. This chapter will highlight the most important aspects of how money works. We will examine credit, inflation, future value and interest. Compound interest is of special importance and is the "magic dust" that allows money to grow significantly over time.

CREDIT HISTORY

How Credit Scores Affect Us

A credit score is a numerical representation of an individual's creditworthiness, based on their credit history and other financial behaviors. It is a critical tool used by lenders, landlords, and even some employers to assess the risk of extending credit or other financial resources to an individual. Understanding how credit scores work is essential for managing one's financial health and achieving long-term financial goals.

A credit score is a three-digit number ranging from 300 to 850. It is calculated using algorithms that analyze various factors from an individual's credit report. The higher the score, the better the creditworthiness of the individual, suggesting they are more likely to repay debts on time.

A good credit score generally lies between 670 and 739. However, the exact definition of a good credit score can vary depending on the scoring model and the lending institution.

Credit Score Ranges According to FICO

- Exceptional: 800 - 850
- Very Good: 740 - 799
- Good: 670 - 739
- Fair: 580 - 669
- Poor: 300 - 579

Different credit scoring models, such as FICO and VantageScore, may weigh factors slightly differently, but they generally consider the following key components:

Payment History (35%) is the most significant factor in determining a credit score. It reflects whether an individual has paid their past credit accounts on time. Late payments, defaults, and bankruptcies negatively impact this component.

Amounts Owed (30%) looks at the total amount of debt an individual has and how it compares to their available credit limits. It includes credit utilization, which is the percentage of available credit being used. High credit utilization can indicate higher risk and lower credit scores.

Length of Credit History (15%) measures the length of time an individual has held credit accounts. A longer credit history generally indicates more experience managing credit, which can positively influence the score.

Credit Mix (10%) factors the diverse mix of credit types, such as credit cards, mortgages, auto loans, and personal loans, which can benefit a credit score. It shows lenders the individual's ability to manage different types of credit.

New Credit (10%), opening several new credit accounts in a short period can be seen as risky behavior and may lower a credit score. This component considers recent credit inquiries and newly opened accounts.

> Creditors have better memories than debtors
> – Ben Franklin

Credit scores have broad applications in various financial decisions. Lenders use credit scores to determine the likelihood that an individual will repay a loan. A higher credit score can lead to better loan terms, such as lower interest rates and higher credit limits, while a lower score may result in higher interest rates or loan denial.

Landlords often check credit scores to assess the reliability of potential tenants. A higher credit score indicates a lower risk of missed rent payments.

Some employers review credit scores as part of the hiring process, especially for positions that involve financial responsibilities. A good credit score can be a sign of trustworthiness and financial stability.

Insurance companies may use credit scores to set premiums for auto and home insurance policies. Individuals with higher credit scores often receive lower insurance rates.

Maintaining a good credit score requires responsible financial behavior.

Tips to Improve or Maintain a Healthy Credit Score

Consistently *paying bills on time* is crucial for a positive payment history. Consider setting up automatic payments or reminders to avoid missing due dates.

Try to *keep credit card and other revolving credit balances low*. Aim for a credit utilization ratio of below 30% to positively impact your score.

Keeping older *credit accounts open* can contribute to a longer credit history, which can help improve your score. Only close accounts if they are causing financial or management difficulties.

Avoid applying for too many new credit accounts within a short period. Each application results in a hard inquiry, which can temporarily lower your score.

Regularly check your credit report for errors or inaccuracies that could affect your score. Dispute any incorrect information with the credit bureaus to ensure your report is accurate.

A credit score is more than just a number; it reflects an individual's financial habits and can significantly influence their financial opportunities. High credit scores can lead to better loan terms, lower insurance premiums, and even better job prospects. Conversely, low credit scores can limit financial options and result in higher costs.

For those new to credit, building a solid credit score takes time and patience. Starting with a secured credit card or becoming an authorized user on someone else's account can help establish credit history.

For individuals with damaged credit, rebuilding takes effort and discipline. Consistent, responsible financial behavior, such as making timely payments and reducing debt, can gradually improve a credit score over time.

INFLATION

The Dynamics of Rising Prices and Lowered Purchasing Power

Inflation is a monetary phenomenon wherein prices broadly rise and consumer purchasing power declines over time. From a practical perspective, it means your dollar doesn’t stretch as far as it did the day before.

Inflation is frequently mentioned in discussions about the economy, financial planning, and the cost of living. It is a complex phenomenon that can have significant impacts on the economy, businesses, and individuals. It has a significant negative impact on retirement resources.

In the US, the inflation rate has generally been around 2%-3% per year since 1960, with a handful of notable spikes, and prices have risen nearly continuously since then. A dollar one century ago was worth $18 in 2024 terms.

> “A nickel ain’t worth a dime anymore.”
> -- Yogi Berra

Several factors can cause inflation, and these are typically categorized as demand-pull inflation, cost-push inflation, and built-in inflation.

Demand-Pull Inflation occurs when the demand for goods and services exceeds their supply. When consumers have more money to spend, their increased purchasing power can drive up prices as businesses struggle to meet the higher demand.

Cost-Push Inflation happens when the costs of production for goods and services increase, leading businesses to raise prices to maintain their profit margins. Key drivers of cost-push inflation include rising labor costs, increases in the prices of raw materials, and supply chain disruptions.

Built-In Inflation is also known as wage-price inflation, this type of inflation is linked to adaptive expectations. As the cost of living rises, workers demand higher wages to keep up with the increasing prices. Businesses, in turn, pass on the higher wage costs to consumers in the form of higher prices, creating a feedback loop.

Inflation is typically measured by the Consumer Price Index (CPI) and the Producer Price Index (PPI).

The *Consumer Price Index (CPI)* measures the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. It is a widely used indicator of inflation and is often used to adjust wages, pensions, and social security benefits for inflation.

The *Producer Price Index (PPI)* measures the average change over time in the selling prices received by domestic producers for their output. It is a measure of inflation at the wholesale level and can provide early indications of future consumer price inflation.

Inflation can have a wide range of effects on the economy and individuals. One of the most direct effects of inflation is the erosion of purchasing power. As prices rise, the value of money decreases, meaning consumers can buy less with the same amount of money.

Inflation often leads to higher interest rates, as central banks, such as the Federal Reserve, increase rates to curb the inflationary pressures. Higher interest rates can impact borrowing costs for consumers and businesses, affecting everything from mortgages to business loans.

Inflation can influence wage negotiations, as workers seek higher pay to keep up with the rising cost of living. This can lead to a wage-price spiral, where wages and prices continuously push each other higher.

Inflation can erode the real returns on investments. For instance, if an investment yields a 5% return, but inflation is at 3%, the real return is effectively only 2%.

> "Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to get for five dollars when you had hair."
>
> -- Sam Ewing

Economists and policymakers employ various strategies to manage inflation and its effects.

Central banks use *monetary policy* to control inflation. This includes adjusting interest rates and using open market operations to influence the money supply.

Governments can also use *fiscal policy* to combat inflation. This includes adjusting tax rates and government spending to influence economic activity.

Some central banks adopt *inflation targeting*, where they set an explicit inflation rate as their goal and adjust their monetary policy to achieve that target.

In the US, some inflation is built into federal monetary policy. The Federal Reserve, the country's central bank, targets 2% inflation. The number is somewhat arbitrary but is intended to maintain a predictable and low rate of rising prices, allowing companies and households to plan for the future.

Economists also worry about deflation. While falling prices and a stronger currency may seem positive, they can spark a deflationary loop. In such a scenario, demand drops as consumers expect prices to continue falling, which causes profits to fall and unemployment to rise, leading to falling incomes and further decreasing demand.

Those in charge of monetary policy therefore seek a delicate balance between demand and supply to promote small inflationary effects in the economy.

Inflation in the US can generally be split into two eras—before and after the establishment of the Federal Reserve, the US central bank. Prices remained relatively constant until around the mid-1920s, after which they rose dramatically to the modern day.

Exact inflation rates in early America are difficult to calculate precisely, though the highest inflation in US history was said to be in 1778, just after the Revolutionary War, at close to 30%. Both World Wars brought double-digit inflation, while the Great Depression saw severe deflation as the money supply shrunk by 30%.

In the 1970s, the US experienced what is known as stagflation, or the combination of inflation, high unemployment, and slow economic growth. Policymakers at the Federal Reserve embarked on a yearslong strategy of high interest rates to tighten the money supply.

Under certain conditions, prices can undergo rapid increases resulting in hyperinflation. Venezuela, which has suffered long-running inflation since the 1980s, has seen extreme runaway prices since 2018 as citizens lost confidence in the national currency as a store of value.

Economists largely agree that some small, stable amount of inflation is desirable, and most central banks set inflation targets that they attempt to control via the interest rates and money supply. Still, global economies remain subject to large-scale events that can trigger inflation—wars, natural disasters, pandemics, supply chain disruptions, and more.

Inflation is a multifaceted economic phenomenon that affects everyone in different ways. Understanding its causes, measurement, effects, and management is crucial for making informed economic and financial decisions. By keeping an eye on inflation trends and adopting strategies to mitigate its impact, individuals and businesses can better navigate the challenges and opportunities it presents.

FUTURE VALUE ADJUSTED FOR INFLATION

The Real Future Value of Money

When planning for financial goals, it's crucial to consider how inflation impacts the value of money over time. One way to account for this is by calculating the "*real future value*," which is the future value of an amount of money adjusted for inflation.

Future value (FV) is a financial concept used to determine the value of a current asset or amount of money at a specified date in the future, based on an assumed rate of growth or interest. This calculation helps individuals and businesses understand the potential worth of their investments or savings over time.

Inflation is the rate at which the general level of prices for goods and services rises, leading to a decrease in purchasing power. As inflation increases, the value of money decreases, meaning the same amount of money will buy fewer goods and services in the future.

To accurately assess the future value of money considering inflation, we use the term "*real future value*." This represents the future value adjusted for expected inflation rates, giving a more realistic picture of an investment or savings' worth.

To calculate the real future value, we use the following formula:

$$\text{Real Future Value} = \text{Future Value} / (1 + \text{Inflation Rate})^n$$

Where:

- Future Value is the amount of money in the future.
- Inflation Rate is the annual rate of inflation (expressed as a decimal).
- n is the number of years into the future.

By applying this formula, we can determine the true value of money in the future, accounting for the erosive effects of inflation.

. . .

Understanding and calculating the real future value is essential for effective financial planning. It helps individuals and businesses make informed decisions about savings, investments, and retirement planning by providing a clearer picture of their future financial position.

In conclusion, while future value gives an idea of how much an investment might grow, the real future value adjusted for inflation offers a more accurate representation of its worth, ensuring that financial goals are met despite the changing economic landscape. Examples are illustrated in the next section.

INTEREST ON MONEY

Making Money with Your Money

Interest on money can be applied many different ways; each has its advantages and disadvantages for the lender and borrower.

Compound Interest

Compound interest is the process where interest is calculated on the initial principal, which also includes all the accumulated interest from previous periods. This powerful financial concept can significantly enhance the growth of an investment over time. Unlike simple interest, which is only calculated on the principal amount, compound interest allows your money to grow at an accelerating rate.

> "Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn't, pays it."
> --Albert Einstein

To illustrate the power of compound interest, consider the following example: If you invest $1,000 at an annual interest rate of 5% compounded annually, after one year, you would have $1,050. In the second year, interest is calculated on the new principal of $1,050, resulting in $1,102.50, and so forth. Over time, this compounding effect leads to exponential growth of your investment.

There are mathematical formulas used to calculate Future Value based on Compound Interest and the benefits of compound interest are manifold:

Accelerated growth allows your investment to grow faster as interest is earned on both the principal and previously earned interest.

Long-term wealth accumulation is where the longer the investment period, the greater the growth due to compounding.

Encourages early investing whereby starting early can significantly increase the future value of your investments.

Higher returns are made compared to simple interest, compound interest yields higher returns, making it an attractive option for saving and investing.

. . .

For any Future Value look ahead, it is important to factor in inflation. This is called the *Real Future Value*. For simplicity, these examples are based on annual compound interest, products with monthly compounding will yield higher amounts. in these examples we will use industry standard interest rates (APY) and inflation of 3% per year.

Savings over time example 1

In this example we will assume a stating age of 50 and a monthly contribution of $500 per month and a target age of 67 (17 years). In figure Invest_50_67 we can see that keeping your money in a mattress, the Real Future Value is negative $21,165. Keeping it in a checking account that pays 2% interest is a $7,766 loss. However, investing it into a Annuity yields a Real Future Value gain of $83,041.

Investment/Yr	$ 6,000		Inflation	3%
Start Age	50			
Target Age	67		Years	17
	Mattress	Bank	Savings	Annuity
APY	0%	2%	4%	10%
	Bad	Good	Better	Best
Investment	$ 102,000	$ 102,000	$ 102,000	$ 102,000
Future Value	$ 102,000	$ 120,072	$ 142,185	$ 243,268
Gain	**$ -**	**$ 18,072**	**$ 40,185**	**$ 141,268**
Real Furure Value	$ 80,835	$ 94,234	$ 110,583	$ 185,041
Gain / Loss	**$ (21,165)**	**$ (7,766)**	**$ 8,583**	**$ 83,041**

Figure:
Invest_50_67

Savings over time example 2

In this example we will use the same metrics as Savings Over Time Example 1 except use a stating age of 30 (35 years). In figure Invest_30_67 we can see that time is our friend allowing the money to make money and really grow. We get almost 4 times the Real Future Value gain from the money invested.

Investment/Yr	$ 6,000		Inflation	3%
Start Age	30			
Target Age	67		Years	37
	Mattress	Bank	Savings	Annuity
APY	0%	2%	4%	10%
	Bad	Good	Better	Best
Investment	$222,000	$222,000	$222,000	$ 222,000
Future Value	$222,000	$324,206	$490,213	$1,980,237
Gain	**$ -**	**$102,206**	**$268,213**	**$1,758,237**
Real Furure Value	$135,199	$186,331	$267,046	$ 962,024
Gain / Loss	**$ (86,801)**	**$ (35,669)**	**$ 45,046**	**$ 740,024**

Figure:
Invest_30_67

Roll over example 1

In this example we will assume a rollover of $100,000 from a 401(k) plan at age 60 (Yes this can be done without penalty or interest, even if you are still contributing to the plan). Additionally, we will assume the 401(k) has an APY of 6.5% (typical APY range 5-8%). Further we will assume an Annuity APY of 10% (typical APY range 8-14%). And we will calculate the Real Future Value based on 3% inflation. We will look at the Future Value and Real Future Value at age 65 (5 years). In figure Roll_60_65, we can see that moving the 401(k) to an Annuity provides a gain of $21,487, very nice vs if we left it in the 401(k).

Roll	$	100,000		Inflation	3%
Action Age		60			
Target Age		65		Years	5
		401K	Annuity		
APY		6.5%	10%		
		Good	Best		
Future Value	$	137,009	$ 161,051		
Gain	**$**	**37,009**	**$ 61,051**	Diff	**$ 24,042**
Real Furure Value	$	118,769	$ 140,255		
Gain / Loss	**$**	**18,769**	**$ 40,255**	Diff	**$ 21,487**

Figure:
Roll_60_65

Roll over example 2

We will use the same metrics as Roll Over Example 1 except we will look at the value at age 67 (7 years). In figure Roll_60_67 we can see what an additional 2 years can yield a Real Future Value of gain of $33,350. The compounding effect is evident by an addition 25% plus growth.

Roll	$ 100,000		Inflation	3%
Action Age	60			
Target Age	67		Years	7
	401K	Annuity		
APY	6.5%	10%		
	Good	Best		
Future Value	$ 155,399	$ 194,872		
Gain	**$ 55,399**	**$ 94,872**	Diff	**$ 39,473**
Real Furure Value	$ 127,228	$ 160,578		
Gain / Loss	**$ 27,228**	**$ 60,578**	Diff	**$ 33,350**

Figure:
Roll_60_67

Roll over example 3

Same metrics as Roll Over Example 1 except we look at the value at age 70 (10 years). Wow, in figure Roll_60_70 we can see that 10 years makes a significant difference of $55,655 Real Future Value gain.

Roll	$	100,000		Inflation	3%
Action Age		60			
Target Age		70		Years	10
		401K	Annuity		
APY		6.5%	10%		
		Good	Best		
Future Value	$	187,714	$ 259,374		
Gain	**$**	**87,714**	**$ 159,374**	Diff	**$ 71,660**
Real Furure Value	$	141,060	$ 196,715		
Gain / Loss	**$**	**41,060**	**$ 96,715**	Diff	**$ 55,655**

Figure:
Roll_60_70

Simple Interest

Simple interest is a method of calculating interest on a loan or investment, based only on the initial principal amount. It does not take into account interest that accumulates over time (unlike compound interest). It is used for most automobile loans.

Formula for simple interest

$$I=P\times r\times t$$

Where:

I = Interest earned or paid
P = Principal (initial amount of money)
r = Annual interest rate (as a decimal)
t = Time (in years)

Example Calculation

Suppose you invest $1,000 in a savings account with a 5% annual interest rate for 3 years.

$$I=1000\times0.05\times3$$
$$I=150$$

So, after 3 years, you will earn $150 in interest, making your total amount:

$$A=P+I=1000+150=1150$$

Key characteristics of simple interest
- Easy to calculate
- Best for short-term loans & savings
- Interest does not grow over time

Common uses of simple interest
- Car loans
- Short-term personal loans
- Savings accounts with fixed interest
- Treasury bills

Amortization

Amortization is the process of gradually paying off a loan or asset cost over time through scheduled payments. Each payment covers interest and principal, reducing the loan balance until it is fully paid off. This type of loan keeps the same payment amount, but the most of the interest is paid in the earlier payments while the principal is paid down towards the end of the loan term.

It is not important to understand the math for calculating amortization, just know it is used for almost all mortgage loans.

The two main types of amortizations are *Loan amortization* , used for mortgages, car loans, and personal loans, where payments are spread over a fixed period and *Asset amortization* in accounting, the cost of an intangible asset (like patents or goodwill) is spread over its useful life.

An amortization schedule is a table that shows:
- Monthly payments
- Breakdown of interest vs. principal

- Remaining balance after each payment

Key benefits of amortization are:
- Predictable payments
- Fixed payments make budgeting easier.
- Interest decreases over time
- More of each payment goes toward the principal.

Understanding the power of compound interest is crucial for sound financial planning. By leveraging this powerful tool, you can maximize your investment growth, achieve your financial goals, and secure a more prosperous future. It is a testament to the adage, "The earlier you start, the better off you'll be."

INCOME TAXES

Marginal Tax Rate vs Effective Tax Rate

Taxes are an integral part of the workings of money, they are not just a mandatory payment but a crucial mechanism for funding the services and investments necessary for a functioning and prosperous society. They contribute to the economy, provide essential public goods, and underpin the social contract between citizens and their government. There are several types of taxes imposed on money as it is used, which broadly include income taxes, consumption taxes, and property taxes.

> "In this world nothing can be said to be certain, except death and taxes."
> -- Benjamin Franklin

Income taxes are taxes imposed on individuals or entities with respect to their income or profits. These taxes are typically calculated as a percentage of taxable income, which is the total income minus any allowable deductions. The tax rates can vary depending on the taxpayer's income level and filing status.

The main areas of income taxes are Individual, corporate, payroll, and capital gains.

Taxable Income is the amount of income that is subject to taxation. It's calculated by subtracting deductions from gross income. Gross income includes all income from various sources like wages, salaries, tips, investment income, and business profits.

Tax Brackets, a progressive tax system, which means that different portions of income are taxed at different rates. The seven income ranges are called tax brackets. As income increases, it falls into higher tax brackets with higher tax rates. For the 2025 tax year, the federal income tax brackets for a single filer are:

10% on income from $0 to $11,925
12% on income from $11,926 to $48,475
22% on income from $48,476 to $103,350
24% on income from $103,351 to $197,300
32% on income from $197,301 to $250,525
35% on income from $250,526 to $626,350
37% on income over $626,350

The tax brackets vary for other filing statuses such as married filing jointly, married filing separately, and head of household.

Marginal Tax Rate is the tax rate applied to the next dollar of income earned. It's important to understand that when your income moves into a higher tax bracket, only the income within that new bracket is taxed at the higher rate, not your entire income.

Effective Tax Rate is the actual percentage of your total income that you pay in taxes. It's calculated by dividing your total tax liability by your taxable income. The effective tax rate is usually lower than your marginal tax rate due to the progressive nature of the tax system.

Deductions are expenses that can be subtracted from your gross income to reduce your taxable income. There are two main types of deductions:

Standard Deduction is a fixed amount that taxpayers can choose to deduct based on their filing status. For the 2025 tax year, the standard deduction for a single filer is $15,000.

Itemized Deductions are specific expenses that taxpayers can deduct if the total exceeds the standard deduction. These can include things like state and local taxes (limited to $10,000), mortgage interest, charitable contributions, and medical expenses (above a certain threshold).

Tax Credits directly reduce the amount of tax you owe, unlike deductions which reduce taxable income. Tax credits can be non-refundable (meaning they can reduce your tax liability to $0 but you won't get any of the credit back as a refund) or refundable (meaning you can get some or all of the credit back as a refund even if it reduces your tax liability to below $0). Examples of tax credits include the child tax credit, earned income tax credit, and credits for education expenses.

Filing Status is determined by your marital status and family situation on the last day of the tax year. The five main filing statuses are: Single, Married Filing Jointly, Married Filing Separately, Head of Household, and Qualifying Surviving Spouse. Your filing status affects your standard deduction, tax brackets, and the credits and deductions you can claim.

Tax Withholding applies to most employed individuals, income tax is withheld from each paycheck throughout the year. The amount withheld is based on the information provided on Form W-4, which employees complete and give to their employers.

Estimated Taxes apply to individuals who are self-employed, have significant income from sources other than wages (like investments), or don't have enough taxes withheld from their pay may need to pay estimated taxes throughout the year to avoid penalties. These payments are made to the IRS on a quarterly basis.

Tax Day in the United States is the deadline for filing federal income tax returns and paying any taxes owed is generally April 15th of each year. However, if this date falls on a weekend or holiday, the deadline is usually moved to the next business day. Taxpayers can also request an extension to file, which typically gives them an additional six months, but this does not extend the deadline to pay any taxes owed.

Calculating Income Tax

1. Determine your gross income: Add up all your income from various sources.
2. Calculate your adjusted gross income (AGI): Subtract certain above-the-line deductions (like contributions to 401(k), traditional IRAs, student loan interest payments, etc.) from your gross income.
3. Determine your taxable income: Subtract either the standard deduction or your total itemized deductions from your AGI.
4. Calculate your tax liability: Use the appropriate tax brackets for your filing status to figure out how much tax you owe based on your taxable income. You'll calculate the tax for each portion of your income that falls within a different tax bracket and then add these amounts together.
5. Apply tax credits: Reduce your tax liability by any tax credits you are eligible for.

6. Determine if you owe additional tax or are due a refund: Compare your total tax liability to the amount of taxes you have already paid through withholding or estimated tax payments.

It's important to keep accurate records of your income and expenses throughout the year to make tax preparation easier. The IRS website (www.irs.gov) provides a wealth of information, forms, and publications to help taxpayers understand their obligations. Tax software and professional tax preparers can also assist with navigating the complexities of income tax.

Nine out of 10 taxpayers take the standard deduction, according to the IRS. Others are able to itemize deductions because they have enough additional items such as mortgage interest, property taxes, charitable donations and medical expenses. You take these deductions off of gross income to get to your taxable income. Your tax liability is based on that.

A person with $75,000 of taxable income will have a portion of the income taxed at 22%, but not all portions are taxed at that rate. They typically would have an effective tax rate of 15%. Someone with $150,000 of taxable income will have a top rate of 24%, but the "effective" rate is lower than that, typically 19%.

THE RULE OF 72

The Magic Number for Doubling Money

The Rule of 72 is a method for estimating investment growth based on a sound financial principle and has been used for a very long time.

The Rule of 72 is a simple yet powerful mathematical formula used by investors and financial advisors to estimate the number of years required to double the value of an investment at a fixed annual rate of return. This rule is widely appreciated for its ease of use and accuracy in providing quick approximations. We will delve into the intricacies of the Rule of 72, its applications, limitations, and practical examples.

The Rule of 72 states that by dividing the number 72 by the annual rate of return, you can estimate the number of years it will take for your investment to double. The formula is as follows:

Years to double = 72 / Annual Rate of Return

The Rule of 72 has its roots in logarithmic mathematics and the concept of compound interest. Number 72 is chosen because it is a relatively accurate approximation that simplifies the calculation, and it is also divisible by many small integers, making mental calculations easier.

. . .

The Rule of 72 is useful in various financial scenarios, including:

Investment Growth: Investors can use the rule to estimate how long it will take for their investments to double based on different rates of return. For example, if an investment grows at an annual rate of 6%, it will take approximately 12 years to double (72 / 6 = 12).

Inflation Impact: The rule can also be applied to understand the effects of inflation on purchasing power. If the inflation rate is 3%, it will take roughly 24 years for the value of money to halve (72 / 3 = 24).

Debt and Interest: Borrowers can use the rule to estimate how long it will take for their debt to double at a given interest rate. For instance, with a credit card interest rate of 18%, the debt will double in about 4 years (72 / 18 = 4).

To illustrate the Rule of 72, let's consider a few practical examples:

Example 1: Calculating Investment Growth

Suppose you invest $10,000 in a mutual fund with an annual return of 8%. Using the Rule of 72, you can estimate that it will take approximately 9 years for your investment to double to $20,000 (72 / 8 = 9).

Example 2: Assessing Inflation Impact

If the inflation rate is 4%, you can use the rule to determine that it will take about 18 years for the purchasing power of your savings to be halved (72 / 4 = 18).

Example 3: Understanding Debt Growth

Assume you have a loan with an interest rate of 12%. According to the Rule of 72, your loan balance will double in approximately 6 years if no payments are made (72 / 12 = 6).

While the Rule of 72 is a handy tool, it is important to understand its limitations and consider other factors that may affect the accuracy of the results.

The Rule of 72 is most accurate for annual rates of return between 6% and 10%. For rates outside this range, the rule may provide less precise estimates.

The rule does not account for taxes on investment gains, which can affect the actual growth rate and the time it takes for an investment to double.

Investment fees and expenses, such as management fees and transaction costs, can also have an impact on the effective rate of return and should be considered when applying the rule.

The Rule of 72 assumes a constant rate of return, which may not be realistic in all investment scenarios. Fluctuations in the rate of return can affect the accuracy of the estimate.

Despite its limitations, the Rule of 72 remains a valuable tool for investors and financial planners. It can be used in conjunction with other financial principles and strategies to create a comprehensive and effective financial plan.

By using the Rule of 72, you can set realistic investment goals and timelines based on your desired rate of return and risk tolerance.

Understanding the potential growth of different investments can help you diversify your portfolio effectively, balancing risk and returns to achieve your long-term financial objectives.

The Rule of 72 can assist in estimating the growth of retirement savings and determining how much to save to reach your retirement goals.

Parents can use the rule to estimate how much they need to save for their children's education expenses, considering factors like tuition inflation and investment returns.

THE FEDERAL RESERVE

The Financial Pillar

No institution wields more power in US finance than the Federal Reserve -- but opinion polls indicate most Americans don’t know what it does.

Known casually as “the Fed,” the century-old independent central bank sets the interest rates determining how much ordinary people pay for mortgages, car loans, and more, all to achieve its dual mandate of price stability and maximum employment.

Consisting of a central board of governors working in tandem with 12 regional banks, the Fed also acts as the nation's currency reserve and lender of last resort.

Throughout the 19th century, the US faced periodic economic downturns, which resulted in financial panics. Customers raced to withdraw their cash before their neighbors, draining the system of its liquidity during so-called bank runs.

A major reason behind this volatility was the lack of a central bank, where small-government-minded Americans had long resisted concentrating on financial power. Early efforts, including Alexander Hamilton's First National Bank, met with broad populist resistance.

But after the panic of 1907, major financiers and lawmakers worked to draft a uniquely American plan for a so-called Federal Reserve system. A central board would consist of appointed leaders from regional banks to blend central administration with decentralized control.

To avoid public backlash, these efforts were shrouded in secrecy. In 1913, the Federal Reserve Act was signed into law by President Woodrow Wilson.

The Fed controls the supply of money in circulation by adjusting the interest rate it pays banks to deposit their reserve funds with it -- thus the name, Federal Reserve. The Fed does this by purchasing or selling securities on the open market, operations conducted by the New York Fed.

When it raises rates, the Fed effectively outbids other banks to broadly chill borrowing and slow the economy. Conversely, this rate can be lowered as a means of stimulating more lending and, in turn, growth.

Rate adjustments are made by the Federal Open Market Committee, a group of 12 voting policymakers - the seven central governors, the New York Fed president, and a rotation of four of the remaining 11 regional bank heads. The FOMC meets roughly every six weeks to determine the federal funds rate.

When the Fed wants to slow the economy due to rising prices -- known as inflation - it increases this rate until inflation drops to an average of roughly 2% amid robust employment.

Despite its independence - that is, its ability to operate without requiring government approval - the Fed is often a political lightning rod due to its significant impact on both national and household economies.

Higher federal fund rates slow the gross domestic product by design, slowing markets and hampering business. They also elevate rates consumers pay on credit cards, mortgages, and cars. This inevitably affects the political climate.

Although Congress delegated its power to regulate currency to the Fed in 1913, some critics argue this was unconstitutional and advocate for more Fed oversight.

In recent decades, Fed chairs have sought to increase transparency at the bank via regular reports to Congress and the public.

Chapter 3

MANAGING MONEY

Getting the Most out of Your Money

Money is what makes the world go 'round. It is a requirement for survival. Without money bartering would be the only way to exchange goods and services. Money allows us to provide some value in exchange for money that we can then exchange with someone else for some value they provide.

Effective money management is fundamental to achieving financial stability and growth. Whether you are aiming to save for a specific goal, invest for the future, or simply ensure that you are living within your means, adopting sound financial practices is essential. We will explore various strategies and tips to help you manage your money more effectively.

> "Money, like emotions, is something you must control to keep your life on the right track."
> -- Natasha Munson

WANTS VS. NEEDS

Exploring the Essentials and Desires in Life

In the hustle and bustle of modern life, the distinction between wants and needs often becomes blurred. Understanding this difference is essential for making informed decisions, achieving financial stability, and leading a balanced life.

As we age, we have regrets about some of our past decisions, do not dwell on them, make better choices in the present and future. Paying our future self via investments with today's money is a great way to do this very thing.

We will delve into the concepts of wants and needs, offering insights into how to differentiate between the two and manage them effectively, thus freeing money to invest in our future.

> "Spending is quick; earning is slow"

Needs are the essentials required for basic survival and well-being. They are the fundamental components that ensure a person's health, safety, and ability to function in society. Examples include:

- Food and water
- Shelter and clothing
- Healthcare
- Education

Wants, on the other hand, are desires or wishes that go beyond the basic necessities. They are influenced by personal preferences, societal trends, and cultural influences. Wants enhance the quality of life but are not essential for survival. Examples include:

- Luxury clothing and accessories
- Entertainment and recreational activities
- Gourmet dining
- High-end electronic gadgets

> “Too many people spend money they haven’t earned, to buy things they don’t want, to impress people they don’t like.”
> -- Will Smith

Recognizing the difference between wants and needs is crucial for several reasons:

Prioritizing needs over wants helps in budgeting and financial planning. It ensures that essential expenses are covered before allocating funds to non-essential purchases. This approach prevents unnecessary debt and promotes savings.

Understanding wants and needs aids in making informed decisions. It helps individuals evaluate the consequences of their choices and align them with their long-term goals and values.

Focusing on needs reduces the pressure to keep up with societal expectations and materialistic desires. It fosters contentment with what one has, leading to decreased stress and a more fulfilling life.

Distinguishing between wants and needs promotes sustainable living. It encourages responsible consumption, reducing waste and environmental impact.

> “Chains of habit are too light to be felt
> until they are too heavy to be broken.”
> -- Warren Buffet

Effectively managing wants and needs requires a conscious effort and practical strategies.

BUDGETING

Getting the Most Value from Your Income

Budgeting is the cornerstone of good money management. It involves creating a plan for how you will spend your money each month. This plan helps you ensure that you have enough funds for necessary expenses while also setting aside money for savings and investments. This may require you to adjust your lifestyle a bit but will go a long way towards having money in the future.

One concept that is difficult to adopt, but it very powerful, is to learn to live on 80% of your income. Put the remaining 20% into solid long-term investments that will grow your money over time so that inflation does not erode its real future value.

Begin by tracking all sources of income and all your expenses. This includes fixed costs like rent or mortgage payments, utilities, and transportation, as well as variable expenses like groceries, entertainment, and dining out.

Divide your expenses into categories such as housing, food, transportation, healthcare, entertainment, and savings. This helps you see where your money is going and identify areas where you can cut back if necessary.

Set short-term and long-term financial goals. This could include paying off debt, saving for a vacation, building an emergency fund, or investing for retirement. Having specific goals can motivate you to stick to your budget.

A budget is a plan you write down to decide how you'll spend your money each month. Use it to help pay your bills and expenses as well as save for goals or emergencies.

> "Don't tell me what you value, show me your budget, and I'll tell you what you value."
> -- Joe Biden

A budget shows you:

- How much money you make
- How you spend your money

You might see that you can spend less money on some things and more money on other things. You also might see ways to save money.

> Learn to live on 80% (or less) of your income
> The remaining 20+% should go towards savings or investments.

Start to make a budget by gathering your bills and pay stubs (or bank deposits). Use the Budget Worksheet below to help you.

Step 1: Make a list of your bills and other expenses and the amounts. Bills include things like rent, electricity, water, or telephone service. Expenses are things you spend money on, like food, gas, clothes, and entertainment.

Step 2: Use your pay stubs (or bank deposits) to write down how much money you make each month. This is called income. Also include any other money you get, like child support.

Some people don't get paid every month. If you don't get paid every month, use your income from last year to estimate your monthly income. Add all your income last year. Then divide that number by 12 to find a monthly income estimate.

Step 3: Subtract your monthly bills and expenses from how much money you make in a month. This number should be more than zero. If the number is less than zero, you're spending more money than you make. Look for things in your budget you can change.

A budget is something you use every month. At the beginning of the month, make a plan for how you'll spend your money that month. Then each day, write down what you spent. At the end of the month, see if you spent what you planned.

Use this information to help you plan next month's budget. Are there things you want to spend less money on next month? Be mindful of Wants vs. Needs discussed earlier in this book.

You can put leftover money into savings every month -- maybe an account at a bank or credit union. Saving money can help you during an emergency, or if you need to pay for something bigger, like a car or trip. You can even make savings one of the expenses you include in your budget.

There are software programs that can help you manage money and even create and manage a budget. Keep in mind that technology does not solve issues, it can only make managing them easier.

> "It's not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for."
> -- Robert Kiyosaki

Use the worksheet below (or a similar worksheet you create) to make a budget. Fill in how much money you make. Then fill in your expenses. Subtract your expenses from how much money you make.

If your income is more than your expenses, then you have money left to save or spend. On the other hand, if your expenses are more than your income, look at your budget to find expenses to cut.

Total Income ___ (minus) Total Expenses ___ (equals) Remainder ___

<u>Sample Budget Worksheet</u>

Income this month

Income	Monthly Total
Wages after taxes and/or Social Security	$
Other income (like child support)	$
Total monthly income	$

Expenses this month

	Bills and Expenses	Monthly Total
Housing	Rent or mortgage	$
	Insurance (renter's, homeowner's)	$
	Utilities (electricity, gas, water)	$
	Internet and phone	$
	Other housing expenses (property taxes, condo fees)	$
Food	Groceries and household supplies	$
	Eating out/food delivery	$
Housing	Public transportation	$
	Taxis/rideshares	$
	Gas for car	$
	Parking and tolls	$
	Car maintenance (oil changes)	$
	Car insurance	$
	Car payment	$
Health	Health insurance	$
	Prescriptions	$
	Co-pays for doctors' appointments	$
Personal & Family	Childcare (daycare, babysitting)	$
	Child support you pay	$
	Money you send to family	$
	Clothing and shoes	$
	Entertainment (subscriptions, movies, concerts)	$
	Other personal & family expenses (laundry, haircuts)	$
Edu	Student loan payment	$
	Tuition payment	$
	Other school expenses (books, supplies)	$
Other	Bank account or credit card fees	$
	Credit card or other debt payments	$
	Savings deposits	$
	Investment contributions	$
	Other expenses this month	$
	Total Monthly Expenses	$

SAVING

Saving money is an essential part of managing your finances. It provides a safety net in case of emergencies and helps you achieve your financial goals. Learn not to live paycheck-to-paycheck.

The fable of "The Ant and the Grasshopper" is one of Aesop's most cherished and well-known tales. It conveys a profound lesson about the virtues of hard work, foresight, and preparation versus the perils of idleness and short-term gratification.

> "A penny saved is a penny earned"
> -- George Herbert (original)

An emergency fund is money set aside for unexpected expenses like medical bills, car repairs, or job loss. Aim to save at least three to six months' worth of living expenses in your emergency fund.

> "Save for a rainy day"
> -- Aesop

Set up *automatic transfers* from your checking account to your savings account. This ensures that you save consistently without having to think about it each month.

Create separate savings accounts for *specific goals*, such as a vacation fund, home down payment, or education fund. This helps you stay organized and focused on your objectives.

> "A simple fact that is hard to learn is that the time to save money is when you have some."
> -- Joe Moore

There are several options available for where to keep your savings. Some are better than others.

Bad: Saving money in your "mattress" is typically a bad idea. It will not grow to combat inflation and will become worth less over time. While it is a good idea to keep some emergency cash available in the event of a natural disaster where infrastructure services may become unavailable for days or weeks is reasonable, but keeping $20,000 cash for a long period of time is generally not a good idea.

Good: Use a savings account, the money is still readily available, but it can also earn 1-2% interest.

Better: Use a high yield saving account which may pay 3-5% interest. Also, Certificate of Deposit (CD) products may work if you can deal with the lockup period for your money. This usually locks your money up for 6 months to 5 years and pays 3-6% interest.

Best: Invest the money in an IRA, Annuity or other long-term product. The interest rate is higher than most other options.

> "Do not save what is left after spending; instead spend what is left after saving"
> -- Warren Buffett

MANAGING DEBT

I will gladly pay you Tuesday for a hamburger today

The best way to deal with debt is to not have any debt. This is usually not practical, especially when we are younger. As we get older, we tend to have more disposable income to manage debt.

If you do not have unmanaged debt, congratulations, this chapter is optional for you.

Debt management is a critical aspect of financial health. While some debt, like a mortgage or student loans, can be considered good debt, high-interest debt like credit card balances can quickly become burdensome. Don't fall victim to the mindset that having credit card debt helps your credit score. The ~10 points you may gain are not worth the interest you will be paying. Besides if you have a *Very Good* to *Exceptional* credit score, it will not impact you either way.

Focus on paying off high-interest debt first, as it costs you the most in interest payments. Once high-interest debts are paid off, redirect those payments towards other debts or savings.

Consider consolidating multiple debts into a single loan with a lower interest rate. This can simplify your payments and reduce the overall interest you pay.

Be cautious about taking on new debt. Only borrow for essential purposes and ensure that the repayments are manageable within your budget.

> "Every time you borrow money, you're robbing your future self."
> -- Nathan W. Morris

Even when your priority is paying down your debt, consider setting aside a portion of your monthly income for a cash reserve or emergency fund. This pool of money can act as a cushion, potentially preventing you from getting deeper into debt if you face an unexpected expense.

Owing money isn't always bad. Paying your bills when they're due can help you build and improve your credit history.

Debt is bad when you owe money you can't pay back. You might have legal problems if you can't pay back the money. Or debt collectors might call you.

> Never spend money before you have it

The key to managing debt is taking on only as much as you can afford to repay. You do not need to get caught up in the math details below, just know that these metrics exist and are used to determine debt servicing capabilities.

One way to determine what is affordable is to determine your debt-to-income ratio. To calculate this metric, tally all your minimum monthly debt payments -- including your mortgage or rent and student, auto and other loan payments -- then divide the total by your pre-tax monthly income. The result will be in the form of a percentage.

> "If there is anyone to whom I owe money, I'm prepared to forget it if they are."
> -- Errol Flynn

While there are no absolutes in determining desirable debt-to-income ratios, the following are general guidelines for how lenders evaluate potential borrowers:

- Excellent - 30% or less
- Good - 30%-36%
- Borderline - 37%-40%
- Red Flag - 40% or more

Example:
Gross income (before taxes) is $6,000/mo. and a mortgage of $1,400/mo. and a car payment of $600/mo. The ratio would be 33%.

Income	$72,000.00	/yr
	$ 6,000.00	/mo
Mort	$ 1,400.00	/mo
Auto	$ 600.00	/mo
TOTAL	$ 2,000.00	/mo
Ratio	33%	

Keep the *28/36 rule* in mind when purchasing a home. This is a method used by lenders to calculate the debt a potential homebuyer can reasonably take on. Under this guideline, a household should spend no more than:

- 28% of their pre-tax monthly income on housing expenses (including mortgage, insurance and taxes)
- 36% of their pre-tax monthly income on all debt payments (including housing)

Example:
Gross income (before taxes) is $7,083/mo. and a mortgage of $1,400/mo., insurance and taxes 390/mo. and a car payment of $600/mo. and a credit card debt payment of $100. Your ratio would be as shown below.

Income	$85,000.00	/yr
	$ 7,083.33	/mo
Mortgage	$ 1,400.00	/mo
Insurance	$ 200.00	/mo
Taxes	$ 190.00	/mo
TOTAL ALL	$ 1,790.00	/mo
28% Test	25%	
Auto	$ 600.00	/mo
Credit Card	$ 100.00	/mo
36% Test	35%	

> "Debt gives you the ability to look like you're winning when you're not."
> -- Dave Ramsey

Like many things, debt is complicated. Too much debt can be a problem for some people, yet it can also help reach financial goals provided it's managed responsibly.

Good debt is characterized as low-interest debt that helps increase income or net worth. Examples include educational loans, a mortgage or a business loan. Debt can also be considered good if it helps build credit.

Bad debt is characterized as high-interest debt that is used to purchase depreciating assets. Examples include using credit cards to buy clothing, furniture, or other goods that immediately lose value -- then not paying off the balance and building up interest charges.

Of course, too much debt can turn good debt into bad debt. And many kinds of debt don't fall into either category and depends on one's financial situation or other factors.

> "Debt is like any other trap, easy enough to get into, but hard enough to get out of."
> -- Josh Billings

Be smart about credit cards. They offer a host of benefits, they're convenient, they build a credit history and they can be a helpful tool for tracking your spending. Most credit cards also provide various security features, including liability protection for fraud or even travel and rental car protection.

For all their benefits, however, credit cards are a less-than-ideal way to borrow money, as they carry high interest rates on any balance not paid off right away. To avoid those high fees, review these debt management tips:

- Only charge what you can pay off each month.
- Keep your monthly charges to 20% or less of your maximum credit limit.
- Always pay your bill on time.

Sometimes, debt can hurt your credit score. For example, it might hurt your credit in the following cases.

- Owe a lot of money on credit cards
- Pay bills late
- Don't pay the minimum amount due
- Skip payments

Set a goal to pay off all credit cards and revolving credit lines. *Create a budget i*f you are carrying debt, you can develop a budget based on your income and expenses to help ensure that you can afford all your monthly payments. Then, you can work toward identifying which debt you should pay down first and allocate your extra funds toward that debt. You can use the budget worksheet in this book to create a budget.

Write down how much money you make every month and how much you spend. You might find ways to spend less money. You can then put the money you save toward paying off your debt.

Next, call the companies you owe money to. Call the company before it sends your debt to a debt collector. Explain why you're having trouble paying your bill. Ask for a payment plan. Some companies might let you pay less every month until you've repaid all the money.

*Make extra payments t*o pay off your debt quickly, you'll need to pay above the amount due each month. This extra amount will go directly toward the principal and reduce the total amount owed.

. . .

Techniques to Pay off Debts

The avalanche method is accomplished by making the minimum payment on all your debts each month, then direct any remaining money toward whatever debt has the highest interest rate. Once that debt is paid off, you apply the extra cash toward the debt with the next-highest interest rate, and so on -- until all your debts are gone. By tackling your highest interest debt first, the avalanche method reduces the total interest you will pay on your debts -- and the amount of time it will take you to get out of debt. However, it requires discipline and a consistent level of discretionary income.

The snowball method is where you make minimum payments on all your debts, then direct any extra money each month toward your debt with the smallest balance. When that debt is paid off, the money previously allocated toward the old debt is "snowballed" into paying off the next-smallest debt, and so on -- until all your debts are gone. This method provides motivation by achieving quick debt-reduction "wins." However, it may take longer than the avalanche method -- and may not reduce as much of the interest you'll pay.

Pay biweekly instead of monthly, you'll pay half your monthly bill every two weeks instead of making one full monthly payment. This means you'll make an extra payment each year, reducing your repayment timeline and the amount of interest you'll pay. Not all lenders will allow this method.

Swap high-interest debt for lower-cost loans -- *debt consolidation* -- or combining multiple debts into a single, larger debt, usually at a lower interest rate or longer term -- can be another avenue to manage debt.

Loan Consolidation Options

Use *personal loans* to pay off all your other existing debts. This allows you to swap high-interest debts for a single loan with a lower, fixed interest rate and a fixed monthly payment.

Tap into securities-based lending to borrow against a portion of your non-retirement investment portfolio as collateral. This can provide cash to help cover expenses or pay off debt while keeping your investment portfolio and strategy intact.

Take out a *home equity line of credit* (HELOC), to use the equity in your house for other purposes. Once you establish your line of credit, you can access the funds to pay down high-interest debt. However, while this strategy can reduce interest, your home is used as collateral, meaning that if you don't repay the debt, the lender has claim to your home.

Creditors can be more flexible than people assume. Some are willing to negotiate with customers looking to lower their interest rates, create a payment plan or make accommodations to help better manage their debt. Sometimes, you just need to ask.

Earning more money is another way to help pay off debt faster. You can do that by picking up more work, taking on an income-generating "side hustle" or finding a new job that pays more.

Dedicating any extra cash toward your debt can also help. If you receive extra money in the form of a tax refund, an annual bonus or monetary gift from a loved one, consider allocating all or part of it toward your debt.

If you're contending with high-interest debt, it may make sense in certain scenarios to liquidate some assets to pay off your obligations faster. For example, if you own a car with a high resale value, it may make sense to sell the vehicle, purchase a less expensive car and use the remaining proceeds to pay off the high-interest debt.

Know When it Makes Sense to Prioritize Investing Versus Paying Off Debt

The psychological benefits of being debt-free are undeniable. However, if you're behind on your retirement savings or if you have an especially low interest rate on a mortgage loan, it may not be beneficial -- from a pure numbers standpoint -- to prioritize paying off your debt, compared to the returns you could make in the market. Additionally, certain debts -- such as mortgages, home equity loans and student loans -- offer tax benefits, so be aware of how that dynamic affects your overall financial picture.

It will depend on your unique situation and goals. For some, the sense of freedom that comes from no loan balance is worth more than the potential returns had they invested. Reflect on your priorities, run the numbers and be comfortable with any tradeoffs you're making. Do not forget to have a cash reserve.

INVESTING

Investing allows your money to grow over time and helps you build wealth. It involves putting your money into assets like stocks, bonds, real estate, or mutual funds, IRAs and annuities with the expectation of earning a return.

Assess your risk tolerance before investing. This refers to how comfortable you are with the potential fluctuations in the value of your investments. Younger investors may be able to take on more risk, while those nearing retirement may prefer more conservative investments.

Diversification involves spreading your investments across different asset classes to reduce risk. By not putting all your eggs in one basket, you protect yourself against significant losses if one investment performs poorly.

Consistent investing, such as through dollar-cost averaging, helps reduce the impact of market volatility. By investing a fixed amount regularly, you buy more shares when prices are low and fewer shares when prices are high.

RETIREMENT PLANNING

Planning for retirement is crucial to ensure you have enough money to live comfortably in your later years.

The earlier you start saving for retirement, the more time your money has to grow. Take advantage of compound interest by contributing regularly to retirement accounts.

If your employer offers a retirement plan with matching contributions, make sure to contribute enough to take full advantage of the match. This is essentially free money towards your retirement.

Consider different retirement accounts, such as 401(k)s and IRAs to diversify your retirement savings. Each type of account offers different tax advantages and investment options.

MONEY STRATEGY TIPS

Develop a budget that prioritizes essential expenses. Allocate a portion of your income to savings and investments before considering discretionary spending. Almost any budget strategy is better than no strategy. Adopt a strategy and adjust it as needed to fit specific circumstances.

The 50/30/20 method is a popular strategy for some. It divides your after-tax income into three categories: 50% for needs, 30% for wants, and 20% for savings and debt repayment. This rule aims to help individuals manage their finances by allocating funds towards essential expenses, discretionary spending, and financial goals.

Another ratio rule is the 75/15/10 rule is a simple budgeting method that suggests allocating 75% of your income to needs, 15% to investments, and 10% to savings. It's designed to help you manage your finances by prioritizing essentials, building long-term wealth, and having a buffer for unexpected expenses.

The 70/10/10/10 budget rule suggests allocating 70% of your income to essential living expenses, 10% to short-term savings, 10% to long-term savings or investments, and 10% to charity or debt repayment. This approach is a flexible budgeting strategy that can be adapted to individual needs and priorities.

Establish short-term and long-term financial goals. This will help you focus on what truly matters and avoid impulsive purchases driven by temporary desires.

Cultivate a habit of gratitude for what you have. Regularly reflecting on your blessings can shift your focus from what you lack to what you already possess.

> "The good and the great are only separated by the willingness to sacrifice."
> -- Kareem Abdul-Jabbar

Implement the *30-day rule*, if you want to buy something non-essential, wait for 30 days. If you still want it after the waiting period, consider purchasing it. Often, the desire will fade, saving you from unnecessary spending.

Before making a purchase, ask yourself if it is a want or a need. Consider how it aligns with your values and financial goals. This reflection can prevent impulsive buying and promote mindful consumption.

> "A fool and his money are soon parted"
> -- Dr. John Bridges

The *Latte Factor* is a concept popularized by author David Bach. The idea behind it is that the little things you regularly purchase can cut into your budget more than you might realize. For example, the $5 you spend on a latte today may not seem like much, but $780 over 12 months is.

Keep a $100 bill in your wallet. Do not spend it unless you absolutely must. The idea is that when you see something you think you want, consider if it is worth breaking your $100 bill. If it is not, then perhaps you do not need the item. In the event you do find it necessary, replace that $100 bill right away. This will also help you refrain from being a victim of instant gratification and the latte factor.

Be mindful of the small expenses it is easy to let streaming and gaming subscriptions get away from our overwatch. Evaluate the value you receive from them and cancel those that are not used much. ATM fees are also an expense to watch.

Resist impulse purchases, especially the really good deals on things you don't need.

> "A bargain is something you can't use at a price you can't resist."
> -- Franklin Jones

The distinction between wants and needs is not solely financial; it has a psychological dimension as well. Understanding the motivations behind our desires can lead to healthier spending habits and greater emotional well-being.

Wants are often driven by *emotional triggers* such as boredom, stress, or social influence. Recognizing these triggers can help in making conscious choices rather than succumbing to impulsive decisions. We often purchase emotionally and justify it logically.

Aligning your spending with your core *values and priorities* ensures that your financial decisions support your overall well-being. It fosters a sense of purpose and satisfaction, reducing the constant pursuit of material possessions.

> "Beware of little expenses; a small leak will sink a great ship."
> -- Benjamin Franklin

In a world where consumerism is rampant, distinguishing between wants and needs is more important than ever. It empowers individuals to make informed decisions, achieve financial stability, and lead a balanced life. By prioritizing needs, setting goals, and practicing mindful consumption, one can navigate the complexities of modern living with greater clarity and purpose.

Understanding and managing wants and needs is a lifelong journey. It requires self-awareness, discipline, and a commitment to living intentionally. By embracing this mindset, you can foster a fulfilling life that transcends material possessions and focuses on what truly matters.

Chapter 4

INSURANCE COVERAGE

No life plan is complete without factoring in insurance to help protect your assets

Insurance is a means of protection from financial loss in which, in exchange for a fee, a party agrees to compensate another party in the event of a certain loss, damage, or injury. It is a form of risk management, primarily used to protect against the risk of a contingent or uncertain loss.

There are many industry specific words commonly used in the insurance world. Here are some of the most common ones.

An insurance *premium* is the amount of money you pay to an insurance company for coverage. You pay premiums on a regular basis to keep your policy active.

Insurance *coverage* is the extent of risk or liability protected by an insurance policy, ensuring financial protection against unexpected events like accidents, injuries, or property damage. For this protection, individuals pay premiums to the insurance company.

An insurance *deductible* is the amount of money you pay before your insurance pays for covered expenses. Deductibles apply to many types of insurance, including health, auto, and homeowners' insurance.

An insurance *rider*, also known as an endorsement, is an optional add-on to a basic insurance policy that allows you to customize your coverage and add benefits beyond what the standard policy offers, often at an additional cost.

An insurance *exclusion* is a policy provision that limits coverage for certain events, types of damage, or people. Exclusions help insurance companies manage risk by avoiding situations that are too unpredictable or risky.

A *co-pay* is a fixed amount you pay for a covered service, like a doctor's visit or prescription.

Co-insurance is a percentage of the cost of a covered service that you pay after meeting your deductible.

A *network* is a group of doctors, hospitals, and other healthcare providers that a health insurance plan has contracted with.

An insurance *declarations page* tells you almost everything about the policy, from who's covered to which coverages you pay for. An insurance company will provide the declarations page as part of the policy. Always read, understand and agree with this information.

PROPERTY & CASUALTY

Protection Against Property Losses and Liabilities

Property and casualty insurance, commonly referred to as P&C insurance, is a broad category of insurance coverage that protects policyholders against property losses and liabilities. This type of insurance is designed to cover a wide range of risks, from damage to physical property to legal liabilities that one might face due to accidents or negligence. It encompasses various forms of insurance, including homeowner's insurance, automobile insurance, and liability insurance, among others.

The most common types of P&C insurance are Automobile, Homeowner's, Renters and General liability. It is essential for safeguarding individual and business assets. Here are a few reasons why having this insurance is important.

Insurance provides *financial compensation* for covered losses, helping policyholders to recover and rebuild after incidents such as natural disasters, theft, or accidents.

It protects against *legal liabilities* arising from accidents or negligence, which could otherwise result in significant financial burden due to lawsuits and legal fees.

Knowing that one's property and liability risks are covered offers *peace of mind*, allowing individuals and business owners to focus on other important matters without constant worry about potential financial losses.

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Property and casualty insurance work by pooling the risks of many policyholders. Policyholders pay premiums to the insurance company, which in turn promises to compensate them for the losses covered. The specifics of coverage, exclusions, and limits are detailed in the insurance policy contract.

Premiums are the payments made by policyholders to maintain their insurance coverage. The amount of the premium can vary based on several factors, including the type of coverage, the insured's risk profile, and the value of the insured property.

A *deductible* is the amount that the policyholder must pay out of pocket before the insurance company pays for the remaining covered losses. Higher deductibles typically result in lower premiums, but they also mean that the policyholder will bear more of the initial costs in the event of a claim.

When a policyholder experiences a loss that is covered by their insurance policy, they can file a claim with the insurance company. The insurer will assess the claim, determine the extent of coverage, and then provide compensation according to the policy's terms. This process can involve inspections, appraisals, and negotiations.

While property and casualty insurance provide broad coverage, it is important to understand that not all losses are covered. Common exclusions and limitations include:

Standard homeowner's insurance policies often exclude damage caused by *floods* and *earthquakes*. Separate policies or endorsements are usually required for these risks.

Insurance typically does not cover damage resulting from normal *wear and tear* or lack of maintenance.

Damage or liability resulting from *intentional acts* by the policyholder is not covered.

Losses related to *business activities* conducted in the home might not be covered under a standard homeowner's policy.

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The two insurance classes encompass very similar qualities and have the same types. *Personal* insurance is designed to protect individuals and their families against financial loss due to unexpected events.

Commercial (also known as business insurance), is designed to protect businesses and their assets against various risks and liabilities

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No financial security plan is complete without considering the necessary property and casualty insurance. Insurance provides financial compensation for covered losses, reducing the out of pocket costs in the event of an incident. In the event of an incident things can be put back into a reasonable state without depleting your financial resources.

Property and casualty insurance is a vital tool for protecting both personal and business assets from a variety of risks. By understanding the different types of coverage available, the importance of having insurance, and how the insurance process works, individuals and businesses can make informed decisions to safeguard their financial stability. Investing in property and casualty insurance ensures that one is prepared for unforeseen events and can recover more swiftly from losses, maintaining peace of mind and financial security.

Automobile

Automobile insurance is the most common type of property and casualty insurance. It provides financial protection against physical damage or bodily injury resulting from traffic collisions and against liability that could arise from incidents in a vehicle. Coverage often includes liability, collision, and comprehensive insurance.

Liability insurance protects you financially if you are found responsible for someone else's injuries or property damage, covering costs like medical bills, property repairs, and legal fees.

Collision insurance covers damage to your vehicle resulting from a collision with another vehicle, object, or if your vehicle rolls over, regardless of who is at fault.

Comprehensive insurance coverage is defined as an optional coverage that protects against damage to your vehicle caused by non-collision events that are outside of your control. This includes theft, vandalism, glass and windshield damage, fire, accidents with animals, weather, or other acts of nature. Though often referred to as "comprehensive insurance," comprehensive coverage refers to a specific coverage on an existing policy, not a separate type of insurance. Note that lenders may require you to carry comprehensive when you finance or lease a vehicle.

If your vehicle is paid off, consider dropping the comprehensive insurance which can save on premiums by shifting some of the risk to the insured.

Homeowner's

It is a form of property insurance that provides coverage for private homes and typically covers losses and damages to an individual's house and assets within the home, as well as liability for accidents that may happen at the homeowner's property. Policies can vary, but standard coverage might include damage from fires, storms, theft, and vandalism. Pay special attention to the deductibles and exclusions offered in a policy, they will be listed on the declaration page.

Renters

This is similar to homeowner's insurance, it protects individuals who rent their homes and covers personal belongings within the rented property against events like theft, fire, and water damage. Additionally, it provides liability coverage if someone is injured within the rental unit.

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Liability is a crucial component of property and casualty insurance. It protects individuals and businesses from the risk that they may be sued and held legally liable for something such as malpractice, injury, or negligence. This type of insurance covers legal costs and any payouts for which the insured would be responsible if found legally liable.

HEALTH

Health insurance is a contract where you pay a premium to a company in exchange for them covering a portion of your healthcare costs, offering financial protection against unexpected medical expenses.

It helps cover the costs of healthcare services like doctor visits, hospital stays, medications, and preventative care. You pay a monthly fee (premium) to the insurance company for coverage, even if you don't use the services. While insurance helps cover costs, you'll still have out-of-pocket expenses like deductibles (the amount you pay before insurance kicks in) and co-pays (a fixed amount for a service).

Health insurance helps make healthcare more affordable and accessible, ensuring you can get the medical care you need. It protects you from potentially crippling medical bills and financial hardship.

Many plans cover preventative services like check-ups, screenings, and vaccinations, which can help you stay healthy and avoid future health problems.

Knowing you have financial protection against unexpected medical costs can reduce stress and anxiety.

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There are several common types of health insurance. *Employer* with premiums often shared between the employer and employee. *Direct* purchase, which is acquired directly from an insurance company, often through the Health Insurance Marketplace. The Health Insurance Marketplace, established by the Affordable Care Act, allows individuals and families to compare and purchase health insurance plans. There are a set of services that all health insurance plans in the Marketplace must cover. Lastly, *Medicare* (for seniors and people with disabilities) and *Medicaid* (for low-income individuals and families) are government-sponsored health insurance programs.

Dental

Dental insurance helps cover the cost of dental care, including preventive, basic, and major procedures, by sharing the expenses with you in exchange for a monthly premium.

You may have to pay a deductible, which is the amount you pay for covered services before the insurance kicks in. After meeting the deductible, you may have to pay a percentage of the cost of covered services, known as coinsurance.

Most dental plans have a limit on how much they will pay towards dental care in a year, called the annual maximum. They typically cover preventive care (exams, cleanings, and X-rays), as well as basic procedures (fillings, extractions) and major procedures (root canals, crowns).

There are two types of dental insurance plans.

Dental Preferred Provider Organization (DPPO) - You can choose from a network of dentists, and costs may be lower if you see dentists within the network.

Dental Health Maintenance Organization (DHMO) - You are limited to a specific network of dentists who have agreed to provide care at a reduced cost.

Dental Indemnity Insurance is where you can choose any dentist, and the insurance company will reimburse you for a percentage of the cost.

Dental Savings plans offer discounts on dental services from participating dentists.

Factors to consider when choosing a dental insurance plan:

Cost: Compare premiums, deductibles, coinsurance, and annual maximums.

Coverage: Ensure the plan covers the types of dental care you and your family are likely to need.

Network: Check if your preferred dentists are in the network (if applicable).

Waiting Periods: Some plans have waiting periods for certain procedures, such as major dental work.

Vision Care

Regular medical health insurance protects you from unexpected costs from eye injury or disease. In contrast, vision insurance provides an added wellness benefit for healthy eye exams, which includes expenses such as routine eye exams, contact lens fittings, contact lenses, and eyeglass lenses and frames. Some plans may even provide a discount on LASIK procedures and other corrective surgeries. Many times, items are not covered 100%, in those cases there is likely to be a reduced cost benefit.

LIFE

Protecting Your Loved Ones and Securing Your Financial Future

Life insurance is a financial product designed to provide monetary support to your beneficiaries in the event of your death. It acts as a safety net, ensuring that your loved ones are financially taken care of when you are no longer around to provide for them. Life insurance can help cover various expenses, including funeral costs, outstanding debts, and ongoing living expenses, thereby offering peace of mind and financial stability to your family. Life Insurance is designed to help protect your family and investments. It is available in various flavors.

Most whole life insurance policies mature at 100 or 121 years.

There are several types of life insurance policies available, each catering to different needs and preferences. The primary types of life insurance include:

Term life insurance is a straightforward and affordable option that provides coverage for a specified period, typically ranging from 10 to 30 years. If the policyholder passes away during the term, the beneficiaries receive the death benefit. However, if the term expires and the policyholder is still alive, the coverage ceases, and no benefit is paid out. Term life insurance is ideal for those seeking temporary coverage, such as to cover mortgage payments or children's education expenses. It is usually cheaper than other types and more suited towards younger people looking for a less expensive way to protect their family and dependents. It has no cash value.

Whole life insurance, also known as permanent life insurance, offers lifelong coverage as long as the premiums are paid. In addition to providing a death benefit, whole life insurance policies also accumulate cash value over time, which can be accessed by the policyholder through loans or withdrawals. This type of policy is suitable for individuals looking for long-term financial security and a savings component.

Universal life insurance is another form of permanent life insurance that offers more flexibility compared to whole life insurance. Policyholders can adjust their premium payments and death benefit amounts, subject to certain limits. Universal life insurance also includes a cash value component that earns interest based on market performance or a guaranteed minimum rate. This policy is ideal for those seeking flexibility and potential cash value growth. However, if your investments underperform or you underpay for too long, it could affect your death benefit or cause your policy to lapse.

Indexed Universal Life insurance (IUL) is a type of permanent life insurance that allows cash value growth tied to a stock market index performance, offering potential for higher returns while also providing a guaranteed minimum interest rate (floor) and a cap on potential gains that includes a cash value component and death benefits.

Variable life insurance combines the features of permanent life insurance with investment options. Policyholders can allocate their premiums to various investment accounts, such as stocks, bonds, or mutual funds. The cash value and death benefit of the policy can fluctuate based on the performance of these investments. Variable life insurance is suitable for individuals who are comfortable with investment risk and seeking potential growth in their policy's cash value.

Life Insurance Retirement Plan (LIRP), designed for retirement income, LIRPs are another tool to consider as you build a financial plan. With the ability to build cash value outside of a traditional retirement account, they could be a consideration for those of a higher net worth and the ability to fund them adequately.

A permanent life insurance policy that combines death benefit protection with a cash value component. The cash value can be used to supplement other retirement income sources or for any other purpose you choose.

There are no contribution limits. Unlike IRAs and 401(k)s, LIRPs have no annual contribution limits, making them ideal for high-income earners who want to save more for retirement than traditional retirement accounts allow.

A *Lay Away Plan* is where funeral arrangements are paid in advance, typically a small payment plan. This helps to ensure that the final expenses are not a burden to your family at the time of death, and it locks in the cost at the current price vs. an unknown higher future price.

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Life insurance offers numerous benefits to policyholders and their beneficiaries. A lump-sum payment to your beneficiaries, ensuring they have the financial resources to cover living expenses, debts, and other financial obligations. The death benefit can replace *lost income*, helping your family maintain their standard of living and meet ongoing financial needs. Life insurance proceeds can be used to pay off outstanding debts, such as mortgages, car loans, and credit card balances, relieving your loved ones of *financial* burdens.

Life insurance can be an essential tool in *estate planning*, providing liquidity to pay estate taxes and ensuring the smooth transfer of assets to your heirs. Permanent life insurance policies build *cash value* over time, which can be accessed through loans or withdrawals for various financial needs. Life insurance proceeds are generally *tax-free* to beneficiaries, and the cash value growth in permanent policies is tax-deferred.

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Selecting the appropriate life insurance policy can be a complex decision. Here are some factors to consider when choosing a policy:

Assess your needs to determine the amount of coverage you need based on your financial obligations, such as mortgage payments, children's education, and living expenses. Consider your family's future financial needs and how much they would require to maintain their standard of living in your absence.

Evaluate your budget and consider how much you can afford to pay in premiums. Term life insurance is generally more affordable than permanent life insurance, but permanent policies offer additional benefits, such as cash value accumulation. Choose a policy that fits within your budget while providing adequate coverage.

Compare policy features by reviewing the features and benefits of different life insurance policies. Consider factors such as the length of coverage, premium payment options, cash value accumulation, and policy flexibility. Ensure the policy aligns with your financial goals and long-term plans.

Research insurance providers to choose a reputable insurance provider with a strong financial rating and positive customer reviews. Research the company's claims process, customer service, and policy offerings to ensure you select a reliable insurer.

Consult a professional and seek the advice of a financial advisor or insurance agent to help you navigate the complexities of life insurance. They can provide personalized recommendations based on your financial situation and goals.

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Life insurance is a vital financial tool that offers protection and peace of mind to you and your loved ones. By understanding the different types of life insurance policies and their benefits, you can make an informed decision that meets your needs and secures your family's financial future. Invest in life insurance today to ensure your loved ones are taken care of, no matter what the future holds.

MEDICARE

Navigating Your Healthcare in Retirement

Medicare, the federal health insurance program for people aged 65 and older, as well as certain younger individuals with disabilities, provides crucial healthcare coverage for millions of Americans. Managing Medicare effectively is an essential aspect of planning for retirement. Understanding how to navigate its complexities can help ensure you make the most of your benefits and avoid unnecessary expenses.

> Pay particular attention to the enrolment dates since missing a key date can cause penalties that last forever.

Medicare may pay for a portion of health care costs, but it doesn't cover everything. How much you can expect to spend on care and services depends on several factors. These include the type of Medicare plan you have, when you sign up for it and your annual income.

Step 1: Understand Medicare Components

Medicare is divided into different parts, each covering specific services. Plans/parts A through G generally provide benefits at higher premiums with limited out-of-pocket costs compared to Plans K through N.

Medicare Part A *(Hospital Insurance).* Covers inpatient hospital stays, care in a skilled nursing facility, hospice care, and some home health care. Most people do not pay a premium for Part A if they or their spouse paid Medicare taxes while working.

Medicare Part B *(Medical Insurance).* It covers certain doctors' services, outpatient care, medical supplies, and preventive services. Part B has a monthly premium, which varies based on income.

Medicare Part C *(Medicare Advantage).* Only available to people who were eligible for Medicare before January 1, 2020, even if they have not enrolled in Medicare yet.

An alternative to Original Medicare that allows you to receive Part A and Part B benefits through private insurance plans approved by Medicare. Often includes additional benefits like vision, dental, and prescription drug coverage.

Medicare Part D *(Prescription Drug Coverage),* is the prescription drug coverage component of Medicare, provides critical support for millions of individuals in managing their prescription drug costs. It is available to anyone who is eligible for Medicare Part A or enrolled in Medicare Part B.

The Medicare Part D "donut hole" was eliminated by changes in 2022 and 2025 and is not discussed in this book

Part D plans are offered by private insurance companies approved by Medicare, providing a range of coverage options to suit different needs.

Failing to enroll in a timely manner can result in a late enrollment penalty. The information below explores the nuances of the Medicare Part D late enrollment penalty, its implications, and strategies to avoid it.

Plan F

Only available to people who were eligible for Medicare before January 1, 2020, even if they have not enrolled in Medicare yet.

Offers comprehensive coverage, including Medicare's deductible and coinsurance.

Plan G

Often considered a popular choice, similar to Plan F but with some additional benefits. Plan G covers nearly all costs after the Part B deductible is met.

While Medicare Parts A and B cover hospital and medical services respectively, they don't cover everything. This is where Medicare Supplement Plans, also known as Medigap plans, come into play. Though there's no official "Medicare Part G," it is often referenced in discussions about these supplemental covers. Therefore, it is crucial to understand what people mean when they refer to Medicare Part G and how it fits within the broader scope of Medicare supplement plans.

Medicare Part G, often confused as a separate part of Medicare, is actually Medigap Plan G. Medigap Plan G is one of the ten standardized Medigap policies that help cover some of the healthcare costs that Original Medicare (Part A and Part B) doesn't cover, such as copayments, coinsurance, and deductibles. These plans are sold by private insurance companies and offer additional coverage to help manage out-of-pocket expenses.

Medigap Plan G is one of the most comprehensive Medigap plans available. It covers the following:

- Part A coinsurance and hospital costs up to an additional 365 days after Medicare benefits are used up.
- Part B coinsurance or copayment.
- Blood (first three pints).
- Part A hospice care coinsurance or copayment.
- Skilled nursing facility care coinsurance.
- Part A deductible.
- Part B excess charges.
- Foreign travel emergency (up to plan limits).

One notable exclusion in Plan G is the Medicare Part B deductible. This means that beneficiaries must pay this deductible out-of-pocket before their Medigap Plan G benefits kick in.

Medigap Plan G offers *comprehensive coverage*, making it a popular choice among beneficiaries who want to minimize their out-of-pocket expenses. It covers nearly all gaps left by Original Medicare.

With Plan G, beneficiaries can more easily predict their healthcare costs since it covers most of the significant out-of-pocket expenses. This predictability can be particularly beneficial for those on a fixed income.

Offers the flexibility to visit any doctor or healthcare provider that accepts Medicare. There are no network restrictions, allowing beneficiaries to seek care from specialists and facilities nationwide.

Enrollment and Eligibility

The best time to enroll in Medigap Plan G is during the six-month Medigap Open Enrollment Period, which starts the month you turn 65 and are enrolled in Medicare Part B. During this period, you can buy any Medigap policy sold in your state without medical underwriting, meaning you cannot be denied coverage based on pre-existing conditions.

To enroll in Medigap Plan G, follow these steps:

1. Confirm your eligibility for Medicare Part A and Part B coverage.
2. Identify insurance companies that offer Medigap Plan G in your area.
3. Compare premiums and benefits from various insurers to find the best plan for your needs.
4. Contact the chosen insurance company and complete the enrollment process.

The cost of Medigap Plan G varies depending on several factors, including your age, gender, location, and tobacco use. Insurance companies may use one of three pricing methods to determine premiums:

- *Community-rated*: The same monthly premium is charged to everyone, regardless of age.
- *Issue-age-rated*: Premiums are based on your age at the time of purchase and do not increase with age.
- *Attained-age-rated*: Premiums are based on your current age and increase as you get older.

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Plans K, L, M and N offer lower premiums but may have some cost-sharing, like copayments or coinsurance.

Plan K

A cost-sharing plan that offers benefits like other Medigap plans but with a lower monthly premium. It helps cover some of your health insurance costs. Plan K caps your out-of-pocket costs. Your premium varies based on where you live, when you enroll, and your health. Medicare Supplement Plan K is designed to help with out-of-pocket costs that come with Original Medicare coverage.

Plan L

Medicare Supplement Plan L, a Medigap plan, covers 100% of Medicare Part A coinsurance and hospital costs, plus 75% of other covered expenses like Part A deductible, hospice care, Part B coinsurance, and skilled nursing facility care, with an out-of-pocket limit. Plan L tends to come with lower premiums, but higher out-of-pocket costs compared to more comprehensive Medicare Supplement plans, like Plan G and Plan N.

Plan M

Covers 50% of your Original Medicare Part A deductible -- the hospitalization deductible. In 2025, the deductible is $1,676, so you would be responsible for paying $838 toward annual out-of-pocket expenses. With Plan M, you are also responsible for paying the entire annual outpatient deductible.

Plan N

It is a lesser-known supplemental insurance plan that helps cover out-of-pocket costs not included in the standard Medicare Parts A and B. It covers a portion of Medicare's coinsurance and copayments. It is one of the many Medigap (Medicare Supplement Insurance) plans that beneficiaries can purchase to reduce their healthcare expenses. Medigap plans are standardized and regulated by the federal government but are sold by private insurance companies.

Plan N differs from Plan G because it requires copayments for certain office visits and emergency room visits, which can result in lower monthly premiums but higher out-of-pocket costs when needing care.

Medicare Part N offers a range of benefits designed to minimize out-of-pocket costs for beneficiaries. Some of the key benefits include:

It covers the coinsurance costs associated with *hospital stays* that are not fully covered by Original Medicare (Part A).

This plan helps pay for *skilled nursing facility care*, which can be a significant expense for many beneficiaries.

It covers the coinsurance or copayment costs for doctor visits and outpatient services under Medicare Part B. However, it does not cover the Part B deductible.

For those who travel internationally, Medicare Part N offers limited coverage for emergency medical care outside the United States.

While Medicare Part N provides substantial coverage, it is important to understand its limitations. Notably, Part N does not cover:

Beneficiaries are responsible for the annual *deductible* associated with Medicare Part B.

Medicare Part N does not cover *excess charges*, which are additional fees some doctors may charge beyond the Medicare-approved amount.

Extended long-term care, such as custodial care in a nursing home, is not covered under this plan.

It does not cover prescription drugs. Beneficiaries must enroll in a separate Medicare Part D plan for drug coverage.

To be eligible for Medicare Part N, individuals must first be enrolled in both Medicare Part A and Part B. The best time to enroll in a Medigap plan like Part N is during the Medigap Open Enrollment Period, which starts the first month a beneficiary is 65 or older and enrolled in Part B. During this period, beneficiaries have a guaranteed right to purchase any Medigap policy available in their area without medical underwriting.

The cost of Medicare Part N varies based on several factors, including the beneficiary's age, location, and the insurance company providing the plan. Premiums for Part N can be lower than other Medigap plans, making it an attractive option for those seeking to balance coverage and affordability. However, it is important to compare different plans and insurers to find the best option for individual needs.

Step 2: Enroll in Medicare

Enroll during this period to avoid late enrollment penalties

Initial Enrollment Period (IEP) is the Initial Enrollment Period is a seven-month window that begins three months before the month you turn 65, includes your birthday month, and ends three months after that month. During this period, you have the opportunity to sign up for Medicare Part A (hospital insurance), Part B (medical insurance) and Part D (prescription drug coverage) without facing any penalties.

General Enrollment Period (GEP), if you miss your IEP, you can enroll during the GEP from January 1 to March 31 each year. Coverage begins on July 1, but you may have to pay a late enrollment penalty.

Special Enrollment Period (SEP) is available if you or your spouse are still working and covered by a group health plan. You can sign up for Part B without a late enrollment penalty any time you are still covered by the group health plan or during the 8-month period that begins the month after the employment ends or the coverage ends, whichever happens first.

Step 3: Decide Between Original Medicare and Medicare Advantage

Except for Part A, Medicare does have monthly premiums, usually deducted from Social Security

Original Medicare provides flexibility in choosing doctors and hospitals. Part A and Part B are included, but you will need to purchase a separate Part D plan for prescription drugs and a Medigap policy for supplemental coverage.

Medicare Advantage offers bundled plans that include Part A, Part B, and usually Part D. May offer additional benefits like vision, hearing, and dental. Medicare Advantage requires you to use the plan's network of providers. You cannot have both a Medicare Supplement plan and a Medicare Advantage plan at the same time.

Step 4: Choose and Enroll in a Prescription Drug Plan (Part D)

It is important to enroll in Medicare Part D at the time you enroll in Part A, otherwise a Late Enrollment Penalty (LEP) will be added if you ever decide to get Part D.

Compare Part D plans based on the medications you take and their costs. Consider the plan's formulary (list of covered drugs), premiums, deductibles, and copayments. Use Medicare's Plan Finder tool to compare plans.

Step 5: Consider Medigap (Medicare Supplement Insurance)

Medigap policies help pay some of the healthcare costs that Original Medicare doesn't cover, such as copayments, coinsurance, and deductibles. Medigap policies are sold by private companies. Each standardized Medigap policy must offer the same basic benefits, but some offer additional benefits.

Step 6: Review Your Medicare Coverage Annually

Each year, during the Open Enrollment Period (October 15 to December 7), review your coverage and decide if you need to make changes. Compare your current plan with other options based on cost, coverage, and convenience. Make any necessary changes to ensure your healthcare needs are met.

Step 7: Understand Medicare Costs

Be aware of premiums, deductibles, copayments, and coinsurance. Consider your healthcare needs and budget when choosing plans. Look for assistance programs if you have limited income and resources.

Step 8: Seek Help When Needed

Utilize resources like the State Health Insurance Assistance Program (SHIP) for free, unbiased Medicare counseling. Contact Medicare directly for specific questions about coverage and enrollment.

Consult with a financial advisor or healthcare professional to make informed decisions.

Late Enrolment Penalties (LEP)

It is essential to enroll in Medicare during your Initial Enrollment Period (IEP) to avoid any potential penalties. Failing to do so can result in a late enrollment penalty, which can increase your premium costs significantly.

The late enrollment penalty is an additional cost added to your Medicare premium (surcharge). This penalty is intended to encourage timely enrollment and ensure that individuals maintain adequate prescription drug coverage. This was started May 15, 2006.

The late enrollment penalties are not one-time fees; rather, they are a monthly charge that lasts as long as you have Part B or Part D coverage. Therefore, it can add up over time and significantly increase your overall healthcare costs.

If you do not sign up for Medicare Part B (or Part D, prescription drug coverage) when you are first eligible and you do not qualify for a Special Enrollment Period, you may be subject to a late enrollment penalty. This penalty is designed to encourage timely enrollment and helps ensure that individuals do not wait until they are sick to join Medicare.

Medicare Part B Late Enrollment Penalty

The Medicare Part B late enrollment penalty is calculated based on how long you went without Part B coverage. The penalty is an additional 10% of the standard Part B premium for each full 12-month period that you were eligible for Part B but did not sign up. This penalty is added to your monthly premium and continues for as long as you have Part B.

For example, if you were eligible for Part B for two years but did not enroll, your monthly premium would include a 20% penalty (10% for each full year). If the standard Part B premium is $148.50, your premium with the penalty would be $178.20.

Medicare Part D Late Enrollment Penalty

The late enrollment penalty for Medicare Part D is calculated differently. It is based on the number of months you went without "creditable" prescription drug coverage after your Initial Enrollment

Period ended. Creditable coverage means that your previous prescription drug coverage was expected to pay, on average, at least as much as Medicare's standard prescription drug plan.

The penalty is calculated by multiplying 1% of the "national base beneficiary premium" ($33.06 in 2021) by the number of full months you were without Part D or creditable coverage. This amount is then added to your monthly Part D premium and will generally stay with you for as long as you have Part D coverage.

For instance, if you were without coverage for 15 months, the penalty would be 15% of $33.06, which is approximately $4.96. This amount would be added to your monthly Part D premium.

Special Enrollment Periods (SEPs)

There are certain situations in which you may qualify for a Special Enrollment Period, allowing you to sign up for Medicare without facing a penalty. These include:

Employer Coverage

If you or your spouse are still working and you have health insurance through an employer or union, you may qualify for a Special Enrollment Period. You can sign up for Medicare Part A and/or Part B:

Anytime you are still covered by the employer or union health plan. During the 8-month period that begins the month after your employment ends or your coverage ends, whichever happens first.

Medigap and Medicare Advantage Plans

If you are enrolled in a Medicare Advantage Plan or have a Medicare Supplement Insurance (Medigap) policy, there are specific scenarios in which you may qualify for a Special Enrollment Period. These scenarios may include moving out of your plan's service area, your plan leaving the Medicare program, or your plan stopping service in your area.

How to Avoid the Late Enrollment Penalties

To avoid the late enrollment penalties, it is crucial to understand your enrollment periods and make timely decisions regarding your Medicare coverage. Here are some tips to help you avoid the penalty:

Mark your calendar and be aware of the seven-month window surrounding your 65th birthday and enroll when first eligible.

If you have health insurance through an employer or union, understand how it interacts with Medicare and whether it qualifies as creditable coverage.

Certain life events, such as moving out of your plan's service area or losing other credible coverage, can qualify you for a Special Enrollment Period. During this time, you can enroll in Part B and Part D plans without facing a penalty.

Take the time to explore your Medicare options, including Part A, Part B, Part C, and Part D, to determine which plans best meet your needs.

Keep up with any changes to Medicare rules and regulations, as these can impact your enrollment decisions and potential penalties.

Saving Money on Insurance

There are many ways to save money on Insurance. Most of them involve taking on more of the risk split with the insurance company. Shop and compare. You may find different premium processes across different insurance companies. Unfortunately, there is no loyalty from insurance companies towards their customers, none is expected in return.

Some people are in a position of being able to *self-insure*, this is not recommended. In some cases it may be better to adjust coverage in order to lower the premiums. Increasing the deductible is a good way to cut costs by sharing more of the risk but not taking on all the risk.

Insurance premiums can be reduced by lowering the coverage amounts, which means you will assume more of the financial risk in the event of an incident. It is a common practice among insurance companies to overvalue an asset when setting the premium. The opposite applies when paying claims.

For automobile insurance, if your vehicle is paid off, consider dropping the comprehensive insurance.

Chapter 5

INVESTING IN YOUR FUTURE

A Time to Plant the Seeds for Retirement Income

Most investments are set up for long-term purposes, such as retirement or children's college. They are evaluated for their expected performance over a 10-year period.

> "Small amounts saved daily adds up to huge investments in the end."
> --Margo Vader

If you have not already started investing for your future, there is no time better than the present to get started, procrastination is not your friend.

The two investment growth mindsets are *building wealth* and *saving for retirement*. These are two different things and each need to be managed differently. In our younger years building wealth is more feasible because there's more time to recover from any stumbles that occur. But as we get older, we need to ensure that we have retirement savings that are in less risky instruments. The optimum solution is to do both at the same time.

Ten-Year Tenure

While there's no definitive "10-year cycle" in the stock market, there is historical evidence to suggest that the stock market tends to exhibit a pattern over rolling 10-year periods, with a tendency towards positive long-term growth. Since many investment instruments are indexed to the stock market in some way, this phenomenon is a good predictor of expected long-term performance. For low-risk investment instruments, plan to have the funds tied up for more than 10 years. This is especially true for retirement savings, especially for younger investors.

> The best time to start investing was yesterday, the next best time is today

A *financial advisor* is a licensed professional who provides financial advice. Their advice or products must be suitable for their clients, however there is no legal standard they must abide by. Nearly anyone can say they are financial advisors of some kind.

A *fiduciary* has a legal and ethical obligation to put their clients' interests first.

So, while financial advisors may offer a wide range of services, they may not always act in their client’s best interest, whereas a fiduciary must act in their client’s best interest.

> “I have enough money to last me the rest of my life, unless I buy something.”
> -- Jackie Mason

Reasons for having financial investments

Meet or exceed *inflation*, grow money that will continue having buying power in the future. *Retirement income*, most people are concerned about outliving the money that has accumulated when they are no longer earning a steady income. Fund *final expenses*, despite our intentions, these costs can be a burden on our family. Leave *assets* behind, most people feel good if they can leave family members some assets.

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The term indexed is used frequently in this book and is very important to understand. In short, it means that the annual returns on the investment can't go below zero, even if the market goes negative. This is designed to protect your principal. Most indexed investment also have a cap limiting the maximum of growth.

INVESTMENT CHOICES

Life is about choices; some choices are better than others

Financial investments are essential tools for individuals and businesses seeking to grow their wealth over time. By understanding the various types of investments available, one can make informed decisions that align with their financial goals and risk tolerance. Here, we explore the main categories of financial investments.

If possible, it is recommended to have a mixed balance of investment types, depending on several factors, including total investment capital and age.

The "Rule of 100" in finance is a guideline for determining how to allocate investments, particularly within a retirement portfolio. It's based on the idea that you should subtract your age from 100 to get a percentage that represents the amount of your portfolio that should be allocated to more risk-bearing investments like stocks.

For example, if you are 60 years old, the rule suggests that 40% of your portfolio could be in stocks, and the remaining 60% in less risky investments. This rule is a starting point and should be adjusted based on individual risk tolerance and investment time horizon.

401(k): Pre-taxed savings provided by an employer, managed by an investment company. Employers may contribute a matching percentage to your voluntary contributions. The value is impacted by stock market performance.

Thrift Savings Plan (TSP): A retirement savings and investment plan for federal employees and uniformed service members, offering similar benefits to 401(k) plans in the private sector, with contributions deducted from paychecks.

Pension: Guaranteed income from an employer, managed by the employer (Railroad, Teacher, etc.). Based on tenure. Pension plans were popular until 1978 when most companies opted to provide 401(k) plans.

Employee Stock Ownership Plan (ESOP): A type of qualified retirement plan managed by an employer, similar to a 401(k), but with a focus on company ownership.

Individual Retirement Account (IRA): Several IRA types are available. More information is provided later in this chapter.

Annuity: Designed to help protect your money (Typically qualified but also can be non-qualified funds).

Life insurance: Designed to help protect your family and investments. More information is provided in another chapter.

Stocks: Stocks, also known as equities, that represent ownership shares in a company. When you purchase stock, you become a shareholder and own a piece of that company. Stocks are traded on exchanges, and their prices can fluctuate based on market conditions and the company's performance. Investing in stocks can yield high returns, but it also comes with higher risks compared to other types of investments. Since stock prices fluctuate, the price of stocks can also go down resulting in a loss. Stocks are more of a speculative wealth building game that has high risks associated.

Bonds: Bonds are fixed-rate debt securities issued by governments, municipalities, or corporations. When you buy a bond, you are essentially lending money to the issuer in exchange for periodic interest payments and the return of the bond's face value at maturity. Bonds are generally considered safer investments than stocks, but they typically offer lower returns. They are like an IOU. Borrowers issue bonds to raise money from investors willing to lend them money for a certain amount of time.

Treasury bills (T-bill): A short-term U.S. government debt obligation backed by the U.S. Department of the Treasury. Terms range from four to 52 weeks.

Mutual funds: Mutual funds pool money from multiple investors to purchase a diversified portfolio of stocks, bonds, or other securities. Managed by professional fund managers, mutual funds offer investors the benefits of diversification and professional management. They come in various types, including equity funds, bond funds, and balanced funds, each with their own risk and return characteristics.

Money market: A mutual fund that invests in low-risk, short-term debt securities, such as Treasury bills, municipal debt, or corporate bonds.

Exchange-traded funds (ETFs): ETFs are similar to mutual funds but trade on stock exchanges like individual stocks. They offer the benefits of diversification and lower management fees. ETFs can track a specific index, sector, commodity, or other asset classes. They provide flexibility and liquidity, making them a popular choice for investors.

Certificates of deposit (CDs): CDs are time deposits offered by banks with a fixed interest rate and maturity date. They are low-risk investments, making them suitable for conservative investors. However, they typically offer lower returns compared to other investment options and may have penalties for early withdrawal. They are like a short-term savings account. It is advised to be proactive and reevaluate your earnings options each time a CD matures, otherwise it may automatically get rolled into something that has a lower return.

Traditional savings: Disciplined accumulation of money placed in a bank which typically grows at a small, fixed percentage (1-4%). This type of product does not provide protection against inflation, but it is a great place to keep funds that need to be liquid (readily available). Some banks offer high yield saving accounts that are worth investigating for keeping liquid funds.

Real estate (direct ownership): Real estate investments involve purchasing property to generate income or achieve capital appreciation. This can include residential, commercial, or industrial properties. Real estate can provide steady rental income and potential tax benefits, but it requires significant capital and may involve maintenance and management responsibilities. Purchasing a home is for example.

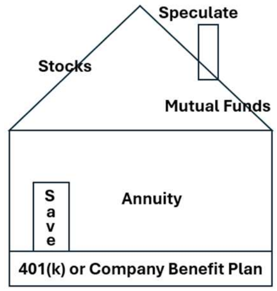
Real estate (indirect investment or loan): Buying shares in a fund or a publicly or privately held company. May also involve providing short-term loans to companies that invest in real estate. Also called Alternate Real Estate Transaction. Returns often exceed 15% APY.

Commodities: Commodities are physical assets like gold, silver, oil, and agricultural products. Investing in commodities can be done through direct purchase or via futures contracts, ETFs, or commodity-focused mutual funds. Commodities can serve as a hedge against inflation and diversify an investment portfolio, but they can be volatile and influenced by various factors such as supply and demand.

Cryptocurrencies: Cryptocurrencies are digital or virtual currencies that use cryptography for security. Bitcoin, Ethereum, and other cryptocurrencies have gained popularity as alternative investments. They offer high potential returns but come with significant risks due to their volatility and regulatory uncertainties. A decentralized digital or virtual currency whereby trading is based on speculation.

Collectibles: Paintings, cars, memorabilia etc. Keep in mind, the value of a collectible is only worth as much as someone is willing to pay for it at the time you want to sell it.

INVESTMENT DIVERSIFICATION



Understanding the Importance and Methods of Diversified Investments

Investment diversification is a fundamental principle that every investor should incorporate into their financial strategy. It involves spreading investments across various asset classes, sectors, and geographical regions to minimize risk and maximize returns. Diversification helps in reducing the impact of market volatility on an investment portfolio, ensuring that no single investment excessively influences the overall performance.

> "The challenge is not to pick the best investment. The challenge is to pick the right investment."
> -- Don Connelly

It is often advised to spread your investments across multiple products. This will help to offset downturns in a specific area. The drawing above depicts the various items it takes to build a house; it shows how different investment products build a better investment portfolio.

Reasons for Diversification

Risk management: By spreading investments across different assets, investors can reduce the risk of significant losses. If one investment performs poorly, others may compensate by performing well.

Optimal returns: Diversified portfolios are more likely to achieve stable and consistent returns over time. This is because they are less vulnerable to the fluctuations of a single market or sector.

Protection against volatility: Market conditions can be unpredictable. Diversification provides a buffer against market volatility by ensuring that a downturn in one area does not drastically affect the overall portfolio.

Access to a broader market: Investing in various asset classes allows investors to tap into a wide range of opportunities, potentially leading to higher returns.

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There are several ways to diversify an investment portfolio:

Asset allocation involves spreading investments across different asset classes, such as stocks, bonds, annuities, real estate, and commodities. Each asset class has its own risk and return characteristics, and their performance does not always correlate. Here are some common asset classes:

Investing in different *sectors* of the economy can reduce the risk associated with a downturn in a specific industry. For example, an investor can allocate funds to technology, healthcare, finance, consumer goods, and energy sectors to achieve sector diversification.

Geographical diversification involves spreading investments across different countries and regions. This strategy can protect against economic and political instability in a particular region. Investing in international markets allows access to growth opportunities in emerging economies and reduces reliance on the performance of a single country's economy.

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Using various investment vehicles can also enhance diversification:

Mutual funds pool money from multiple investors to invest in a diversified portfolio of stocks, bonds, or other assets.

Exchange-traded funds (ETFs) offer diversification by holding a basket of securities and are traded on stock exchanges like individual stocks.

Index funds aim to replicate the performance of a specific market index, providing broad market exposure.

Individual securities are acquired by directly investing in a variety of stocks and bonds can also achieve diversification, though it requires careful management and research.

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Strategies that have been proven to work for most investors

Regular Rebalancing involves adjusting the portfolio periodically to maintain the desired level of diversification. This may include selling over performing assets and buying underperforming ones to keep the asset allocation in line with the investor's goals and risk tolerance.

Dollar-cost averaging is a strategy where investors regularly invest a fixed amount of money into their portfolio, regardless of market conditions. This approach can reduce the impact of market volatility and prevent emotional investing decisions.

Regularly *monitoring and reviewing* the portfolio is crucial for maintaining effective diversification. Investors should assess their portfolio's performance and make necessary adjustments to align with their long-term objectives.

401(K)S

A No-Brainer Investment Options

A 401(k) is a retirement savings plan sponsored by an employer. It allows employees to save and invest a portion of their paycheck before taxes are taken out. Taxes aren't paid until the money is withdrawn from the account, usually during retirement. These were provisioned in 1978 and began replacing pension plans in the 1980s.

> Always invest in an available 401(k), especially if there is an employer match.

One of the key benefits of a 401(k) plan is the potential for employer matching contributions. This means that an employer may match a portion of the employee's contributions, effectively providing free money to boost their retirement savings. Additionally, the contributions to a 401(k) are made on a pre-tax basis, reducing the employee's taxable income for the year they are made.

There are limits to how much an individual can contribute to their 401(k) each year, defined by the IRS. It's important to be aware of these limits and plan contributions accordingly. Withdrawals made before the age of 59½ may be subject to penalties, although there are specific circumstances under which these early withdrawals can be penalty-free.

401(k) plans offer a range of investment options, and it is up to the employee to choose how to allocate their contributions. Regularly reviewing and adjusting investment choices can help align the employee's retirement savings strategy with their financial goals and market conditions.

Most 401(k) plans allow you to borrow against them. The interest paid goes back to your plan, instead of a bank, thus boosting your retirement balance. These loans must be paid back within 5 years.

Recommended 401(k) Strategies

It is usually best to contribute the maximum amount allowed, at least up to what an employer matches. For example, if an employer matches 3% up to 10% of your income, contribute at least 10% because with the match, that is a 13% contribution towards your retirement. Any additional investment amount allowed by the IRS can be invested into higher yield products.

At 59 ½ you can roll over your 401(k) to any qualifying product without penalties, even if you are still working and contributing to it.

This is a great opportunity to earn more for your retirement. The average 401K APY is 5-8%, Annuity based products can yield 8-14% APY.

403(b) plans and 401(k) plans are very similar but with one key difference: whom they're offered to. While 401(k) plans are primarily offered to employees in for-profit companies, 403(b) plans are offered to not-for-profit organizations and government employees, including public school employees.

Employer-sponsored plans like 401(k)s (for private sector employees) and 403(b)s (for employees of public schools and certain non-profit organizations) allow for tax-deferred contributions from both employees and employers. These plans often include employer matching contributions, which can significantly boost retirement savings. Withdrawals in retirement are taxed as ordinary income.

IRAs

Your Individual Retirement Account

Individual Retirement Accounts (IRAs) are a cornerstone of retirement planning, offering various tax advantages to encourage saving for the future. Understanding the different types of IRAs, their benefits, and the rules governing them can help individuals make informed decisions to secure their financial future.

There are several types of IRAs, each with its own set of rules and benefits. The most common types are *Traditional IRAs*, *Roth IRAs*, *SEP IRAs*, and *SIMPLE IRAs*.

A *Traditional IRA* allows individuals to contribute pre-tax dollars, which can grow **tax-deferred** until withdrawal during retirement. Contributions may be tax-deductible, depending on the individual's income and participation in an employer-sponsored retirement plan. *Withdrawals are taxed* as ordinary income, and early withdrawals before age 59½ may incur a 10% penalty.

A *Roth IRA* is funded with after-tax dollars, meaning contributions are not tax-deductible. However, the earnings grow **tax-free**, and qualified withdrawals during retirement are also **tax-free**. Unlike Traditional IRAs, Roth IRAs do not have required minimum distributions (RMDs) during the account holder's lifetime, providing more flexibility in retirement planning.

> Roth IRAs are an excellent investment tool, since they grow ***tax-free***

A Simplified Employee Pension (SEP) IRA is designed for self-employed individuals and small business owners. Contributions are tax-deductible and can be a significant percentage of the participant's income, providing a way to save more for retirement. The contributions made by employers to SEP IRAs are tax-deductible, and the earnings grow tax-deferred until withdrawal.

A Savings Incentive Match Plan for Employees (SIMPLE) IRA is suitable for small businesses with fewer than 100 employees. Both employers and employees can contribute to a SIMPLE IRA, with the contributions being tax-deductible. The earnings grow tax-deferred, and withdrawals during retirement are taxed as ordinary income.

The IRS sets annual contribution limits for IRAs, which can change from year to year. For 2023, the contribution limit for Traditional and Roth IRAs is $6,500, with an additional catch-up contribution of $1,000 for individuals aged 50 and older. SEP and SIMPLE IRAs have higher contribution limits, with SEP IRAs allowing contributions up to 25% of compensation or $66,000, whichever is less, and SIMPLE IRAs permitting contributions up to $15,500, with a catch-up contribution of $3,500.

Eligibility to contribute to IRAs and the ability to deduct contributions or make Roth IRA contributions depend on income levels and tax-filing status. For instance, in 2023, single filers with a modified adjusted gross income (MAGI) of $138,000 or less can contribute to a Roth IRA, while those with a MAGI between $138,000 and $153,000 are eligible for reduced contributions. Married couples filing jointly have different income thresholds.

The tax treatment of IRA contributions and withdrawals is a critical factor in retirement planning. Traditional IRA contributions may be tax-deductible, reducing taxable income in the year of contribution. However, withdrawals are taxed as ordinary income. Roth IRA contributions are made with after-tax dollars, so they do not reduce taxable income, but qualified withdrawals are tax-free.

Traditional, SEP, and SIMPLE IRAs require account holders to start taking RMDs at age 72. The RMD amount is calculated based on the account balance and the IRS life expectancy table. Roth IRAs do not have RMDs, allowing the account to grow tax-free for a longer period.

Withdrawing funds from an IRA before age 59½ typically incurs a 10% early withdrawal penalty, in addition to ordinary income tax on the withdrawn amount. However, there are exceptions to this penalty, such as using the funds for qualified higher education expenses, first-time home purchases (up to $10,000), or significant medical expenses exceeding 7.5% of adjusted gross income.

IRAs can be inherited by beneficiaries, and the tax treatment of inherited IRAs depends on several factors, including the relationship to the deceased and the type of IRA. Non-spouse beneficiaries must generally take distributions within ten years of the account holder's death, while spouse beneficiaries have more options, such as treating the IRA as their own or rolling it into their existing IRA.

Traditional IRAs offer tax-deferred growth, meaning that contributions may be tax-deductible, but withdrawals in retirement are taxed as ordinary income. Roth IRAs, on the other hand, allow for tax-free growth and tax-free withdrawals, provided certain conditions are met. Contributions to Roth IRAs are made with after-tax dollars, so they do not offer an immediate tax deduction.

ANNUITIES

Designed to Help Protect Your Money

An annuity is a financial product that offers a consistent income stream, commonly used for retirement planning. It involves a contract between an individual and an insurance company, where the individual makes either a lump-sum payment or a series of contributions. In return, the insurance company provides regular payments, beginning immediately or at a future date. Annuities can ensure reliable income throughout retirement, often for life, and may offer protection against market volatility. Many annuities are referred to as Guaranteed Income Annuities (GUI).

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There are several types of annuities, each tailored to meet specific financial goals and needs:

Fixed annuities offer guaranteed payouts at regular intervals, providing a stable and predictable source of income. The interest rate is fixed and does not fluctuate with market conditions, making it a low-risk option for conservative investors.

Variable annuities allow individuals to invest in a portfolio of securities such as mutual funds/stock markets. The payout amounts vary based on the performance of the underlying investments, offering potential for higher returns but also carrying greater risk.

Indexed annuities, which are technically Variable Annuities, and participate in Stock Market gains, but not the losses, thus protecting the principal from loss.

Immediate annuities begin payout almost immediately after a lump-sum payment is made. They are ideal for individuals seeking to convert a large sum of money into a reliable income stream quickly.

Deferred annuities accumulate money over time and begin payouts at a future date, which can be beneficial for long-term retirement planning. During the accumulation phase, the invested funds grow tax deferred.

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Annuities offer several advantages that make them an attractive choice for retirement planning:

Annuities provide a reliable income stream, helping to ensure financial security during retirement.

Earnings on annuities grow tax-deferred until withdrawals are made, allowing the investment to compound more efficiently.

Annuities can be tailored to meet individual needs, with options for guaranteed lifetime income or variable payouts based on investment performance.

Certain annuities offer cost-of-living adjustments to help maintain purchasing power in the face of inflation.

Different annuities are available that can server individual goals.

- Growth: Growing the value of the investment principal
- Income: Having lifetime income
- Hybrid: Some growth and some income

While annuities can be beneficial, it is important to consider the following factors when making a decision:

Annuities may come with various fees, including administrative fees, mortality and expense risk charges, and surrender charges for early withdrawals.

The reliability of annuity payouts depends on the financial stability of the insurance company issuing the contract.

Annuities are generally less liquid than other investments, making it difficult to access funds without incurring penalties.

Fixed annuities may not keep up with inflation, potentially eroding purchasing power over time.

CAPITAL GROWTH ALTERNATIVES

Real estate has already been mentioned as a common investment vehicle. There is another way to leverage real estate for capital growth. This is done by making short-term loans in the development space. Many companies that are involved in building apartment buildings, hotels and other public and private projects offer great returns on money that they borrow as funding for their projects. These opportunities can be found by contacting financial advisors / planners that offer them. The returns range from 10-30% APY and require loan terms for 12-60 months. Each opportunity offers different terms and conditions, most are guaranteed by property titles.

With real estate it is possible to not only loan non-qualified savings, but qualified funds can be borrowed from investment products to leverage even higher growth returns. Additionally, A self-directed IRA may be used for real estate ventures. The earnings are taxed as ordinary income, not capital gains.

RETIREMENT STRATEGIES

A Timeline for Investment Strategies

Investing for retirement is a crucial step in ensuring financial security in your later years. It is called the "Seed" phase and involves creating a strategic plan to grow your wealth over time, ensuring that you have the resources needed to maintain your lifestyle once you stop working.

Before diving into retirement investing, it is essential to grasp a few key concepts:

The earlier you begin investing, the more time your money has to grow through the power of compound interest.

Spread your investments across various asset classes to reduce risk.

Understand your comfort level with taking risks and adjust your investment strategy accordingly.

Familiarize yourself with different retirement accounts, such as 401(k)s, IRAs, and Roth IRAs, and their tax implications.

Consistently contribute to your retirement accounts to build a substantial nest egg over time.

Consider the impact of inflation on your savings and ensure your investments can outpace it.

Investment strategies are available that can eliminate your tax burden completely. A book called the Power of Zero outlines some of the strategies available.

Be aware that if you have a lot of retirement savings in tax-deferred products, you may actually be in a position that requires you to take so much out that you end up in a higher tax bracket than expected. If this is the case, it makes even more sense to contribute to Roth IRAs anytime you are in a lower tax bracket.

Retirement Timeline

Advice centered around the milestones below can be used to craft your retirement position.

Early Career (Ages 20-35)

- Begin contributing to retirement accounts like 401(k), IRA, or Roth IRA.
- Establish a budget and start saving a portion of your income.
- Focus on paying off high-interest debts.
- Build an emergency fund for unforeseen expenses.

Mid Career (Ages 35-50)

- Increase contributions to retirement accounts as your income grows.
- Diversify investments to balance risk and growth potential.
- Review and adjust financial goals periodically.
- Consider additional savings options like Health Savings Accounts (HSAs).

Late Career (Ages 50-65)

- Maximize contributions to retirement accounts, taking advantage of catch-up contributions.
- Review retirement income sources, including Social Security and pensions.
- Plan for healthcare costs and potential long-term care needs.
- Consider downsizing or relocating to reduce expenses.
- At age 59 1/2 you can move funds from a 401(k) (even if you are still contributing to it) to another qualified investment product of your choice without penalties or income tax liabilities. This is a great opportunity to earn more for your retirement. The average 401(k) APY is 5-8%, Annuity based products have 8-14% APY.

Age 65

- At Age 65 you must sign up for Medicare part A, even if you already have other insurance. It is free and failing to do this will incur penalty premiums when you do eventually sign up.
- You must also sign up for Medicare Part D at this time, otherwise a Late Enrollment Penalty (LEP) will be added if you ever decide to get Part D.
- Consider slowly converting tradition IRAs to a Roth IRA, factoring in the tax implications.

Pre-Retirement (Ages 65+)

- Finalize a retirement date and transition plan.
- Review and optimize retirement income and withdrawal strategies.
- Ensure legal documents like wills and power of attorney are in place.
- Explore part-time work or consulting opportunities if desired.
- Age 67 is the new full retirement age for Social Security (SS) if you were born after 1960. Taking SS before age 67 will result in permanently lower payments. This can be a significant amount. Note, the longer you wait to take SS, the higher your payments will be.
- Age 70 start taking social security, if not already doing so. At this time, your monthly benefit amount will no longer grow higher.
- At age 73 you must take annual distributions from qualified retirement products. Failure to do so will result in the IRS confiscating a portion of what you did not take (at the time of this writing, it is 25%).

NOTEWORTHY INVESTMENT CONCEPTS

There are several concepts that are associated with Investing

Net Worth

Net worth is the value of everything you own minus the total of all your debts. It's a snapshot of your financial health at a specific moment in time.

> "When you understand that your self-worth is not determined by your net-worth, then you'll have financial freedom."
> -- Suze Orman

How to calculate net worth

1. Add up the value of all your assets
2. Subtract the total of all your debts

Net Worth Can Tell You several things about your financial position.

- *Financial health,* which is an indication of how well you're paying off debt and saving money.
- Indicate how *prepared* you are for unexpected expenses or a loss of income.
- How financially stable you are.
- How ready you are for retirement.

Tracking your net worth over time can help you see if your net worth is increasing or decreasing. This can help you identify areas where you can improve your financial situation.

A company's net worth is also a key metric used to assess its financial health.

Capital Gains

When you buy a stock, bond, or a longer-term asset, like a house or fine jewelry, its value can grow over time. If one of those “capital assets” grows in value and you decide to sell it, your “capital gains” would be roughly the difference between your original purchase price and the amount of money you sell the asset for.

Capital gains are also considered a form of income. But there’s one major difference between capital gains and the income you earn from your job: Capital gains can be taxed at a different rate, depending on a multitude of factors.

Let’s say an investor bought a share of stock for $5. If that investor then sold it for $140, their capital gains would be roughly $135. To figure out the exact amount, they would need to calculate the cost basis—the purchase price of that share adjusted for things like reinvested dividends and broker commissions.

At tax time, the IRS levies taxes not just on income from an investor’s job but also on what they’ve earned from asset sales that year. In the above example, the $135 capital gain is the taxable amount. How much tax the investor owes would be based on whether it was a short- or long-term capital gain, their taxable income, and their filing status.

Short-term capital gains occur when an investor sells for a profit in one year or less—for most investors, these gains are taxed at ordinary income tax rates. Long-term capital gains are profits earned after holding an asset for more than a year. These gains are typically taxed at a lower rate than an investor’s ordinary income tax rate.

People often try to reduce how much they owe in capital gains taxes by holding on to their assets for longer before they sell them.

For example, in 2024, a single filer making anywhere between $200,001 and $243,725 per year would pay a 15% tax on long-term capital gains. But when it comes to short-term capital gains, they’d be taxed at the same rate as their normal income, which, in their case, is 32% -- see the full schedule here.

In other words, high earners have an incentive to hold on to their capital assets longer to avoid steeper tax bills.

Investing via tax-advantaged accounts, including 401(k) plans, 529 college savings plans, and IRAs is another method some people use to reduce their capital gains tax bills. Investors can buy and sell assets within these accounts without paying taxes on any capital gains until retirement, and in some cases, they won’t pay capital gains taxes at all.

Some people sell certain assets at a loss to offset gains on other assets and reduce the amount they pay in taxes. This process is called "tax-loss harvesting." To put it another way, if someone earned $5K in capital gains, they might want to sell another asset at a $5K loss to cancel out their liability.

The controversy over how capital gains are taxed is at least as old as the 16th Amendment, which was passed in 1913 and paved the way for federal capital gains taxes (learn more about historical capital gains tax rates here).

Some policymakers take issue with long-term capital gains being taxed at a preferential rate compared to income from paid work. Separately, the concept of taxing unrealized capital gains—when an asset's value increases but has yet to be sold—has been increasingly debated.

Other policymakers in recent years have supported lowering the highest long-term capital gains tax rate and are generally opposed to levying taxes on unrealized capital gains. They believe doing so could spur economic growth and job creation.

Unrealized capital gains is when an asset's value increases but has yet to be sold. It is the current value that may decrease before the time it is sold. The concept of taxing unrealized capital gains has been increasingly debated.

WORDS FROM WARREN BUFFETT

Warren Buffett is widely regarded as one of the most successful investors of all time, earning him the nickname "Oracle of Omaha". He is known for his value investing strategy, which involves identifying undervalued companies with strong fundamentals and holding them for the long term. He is also known for his exceptional investment skills and his philanthropic efforts, having amassed a vast fortune through his value investing approach and serving as the chairman and CEO of Berkshire Hathaway.

Top investment advice from Warren Buffett

Buffett has used his shareholder letters, annual meetings and media appearances to share his investment philosophy and common-sense approach to business. Here are some of his top pieces of advice:

1. Don't lose money

Buffett has often used this simple and rather obvious piece of advice to highlight the importance of risk in investing. By avoiding situations where you can lose, you're naturally left with investments that are likely to generate gains. Thinking about what can go wrong before you think about potential gains can help you avoid major setbacks in investing.

2. Be fearful when others are greedy and greedy when others are fearful

This advice speaks to the importance of understanding investor behavior. There will be times when people get so excited about stocks or other investments that they bid their prices to unsustainable heights, making it very difficult to earn decent returns from that point. But the reverse is also true. Sometimes people can get so pessimistic about the future that they start giving away stocks or businesses at extremely attractive prices. Managing your emotions through these two extremes is part of being a good investor.

3. Wait for the right pitch

The ability to wait is one of your biggest advantages as an investor. If your broker or friends are urging you to invest in something you don't understand or think is priced too high, you can always wait for something else. The market is constantly changing and new opportunities are created each day. Sooner or later, a business you understand will be served up at a price you like, and that's when you swing big.

4. Index funds are best for most people

Despite making his fortune as an active investor, Buffett acknowledges that most people will get better results by investing in a broadly diversified low-cost index fund. He recommends investors using this approach should choose a fund that tracks the S&P 500, allowing them to profit off the best businesses in America and benefit from the progress of capitalism.

Many of the best financial advisors also advocate for owning index funds. Bankrate's financial advisor matching tool can help you find an advisor in your area.

5. Productive assets are the only investments to make

Buffett has spoken out against speculative assets in recent years, preferring to highlight the value of productive assets such as stocks, real estate, bonds or farmland. Speculative assets such as gold or cryptocurrencies don't produce anything for their owners, so their price is entirely dependent upon what someone else is willing to pay. If you buy 100 ounces of gold today, you'll still have 100 ounces 20 years from now, whereas productive assets can produce more over time.

Warren Buffett's investment strategy

In his 2019 letter to shareholders, Buffett laid out in simple terms the criteria he looks for when purchasing an entire business or a non-controlling stake via the stock market:

"We constantly seek to buy new businesses that meet three criteria. First, they must earn good returns on the net tangible capital required in their operation. Second, they must be run by able and honest managers. Finally, they must be available at a sensible price."

Identify high-quality businesses

Buffett's first criteria involves the quality of the underlying business he's looking to purchase or invest in. He wants businesses with strong economics, which means they earn good returns on capital and generate cash flow for their owners.

He also wants to find businesses that he understands. While Buffett is capable of understanding most businesses, he's not able to accurately assess where each business will be five or 10 years into the future, which is important in investing because so much of an asset's value comes from the future value of its cash flows. So, in addition to the quality of a business, he'll also look at the durability of a business and its competitive advantage. If he can't get his head around that, he'll move on to the next potential investment.

Look for capable managers

Evaluating who is running a company is another key part of Buffett's investment strategy. He's often said that he can't provide managerial expertise if it isn't already in place, and he knows that a CEO has a major impact on how an organization is managed. He has used his annual shareholder letters to praise managers who he thinks are doing exceptional jobs, sometimes when he doesn't even own a stake in their business. In the past, he has identified Amazon's Jeff Bezos and JPMorgan Chase CEO Jamie Dimon as great CEOs.

"It's difficult to overpay the truly extraordinary CEO of a giant enterprise. But this species is rare," Buffett wrote in his 2005 letter.

Don't pay too high of a price

The final criterion Buffett uses in evaluating a potential investment may be the most important: price. No business or manager is so good that they can provide a great investment no matter the price it was purchased at.

Buffett has long subscribed to the theory of "value investing," though he and his late business partner Charlie Munger would say the term is redundant because all intelligent investing is value investing: getting more than you're paying for.

Initially, Buffett purchased investments that had many issues but their prices were so low that they made up for the challenges the businesses faced. This method was known as the "cigar butt" approach, because it resembled finding an old cigar butt on the ground that had one or two puffs left in it for free.

As Berkshire has grown, it's become more difficult for Buffett to find mispriced bargains, so he has gravitated toward paying fair prices for excellent businesses. With this approach, more of your investment return comes from the underlying business and less from the low price you initially paid.

Warren Buffett Explains The Genius Of The Float

March 1, 2010 - 8:38 AM ET – By: Jacob Goldstein

Warren Buffett's latest annual letter to Berkshire Hathaway shareholders is out. As usual, it's a good read.

There are a bunch of interesting passages, including an explanation of why so many companies overpay when they make acquisitions, and a call for "meaningful sticks" to be used against CEOs of bailed out companies.

The letter also has a useful explanation of "float," an idea that's at the core of Berkshire's success, and that's central to the way the insurance industry works. In short, float is the money that an insurance company gets to hold onto between the time customers pay premiums and the time they make claims on their policies.

(Note that when Buffett says "P/C industry," he's referring to property/casualty insurance, which is defined here.)

Here's Buffett on the float:

Insurers receive premiums upfront and pay claims later. ... This collect-now, pay-later model leaves us holding large sums -- money we call "float" -- that will eventually go to others. Meanwhile, we get to invest this float for Berkshire's benefit. ...

If premiums exceed the total of expenses and eventual losses, we register an underwriting profit that adds to the investment income produced from the float. This combination allows us to enjoy the use of free money -- and, better yet, get paid for holding it. Alas, the hope of this happy result attracts intense competition, so vigorous in most years as to cause the P/C industry as a whole to operate at a significant underwriting loss. This loss, in effect, is what the industry pays to hold its float. Usually this cost is fairly low, but in some catastrophe-ridden years the cost from underwriting losses more than eats up the income derived from use of float. ...

Our float has grown from $16 million in 1967, when we entered the business, to $62 billion at the end of 2009. Moreover, we have now operated at an underwriting profit for seven consecutive years. I believe it likely that we will continue to underwrite profitably in most -- though certainly not all -- future years. If we do so, our float will be cost-free, much as if someone deposited $62 billion with us that we could invest for our own benefit without the payment of interest.

Let me emphasize again that cost-free float is not a result to be expected for the P/C industry as a whole: In most years, premiums have been inadequate to cover claims plus expenses. Consequently, the industry's overall return on tangible equity has for many decades fallen far short of that achieved by the S&P 500. Outstanding economics exist at Berkshire only because we have some outstanding managers running some unusual businesses.

Chapter 6

RETIREMENT PLANNING

The Reward for a Life Well Lived (So Far)

With the information presented so far in this book, we will now focus on the things specific to retirement planning such as social security, required investment withdrawals, and creating a plan for retirement to set goals by.

HOW TO RETIRE

Things to Consider Just Before Retirement

Retirement can be more challenging than imagined. Addressing financial, healthcare, housing, legal, and emotional aspects can ensure a seamless transition into retirement. Thoughtful planning allows you to enjoy this new chapter of life with peace of mind and confidence.

> "All you need is the plan, the road map, and the courage to press on to your destination."
> -- Earl Nightingale

Financial Planning is an essential process for creating a comfortable retirement experience. If you decide to work after the traditional retirement age, it is better to do it because you want to, not because you have to.

Before retiring, it is crucial to evaluate the status of your retirement savings. Consider whether your savings, in combination with social security benefits and any pensions, can sustain the lifestyle you envision. Review your retirement accounts, investments, and any other sources of income to gauge if they meet your financial goals.

The *$1,000 a month rule* is a simple guideline that can help you estimate how much savings you need to generate sustainable income. According to this rule, for every $1,000 in monthly retirement income you want, you should aim to have about $240,000 saved.

A myth is perpetrated by financial institutions that say you need to be able to replace 80 % of your pre-retirement income in order to retire. You can't just place a percentage on it and be done. Once you retire your tax liability goes down, you no longer contribute to SS and Medicare through your paycheck, you don't need to buy clothes for work, you don't have to eat lunch out at work, you don't have to commute to work, you don't have to save for retirement, insurance may cost less based on property you still own and if you are Medicare eligible. etc. A more practical way to derive how much you need is to calculate what your mandatory monthly expenses are (mortgage, rent, food, utilities etc) in order to just live and then add in whatever amount per year you need for the fun things in life (restaurants, trips etc) You need to remember that your mandatory monthly expenditures needs to include some money to put away for house repairs and unforeseen expenditures. You may find that you can live comfortably on 50% of your pre-retirement income.

Developing a realistic budget is a key step. Assess your current expenses and project how they might change in retirement. Factor in costs such as healthcare, travel, and leisure activities. A well-structured budget will help you manage your finances effectively and avoid unnecessary debt.

Paying off or significantly reducing debt can ease financial stress during retirement. This includes mortgages, automobiles, credit card debt, and any other loans. Lowering your debt burden allows you to allocate more of your retirement income towards enjoyable activities and essential expenses.

> "You can be young without money,
> but you can't be old without it."
> -- Tennessee Williams

Health plays a major part of retirement. As you transition from employer-sponsored health insurance, evaluate your options. Medicare typically becomes available at age 65, but it's important to understand what it covers and whether you need additional supplemental insurance. Consider long-term care insurance to cover potential future needs that Medicare does not. Maintaining good health is vital for a fulfilling retirement. Regular check-ups, a balanced diet, and exercise are crucial. Consider joining wellness programs or fitness groups to stay active and engaged.

You must also factor in housing arrangements; many retirees choose to *downsize* their homes to reduce maintenance and expenses. Evaluate whether moving to a smaller home or a retirement community aligns with your needs and lifestyle. If you prefer to stay in your current home, consider modifications that can improve accessibility and safety. Install features such as handrails, ramps, and step-free showers to make your home more senior-friendly.

Plan survivorship so that it is smooth after you are gone. Ensure that your will and any trusts are up-to-date. Clearly outline how you want your assets distributed and designate a trusted person to execute your wishes. This helps prevent legal disputes and ensures that your estate is managed according to your preferences.

Appointing a power of attorney for financial and medical decisions is essential. Ensure that your healthcare directives are clear, specifying your wishes for medical treatment and end-of-life care. This provides guidance to your loved ones and healthcare providers in critical situations.

Don't forget the mental aspects, retirement offers an opportunity to explore new interests and passions. Consider volunteering, taking up hobbies, or pursuing part-time work to stay engaged and find a sense of purpose. Engaging in meaningful activities can greatly enhance your quality of life.

Staying socially active is important for emotional well-being. Cultivate and maintain relationships with family, friends, and community groups. Regular social interactions can provide support, companionship, and a sense of belonging.

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

Perhaps it makes sense to plan a transition. Consider a phased retirement if your employer offers it. Gradually reducing work hours can help ease the transition and allow you to adjust to retirement life while maintaining some income and workplace connections. Conducting a "test run" of retirement can be beneficial. Take an extended leave or vacation to experience life without work commitments. This can help you identify any adjustments needed for a smoother transition.

SOCIAL SECURITY

Our Government Pension

Social Security is a federal program designed to provide financial assistance to retirees, disabled individuals, and survivors of deceased workers. It is funded through payroll taxes collected from employees and employers. For many retirees, Social Security benefits form a crucial part of their retirement income.

Eligibility for these benefits depends on several factors, including age, work history, and disability status. We will explore the various categories of individuals who can draw Social Security benefits and the specific requirements for each category.

> Social Security was never meant to be a sole retirement income source.

Generally, you need to have worked for at least ten years and earned a certain number of credits to qualify. The amount of benefits you receive is based on your lifetime earnings and the age at which you start claiming benefits.

Retirement benefits are the most well-known type of Social Security benefits, and they are available to individuals who have reached a certain age and have a sufficient work history.

Your Social Security benefit amount increases the longer you wait to start receiving them. Early retirement age (ERA) is 62. Starting Social Security benefits early will reduce your monthly benefit income by about 30%, compared to FRA. For every year you wait, until age 70, you will gain approximately 8% more. Full retirement age (FRA) depends on what year you were born. If born after 1959, it is 67. Delaying benefits past the FRA can increase the monthly payment up to age 70, which is the maximum benefit age (MBA). Starting Social Security at 70 vs, 67 can yield about 25% more monthly benefit income.

Example for average income earners:
Starting 62 = $ 1315/mo.
Starting 67 = $ 1932/mo.
Starting 70 = $ 2433/mo.

Determining the best time to start Social Security retirement depends on several factors, do you require the income and what age you expect to live to are the biggest factors. Those that are not heavily dependent on the monthly income, may look at the total possible amount received over a lifetime. Using the amounts above we will calculate total lifetime Social Security receive based on death age.

Start / death age	70	75	80	90
62	$ 126,240	$ 205,140	$ 284,040	$ 441,840
67	$ 69,557	$ 185,488	$ 301,417	$ 533,277
70	$0	$ 146,038	$ 292,076	$ 584,153

As stated above, the more taxable income you earned, paid into Social Security, the more you are eligible to receive.

Example for above average income earners:
Starting 62 = $ 2200/mo.
Starting 67 = $ 3232/mo.
Starting 70 = $ 4072/mo.

Start / death age	70	75	80	90
62	$ 211,200	$ 343,200	$ 475200	$ 739200
67	$ 116,370	$ 310,322	$ 504273	$ 892176
70	$0	$ 244,322	$ 488645	$ 977291

To qualify for retirement benefits, an individual must be at least 62 years old and have earned enough work credits by paying Social

Security taxes. Typically, 40 credits, equivalent to about 10 years of work, are needed to qualify for benefits.

Don't forget to take inflation into account as well. You should work until you can afford to retire, not because you simply don't want to work anymore. You can get very close estimates of what your benefit would be by logging onto the Social Security Administration website.

. . .

Social Security Disability Insurance (SSDI) provides benefits to individuals who are unable to work due to a severe disability that is expected to last at least one year or result in death.

To qualify for SSDI, the applicant must have a medical condition that meets the Social Security Administration's (SSA) definition of disability. This means the condition must be severe enough to prevent the individual from performing any substantial gainful activity.

Similar to retirement benefits, SSDI requires that the individual has earned enough work credits. The number of credits needed varies based on the age at which the individual becomes disabled, but generally, a younger person will require fewer credits than an older person.

Survivor benefits are available to the family members of deceased workers and provide financial support to help them cope with the loss of income.

Survivor benefits can be paid to:

- Widows and widowers, starting at age 60 (or age 50 if disabled)
- Unmarried children under 18 (19 if still in high school)
- Adult children who were disabled before age 22
- Dependent parents aged 62 or older

The deceased worker must have earned enough work credits for their family members to be eligible for survivor benefits. The number of credits required depends on the worker's age at the time of death, but fewer credits are needed for younger workers.

. . .

Supplemental Security Income (SSI) is a needs-based program that provides financial assistance to elderly, blind, or disabled individuals with limited income and resources, regardless of their work history.

To qualify for SSI, an individual must be 65 or older, blind, or disabled according to the SSA's definition.

SSI eligibility is determined based on the individual's income and resources. The SSA sets specific limits on the amount of income and resources an applicant can have and still qualify for SSI.

. . .

Spousal benefits allow the spouse of a retired or disabled worker to receive benefits based on the worker's earnings record.

A spouse can receive spousal benefits as early as age 62, but, similar to retirement benefits, the amount will be reduced if claimed before the FRA.

The worker must be entitled to Social Security retirement or disability benefits for their spouse to qualify for spousal benefits.

. . .

Divorced individuals may also be eligible for spousal benefits based on their ex-spouse's earnings record.

To qualify for divorced spousal benefits, the marriage must have lasted at least 10 years, the individual must be unmarried, and their ex-spouse must be entitled to Social Security retirement or disability benefits.

REQUIRED MINIMUM DISTRIBUTIONS (RMDS)

Investment Money You Must Take

Required Minimum Distributions (RMDs) are annual withdrawals you must take from traditional IRAs, SEP IRAs, SIMPLE IRAs, and employer-sponsored retirement plans (like 401(k)s and 403(b)s) starting at age 73.

RMDs are mandatory because the IRS wants to ensure that people don't accumulate retirement funds indefinitely and avoid taxes on those funds, which are contributed pre-tax. RMDs are designed to ensure that a portion of these tax-deferred savings is withdrawn and taxed during the account owner's lifetime.

Generally, you must begin taking RMDs by age 73, or the year after you turn 73 (in the following April 1). However, if you are a 5% owner of the business sponsoring the plan, you must begin taking RMDs once you reach age 73, even if you are still working.

RMDs apply to traditional IRAs (including SEP and SIMPLE IRAs), 401(k)s, 403(b)s and other employer-sponsored retirement plans. They also apply to qualified annuities.

Roth IRAs are exempt from RMDs, as are certain beneficiaries of Roth IRAs. Also, most non-qualified products are exempt.

The RMD is calculated by dividing the value of your retirement account (as of December 31 of the previous year) by a factor based on your life expectancy, as determined by the IRS.

You could face a 25% excise tax on the amount not distributed as required if you fail to take RMDs on time.

Your first RMD must be taken by April 1 of the year after you reach age 73. Subsequent RMDs must be taken by December 31 of each year.

The *SECURE 2.0 Act* raised the age to start taking RMDs from 72 to 73, starting in 2023.

RMDs are mandatory withdrawals from specific retirement accounts, starting at age 73, and failure to take them can result in penalties. It's essential to calculate and take your RMDs correctly to avoid these consequences.

Retirement Killers

Things That Deplete Retirement Savings

Most people look forward to retirement in their later years. It is wise not to leave your retirement quality of life to chance. Even a basic plan will go a long way in ensuring that you do not outlive your financial resources. Here are the most common killers of financial resources for retirees. Besides lack of preparation, there are things that can erode what you have saved for retirement.

Several factors can erode retirement financial resources, potentially compromising the stability and security of one's retirement income. Accumulated funds can be depleted rapidly by the factors below.

Servicing *debt* rapidly depletes available funds. (credit cards, personal / revolving loans, automobile loans, mortgages etc.)

Over time, the rising cost of goods and services (*inflation*) can diminish the purchasing power of fixed retirement incomes, making it more challenging to cover everyday expenses.

Liquid cash is not able to keep up with inflation, so its purchasing value goes down over time.

As retirees age, medical expenses tend to increase. Unexpected health issues or long-term care needs can lead to significant financial strain if not adequately planned for. Prolonged or unexpected health issues can be costly, having insurance is highly recommended, but can be costly itself.

Investments in stocks, bonds, and other financial instruments are subject to market fluctuations. Economic downturns can negatively impact retirement savings, particularly if withdrawals are required during periods of decline.

Experiencing a loss which is under covered by insurance. Property and Casualty insurance is discussed in more detail in another article.

Outliving one's savings is a significant concern for many retirees. Longer life expectancies increase the need for a sustainable income stream that can support living expenses for an extended period. The longer you live, the more money that is needed. This makes the instruments that provide lifetime income attractive.

Withdrawals from tax-deferred accounts such as 401(k)s and IRAs are subject to income tax. Changes in tax laws or unexpected tax liabilities can reduce the net income available to retirees.

Unplanned expenses, such as home repairs, family emergencies, or legal fees, can quickly deplete retirement savings if not anticipated and budgeted for.

Many seniors are targeted by people relying on the sympathy or naivety of seniors in order to extort money from them with false causes or promises of money in exchange for a fee. The scams are continually becoming more sophisticated.

PLANNING FOR RETIREMENT

Planning for retirement is an essential aspect of financial well-being that ensures you can maintain the lifestyle you desire after your working years are over. This guide will walk you through the steps and considerations necessary for a successful retirement plan.

The first step in planning for retirement is to assess your future needs. Consider factors such as:

Estimate how long you might live based on family history and health.

Think about the type of lifestyle you want to maintain, including travel, hobbies, and living arrangements.

Account for potential medical expenses, including insurance and out-of-pocket costs.

Consider the impact of inflation on your savings and purchasing power over time.

Once you have a clear understanding of your needs, set specific and realistic retirement goals.

Determine at what age you plan to retire.

Calculate the amount of money you need to save to support your retirement lifestyle.

Identify potential sources of retirement income, such as pensions, Social Security, and investments.

To achieve your retirement goals, you need a robust savings plan. Here are key steps to consider:

The earlier you start saving, the more time your money has to grow through compound interest.

Make consistent contributions to your retirement accounts, such as 401(k)s, IRAs, or other retirement savings plans.

Take full advantage of employer matching contributions to your retirement accounts.

Spread your investments across different asset classes to minimize risk and maximize returns.

Reducing or eliminating debt before retirement is crucial for financial stability.

Focus on paying off high-interest debts, like credit cards, to reduce financial strain.

Decide whether you want to pay off your mortgage before retiring or keep it for potential tax benefits.

Minimize taking on new debt as you approach retirement.

Regularly review and adjust your retirement plan to stay on track.

Review your retirement plan annually to ensure it aligns with your goals and financial situation.

Increase your contributions if possible, especially if you receive a raise or bonus.

Periodically rebalance your investment portfolio to maintain your desired asset allocation.

No retirement plan is complete without looking at both ends of the plan. The Seed part is where the investing is happening. This is where many products are designed to provide sellable features. Just as important is the Harvest part. This is when the distributions take place. Many plans are tax differed, meaning that taxes are not collect during the seed phase, but are levied during the harvest phase. While this is ok in many instances, it does not have to be this way. There are products that can eliminate taxes at distribution time.

THINGS TO EXPECT

Retirement is not like vacation. In retirement you have a different relationship with time. Vacations are usually time limited, and you are aware of this while on vacation. The realization that you are not going back to work is something you can't prepare for until you are retired.

You not only retire from something (work), but you should also retire to something. You need to know what you want to do with yourself and your life, no one can tell you. Many people don't know what they want to do.

Most people have a bucket list of things they think they will do in retirement. Some of those things will become unimportant. The rest will be completed in 6 months. After finishing your bucket list you must figure out what to do next.

Because everyone else is working, you may become lonely. You have to be comfortable with being alone if you retire before everyone else. You should actively plan things to do with other people.

Within a year you will lose touch with many of the people you worked with and saw and talked to every day.

Retirement may not cost as much as you think. Before you retire you should track your expenses and estimate future expenses. You can use a budget worksheet to accomplish this. Track EVERYTHING for 3–4 months. Note there are 3 types of expenses. a) daily expenses b) regular yearly expenses c) unexpected expenses. Plan for an emergency fund. Learn to live within your means and enjoy it.

Your pace of life will slow down. Learn to accept it and relax a little. Accept your new life. Don't regret your past life. Don't be embarrassed to tell others you are retired and that you are enjoying it (if you are).

Understand that there is both financial independence and retirement. If you are financially independent, then you are totally in control of what you want to do each day. If you want to continue "working" and collect a paycheck then that is up to you. Enjoy.

If you find that you are looking for something to do, then consider volunteer work. Volunteering can take many forms. There are huge number of opportunities out there. Research says that doing something for others is a powerful way to increase your own happiness.

Creating A Retirement Action Plan

Actions Speak Louder Than Words

This chapter presents optimistic perspectives of specific things to do and when to do them. Since everyone is unique, it is recommended to take the information with a grain of salt and consider this a general starting point for formulating your own plan that fits your circumstances and needs.

The concepts presented in this chapter are discussed in greater detail in other chapters in this book or other books in this series.

These are actions you must, need or should do are various ages.

Age 59

Consider rolling your 401(k) into another product that builds value more quickly. This is a perk that the IRS allows, take advantage of it.

Age 62

For most people there should not be any actions when turning 62; however, this is a good time to review your situation and verify that no life events have impacted your situation.

Unless you have a compelling reason to start drawing Social Security before your Full Retirement age, it is best to wait. Starting Social Security early WILL result in reduced payments for life.

Age 65

Failure to sign up for the appropriate Medicare option(s) when you become eligible WILL result in penalties in the future.

Must Do

- Sign up for Medicare Part A (even if you DO have existing insurance)
- Sign up for Medicare Part B (If you DO NOT have existing insurance)
- Sign up for Medicare Part D (If you DO NOT have existing insurance)

Need to Do

Gather all investment information.

Should Do

Consider drawing Social Security.

You may be eligible to draw monthly Social Security payments if you are no longer earning wages and require income and these conditions are met.

- Paid into Social Security
- Born before 1960 (otherwise Full Social Security benefits are not available until you are 67)

If you have Pension benefits, rollover options may exist, if so consider the available options. Examples are TRS for those where we employed by school districts, Railroad employees.

Age 67

You should have already signed for the required parts of Medicare. Full Social Security benefits are now available to you.

Age 70

If you are not already taking Social Security, this is a good time to start. Maximum benefits are now available.

Age 73

At 73 you may be required to start taking RMDs.

Required Minimum Distributions (RMDs) are annual withdrawals you must take from traditional IRAs, SEP IRAs, SIMPLE IRAs, and employer-sponsored retirement plans (like 401(k)s and 403(b)s) starting at age 73.

Chapter 7

ESTATE PLANNING

Leaving your legacy behind

Estate planning can be a complex process and if not properly setup, expensive to the asset and benefactors of the estate. This is the time to be very precise about what is desired and how things will be executed when you're gone.

> It is not the intent that matters, it is the letter of the law that prevails

AVOIDING ESTATE TAXES WITH TRUSTS

Estate taxes are a form of transfer tax that affects the very wealthy. For multimillionaire households, avoiding the estate tax is a significant issue. One tool that households can use to try to minimize their estate tax liability is the trust. However, it's important to understand that this is a limited, and fairly specific, tool.

The *estate tax* is a transfer tax like income or capital gains taxes. It triggers when someone receives wealth or assets that they didn't have before. In this case, the estate tax triggers when someone receives assets from a deceased benefactor.

The estate tax only applies to estates worth more than the IRS' cap, and the IRS adjusts this cap each year to account for inflation. In 2025, the estate tax only applies to estates worth more than $13.99 million for individuals and $27.98 million for married couples. This is an increase from 2024, when the lifetime exemption was worth $13.61 million for individuals and $27.22 million for married couples.

As with all tax brackets, the estate tax applies only to assets above the cap. For example, on an estate worth $15 million, the IRS would only collect taxes on $1.01 million for the 2025 tax year.

This is an important distinction and one that people often get wrong. Similar to income taxes, assets above the estate tax cap have no impact on the assets below the cap. If your estate is worth $13 million, you will pay no estate taxes. If your estate is worth $20 million, you will pay no taxes on the first $13.99 million. The only question is whether your estate pays taxes on the assets above that cap.

The major difference between estate tax and most transfer taxes is that it is born by the payer, not the recipient. If you die and leave a multimillion-dollar estate to your heirs, the estate itself would pay any taxes owed to the IRS. Your heirs would then receive the remaining, post-tax assets. Estate tax rates are comparable to income taxes, with brackets that scale from 18% at the lowest to 40% at the highest.

As a threshold matter, one of the most common forms of trust is the revocable or "living" trust. This is a third-party trust that you set up during your life, and which you maintain control over. You can move assets in and out of the trust, oversee its investments, change its beneficiaries and more.

There are many uses for a revocable trust, particularly when it comes to helping your estate avoid probate issues. Estate tax relief is not one of them. Under ordinary circumstances, passing your assets through a revocable trust will not shield them from estate taxes in any way.

The second most common form of trust is known as irrevocable trust. As its name suggests, when you make an irrevocable trust you sign over control of the included assets. You name who will benefit from the trust, how its assets will be managed and distributed, and what assets you initially are including.

You are then free to contribute additional assets over time. However, once you establish the trust, you cannot change its terms without a court order. You also cannot withdraw or directly access the assets you have contributed to it.

The downside to this is that you lose direct control over your assets. You can name yourself as a beneficiary, which allows you to receive and use anything based on the terms of the trust, but this isn't the same thing as owning those assets directly.

The advantage of this is that you remove these assets from your estate. Once you put something in an irrevocable trust it legally belongs to the trust, not to you. Assets in an irrevocable trust do not contribute to the overall value of your estate which, for a particularly large estate, can shield those assets from potential estate taxes.

But that doesn't mean the assets in an irrevocable trust are shielded from taxes altogether. Instead, the assets in an irrevocable trust are taxed at different rates depending on their status. In most cases this means either the trust itself pays income tax on undistributed gains, or a trust's beneficiary pays income taxes on money they receive from that trust.

A residence trust is another form of irrevocable trust because only irrevocable trusts can shield assets from estate taxes. Here, you put property such as a home into the trust's name. You then list yourself and your heirs as the beneficiaries of the trust, allowing you to continue using the house and letting them do so after you die. The result is that the trust owns the property but you and your heirs can use it.

The advantage here is that there is no asset to tax. Even though you and your heirs can continue living in the home, you don't own it so it can't contribute to your estate for tax purposes. This is particularly useful for people who are house-rich.

Finally, one of the most popular forms of trust for estate tax planning is known as the intentionally defective grantor trust.

One of the biggest downsides to transferring assets through an irrevocable trust is that it still involves some degree of tax liability. Even though you shield those assets from estate taxes, your heirs or the trust itself will still pay taxes. Typically, this comes in the form of income taxes which either the trust pays or your heirs pay when they receive distributions.

You can mitigate that through the use of an intentionally defective grantor trust, or IDGT. This is an irrevocable trust into which you place assets, again shielding them from estate taxes. However, you maintain responsibility for paying taxes on the trust's assets. This allows the trust to grow tax-free over time since you pay its taxes.

For every high-net-worth household, estate planning will involve some taxes. By using trusts, you can structure your way out of and around some of that liability. By setting up trusts to hold various assets, you can potentially reduce your overall estate tax liability. Trusts can work under the right circumstances and for the right assets, but they require a lot of planning.

To maximize the legacy you leave to your heirs, consider having a professional put together a comprehensive financial plan and investing strategy for you. A financial advisor can help you with both. Finding a financial advisor doesn't have to be hard.

It's never pleasant to think about, but there may come a time when you're unable to make decisions for yourself. For these scenarios, a living will or another form of advance directive can help ensure your family knows your wishes.

UNLIMITED MARITAL DEDUCTION

When developing an estate plan, it's important to consider the impact of taxes on loved ones. The *unlimited marital deduction* is a powerful tool that allows one spouse to leave their entire estate to the surviving spouse without incurring federal estate tax.[1] Let's take a closer look at the unlimited marital deduction—how it works and who it can benefit.

The unlimited marital deduction is a provision in the United States Internal Revenue Code that allows an individual to transfer, free from estate and gift tax, an unrestricted amount of assets to their spouse during life or at death.

It's important to remember that simply leaving all wealth to the surviving spouse may result in a larger-than-necessary taxable estate when they die. Coordinating the use of the marital deduction with each spouse's lifetime federal gift and estate tax applicable exemption amount may help reduce taxes.

The lifetime gift and estate tax exemption is the amount each individual can gift or leave to heirs before triggering estate or gift taxes. If the first spouse to die leaves less than the full applicable exemption amount to heirs other than their spouse, the executor of the deceased's estate can elect to add the unused portion of the last deceased spouse's applicable exemption amount to their own lifetime exemption. This provision is called the portability rule.

An alternative to the portability rule would be to use the exemption trust and marital trust approach.

Here's how that might play out: A couple's estate plan indicates that upon the first spouse's death, the estate's assets will be split into 2 components—one share to be applied against the deceased spouse's applicable exemption amount, with the other share of the estate assets passing to the surviving spouse under the unlimited marital deduction. The first share would go to fund an exemption trust—often referred to as a bypass or credit shelter trust—with the deceased spouse's remaining federal lifetime gift and tax exemption amount. Any remaining assets would be placed in a marital trust or given outright to the surviving spouse. For example, state estate tax considerations aside, the first deceased spouse with $14 million in assets might direct, by will or revocable trust, $13.99 million (the amount of the lifetime gift and estate tax exemption in 2025) to the exemption trust and approximately $10,000 to the marital trust.2

A 2-trust strategy

An exemption trust is designed to prevent estate taxation on the assets in that trust when the surviving spouse dies. While alive, they have limited control over the trust and limited access to its principal. The surviving spouse does not have to be the only income beneficiary of the trust; in fact, it's not even required for the spouse to be listed as one of the trust's beneficiaries. The beneficiaries of the exemption trust can be given the right to receive income annually, or income may be paid out to them at the discretion of the trustee. The surviving spouse's rights to the principal in the trust must be limited, or those assets risk being included in the surviving spouse's estate. In general, the surviving spouse can receive principal at the trustee's discretion provided the trustee is someone other than the spouse, or based on a specified standard—for example, to cover health care, education, and living expenses. The surviving spouse also may be able to designate the balance of the trust to a certain limited class of beneficiaries. The overriding objective for the exemption trust, however, is to limit the surviving spouse's control over the trust’s assets, in order to allow any assets remaining at the surviving spouse's death to escape estate taxation.

Portability is generally3 not permitted for state estate tax exemptions (for states that levy state estate tax) and the federal generation-skipping transfer tax exemption. Therefore, without the use of a marital disclaimer trust (or traditional CST), any unused state estate tax exemption and federal generation-skipping transfer tax exemption of the first spouse to die will be lost.

A marital trust, on the other hand, requires in most cases that the income generated by its assets be distributed at least annually to the surviving spouse. A marital trust generally doesn't offer any additional tax benefits beyond the marital deduction, but it does come with 2 key nontax-related benefits. First, it allows the deceased spouse to provide for the surviving spouse, while directing who inherits the remaining marital trust assets after the surviving spouse’s death. This can help ensure that the assets eventually will pass to the couple’s children, even if the surviving spouse remarries. Second, a marital trust generally protects the trust's assets from creditors' claims during the surviving spouse’s lifetime. Among the better-known types of marital trusts is the qualified terminable interest property (QTIP) trust.

The strategy of splitting assets between an exemption trust and a marital trust generally results in no federal estate tax due at the time of the first spouse's death. Assets in the exemption trust are offset by the federal estate tax exemption, while assets in the marital trust are shielded by the unlimited marital deduction. Upon the death of the surviving spouse, assets in the marital trust could potentially be subject to estate tax, but those in the exemption trust will avoid taxation—regardless of how much the trust's assets may have increased in value since the first spouse's death. Other considerations include the potential impact of state taxes. Speak with your attorney or tax advisor about your specific situation.

INHERITED IRAS

An inherited IRA may be the most complex issue to handle well when wrapping up an estate. If you’ve recently inherited an individual retirement account, you can find yourself at the tricky three-way intersection of estate planning, financial planning and tax planning. One wrong decision can lead to expensive consequences, and good luck trying to persuade the IRS to give you a do-over. Here’s how you can avoid some costly decisions around an inherited IRA.

An inherited IRA is an individual retirement account opened when you inherit a tax-advantaged retirement plan (including an IRA or a retirement-sponsored plan such as a 401(k)) following the death of the owner.

An heir will typically have to move assets from the original owner's account to a newly opened IRA in the heir's name. For this reason, an inherited IRA may also be called a beneficiary IRA.

Anyone can inherit an IRA, but the rules on how you must treat it differ depending on whether you're the spouse of the original owner or someone else entirely. However, a few exceptions to this treatment do exist, as explained below.

Any type of IRA may be turned into an inherited IRA, including traditional and Roth IRAs, SEP IRAs and SIMPLE IRAs. Importantly, the income tax treatment of the IRA remains the same from the original account to the inherited IRA. So, accounts made with pre-tax dollars (as in a traditional IRA) or after-tax dollars (as in a Roth IRA) are still treated the same way in an inherited IRA.

> Unfortunately, this rule is one of only a few straightforward things about inherited IRAs

When you inherit an IRA, you have many – too many! – choices to make depending on the situation:

If you inherited an IRA, and you're the spouse of the original owner, you have one set of choices. If you're a minor child, chronically ill or disabled, or not more than 10 years younger than the original owner, you have another set of choices. But everyone else has a still-different set of options.

Whether the original account owner had to take required minimum distributions (RMDs) can also influence what you can and should do with the IRA.

Should you try to minimize taxes or maximize cash distribution from the account?

These are a few of the complex questions that an inherited IRA presents to the recipient, and 2019's SECURE Act shook up long-standing practices, creating more confusion.

Some experts advise IRA beneficiaries to do nothing until they've met with a financial advisor who can explain their options.

> Always exercise caution when deciding to cash out a plan

The worst thing to do would be to cash out the plan, put it in your account, and then go see an advisor and say, 'Now what?'

At that point, you're in trouble. Before that happens, learn these seven must-know tips for handling an inherited IRA.

Inherited IRA rules: 7 key things to know

1. Spouses get the most leeway

If someone inherits an IRA from their deceased spouse, the survivor has several choices of what to do with it:

- Treat the IRA as if it were your own, naming yourself as the owner.
- Treat the IRA as if it were your own by rolling it over into another account, such as another IRA or a qualified employer plan, including 403(b) plans.
- Treat yourself as the beneficiary of the plan.

If you're a surviving spouse, you can roll over the inherited IRA into your own account, but no one else will receive this privilege. You have other options for taking the money as well, and each course of action may create additional choices that you must make. In addition, your options depend on whether the deceased spouse was under or at least age 72.

For example, if you as a surviving spouse are the sole beneficiary and treat the IRA as your own, you may have to take RMDs, depending on your age, or you may have to fully withdraw the money in 10 years. But in the right circumstances, you may have the option of not withdrawing money.

If you were not interested in taking money out at this time, you could let that money continue to grow in the IRA until you reach age 72.

In addition, spouses are able to roll the IRA into an account for themselves. That resets everything. Now they are able to name their own beneficiary that will succeed them and be able to deal with the IRA as if it is their own.

The IRS provides further rules around your options, including what you can do with a Roth IRA, where the rules differ substantially from traditional IRAs.

2. Choose when to take your money

> If you've inherited an IRA,
> you'll need to take action to avoid
> running afoul of IRS rules.

Your available options as an inheritor depend on whether you're chronically ill or disabled, a minor child, or not more than 10 years younger than the original owner, known as an eligible designated beneficiary. If you're not someone in one of these categories, you're known as a designated beneficiary and you have a different set of rules. (And spouses have their own set of rules, as discussed above.)

If you're in the former group, you have two options:

- You can transfer assets into an inherited IRA in your name and choose to take RMDs over your life expectancy or that of the deceased account holder's.
- You can transfer assets into an inherited IRA in your name and choose to take distributions over 10 years. You must liquidate the account by Dec. 31 of the year that is 10 years after the original owner's death.

Your ability to access these options depends on whether the original owner of the IRA was under or at least age 72.

The first option allows most of your funds to grow for potentially decades while you take minimal amounts out each year.

In the second option, the beneficiary is forced to take all the money over 10 years. For substantial accounts, that can add up to a monstrous income tax bill -- unless the IRA is a Roth, in which case, taxes were paid before money went into the account.

If you're in the designated beneficiaries group (but not eligible designated beneficiaries), you can select only the 10-year rule as outlined above. You'll have up until Dec. 31 of the year that is 10 years after the original account owner's death to fully withdraw the account.

When you're considering how to take withdrawals, you'll need to follow the legal requirements while balancing the tax impact of withdrawals and the advantages of letting the money continue to grow over time.

The IRS website has more information on the topic of RMDs

3. Be aware of year-of-death required distributions

Another hurdle for beneficiaries of traditional IRAs is figuring out if the benefactor had taken his or her RMD in the year of death. If the original account owner hasn't done this, it's the responsibility of the beneficiary to make sure the minimum has been met.

Let's say your father dies Jan. 24, leaving you his IRA. He probably hadn't gotten around to taking out his distribution yet. The beneficiary has to take it out if the original owner didn't. If you don't know about that or forget to do it, you're liable for a penalty of 25 percent of the amount not distributed.

Not surprisingly, that can cause a problem if someone dies late in the year. The last day of the calendar year is the deadline for taking that year's RMD.

If your father dies on Christmas Day and still hasn't taken out the distribution, you may not even find out that you own the account until it's already too late to take out that year's distribution.

If the deceased was not yet required to take distributions, then there is no year-of-death required distribution.

4. Take the tax break if you're entitled to it

An inherited IRA may be taxable, depending on the type. If you inherit a Roth IRA, you're free of taxes. But with a traditional IRA, any amount you withdraw is subject to ordinary income taxes.

For estates subject to the estate tax, inheritors of an IRA will get an income-tax deduction for the estate taxes paid on the account. The taxable income earned (but not received by the deceased) is called "income in respect of a decedent."

When you take a distribution from an IRA, it's taxable income. But because that person's estate had to pay a federal-estate tax, you get an income-tax deduction for the estate taxes that were paid on the IRA. You might have $1 million of income with a $350,000 deduction to offset against that.

It's not necessary that you were the person who paid the taxes; just that someone did.

For 2025, estates worth more than $13.99 million are subject to the estate tax, up from $13.61 million in 2024.

5. Don't ignore beneficiary forms

An ambiguous, incomplete or missing designated beneficiary form can sink an estate plan.

Many people assume they filled out the form correctly at one point.

You ask who their beneficiary is, and they think they know. But the form hasn't been completed, or it's not on record with the custodian. That creates a lot of problems.

If there is no designated beneficiary form and the account goes to the estate and RMDs have not begun, the beneficiary will be forced to withdraw the money from the account over a five-year period.

The simplicity of the form can be misleading. Just a few pieces of information can direct large sums of money.

One form like that can control millions of dollars, whereas a trust could be 50 pages. People procrastinate, they don't update forms and cause all kinds of legal entanglement.

6. Improperly drafted trusts can be bad news

It is possible to list a trust as a primary beneficiary of an IRA. It is also possible that this will go horribly wrong. Done incorrectly, a trust can unwittingly limit the options of beneficiaries.

If the provisions of the trust are not carefully drafted, some custodians won't be able to see through the trust to determine the qualified beneficiaries, in which case the IRA's accelerated distribution rules would come into play.

> A trust should be drafted by a lawyer who is experienced with the rules for leaving IRAs to trusts.

Without highly specialized advice, the snarls can be difficult to untangle.

7. A Roth IRA can help you sidestep some of the tax issues

One of the less obvious benefits of the Roth IRA is how it eliminates some tax issues in estate planning. Given the complexity of inherited IRAs, it's valuable when anything simplifies the process. In general, the Roth IRA allows you to pass assets tax-free to heirs, meaning that later they won't be taxed on the principal. However, the Roth IRA doesn't eliminate all tax issues.

For example, if a spouse inherits a Roth IRA and decides to treat it as their own, any withdrawn earnings from the account will be taxable until the spouse reaches age 59 ½ and the five-year holding period has been met.

Or if you take a lump-sum distribution of the Roth IRA, you'll also enjoy a tax-free withdrawal as long as the five-year holding period on the account was met. If this rule was not met, any withdrawn earnings are taxable.

Of course, there are other ways to treat the Roth IRA that have different implications, and you'll want to explore which one works best for your situation. But the fact that the Roth IRA reduces the tax impact on heirs may make it easier to use that account.

. . .

Inherited IRAs present many complications, even more so than the already strict rules of an IRA plan. But you have several options, including some free ones, that can get you going in the right direction so that you can avoid costly mistakes.

First off, you can search for help on the IRS website. The site offers comprehensive rules on distributions from IRAs, and it's a good first resource to answer your questions. But what the IRS doesn't offer is advice on which course of action you should take or what might be best for your individual situation. So your next move is to consult with your IRA custodian, who will have more detailed info on your plan and how you can proceed.

But some IRA custodians are more versed than others in the complex rules surrounding inherited IRAs.

Talk about it with the custodian ahead of time. Plans are great, but only as far as the ability to have them properly implemented.

The problem is that a mistake, or bad advice, made on the part of the custodian can create difficulties for the beneficiaries, and the IRS will not be sympathetic.

Malpractice is irreversible

You cannot argue abatement of penalty and interest and taxation in an inherited IRA case. There is no justice other than a private letter ruling. A private letter ruling involves handing over an IRS fee of about $6,000 to $10,000 and then waiting six months for an answer.

Finally, you have the option of hiring a lawyer or financial advisor but be sure to select one with experience in this specific field. In the case of a financial advisor, pick a fee-only fiduciary because they will put your interests first and you -- not someone else -- are paying them to do so.

This kind of advisor will help you make a decision that meets your needs and fits your specific situation. That's especially important when the issues here are complex and it's easy for unscrupulous advisors to do what's in their best interest rather than yours.

If you’re getting conflicting advice or something seems wrong, don’t sign anything that could lead to something irreversible. Get a second opinion from someone with expertise specific to inherited IRAs. It really can be that complicated.

. . .

An inherited IRA can be a windfall, especially if you’re able to take advantage of decades of tax-advantaged compound growth. But as you’re navigating the process, you’ll want to make sure that you avoid the pitfalls, which unfortunately seem all too easy to fall into. While relatively easy questions can likely be answered online, it could be well worth the cost to hire an advisor to help you maximize your decision and make sure it’s the best option for you.

DEEDS

Different states may allow provisions for various deeds. They are often useful for transferring property with tax liabilities. In most cases, a valid deed must be drafted by an attorney, and simply writing up a deed on your own and having it notarized does not make the document legally binding.

Quitclaim Deed

A quitclaim deed is a legal document used to transfer ownership or a potential ownership interest in real property from one person (the grantor) to another (the grantee).

Unlike a warranty deed, a quitclaim deed does not guarantee that the grantor has a valid title or the right to transfer the property. The grantee receives only whatever interest the grantor had in the property, and there's no assurance that the grantor's interest is valid or free from other claims.

Warranty Deed

A warranty deed, in the context of real estate, is a legal document that guarantees the seller (grantor) has the right to transfer ownership of a property to the buyer (grantee) and that the property is free from any encumbrances or claims.

A warranty deed ensures the buyer receives a clear and marketable title to the property, protecting them from potential issues that could arise later.

General Warranty Deed: The grantor guarantees the title against all claims, including those that may have arisen before they owned the property.

Special Warranty Deed: The grantor only guarantees the title against claims that arose during their ownership, not those that occurred before they acquired the property.

Chapter 8

ETCETERA

Things that are nice to know

This chapter includes topics that are nice to know, but do not fit elsewhere in this book. I've included them in this book because they are things that I feel are important to know.

Minimum Wage

In the US, the “minimum wage” is the smallest amount a business can pay an employee per hour by federal law. Currently, it’s $7.25—but that's just the federal mandate. States can set their own minimum wage laws, too.

Proponents of raising the minimum wage argue that doing so would lower the poverty rate, whereas opponents worry it could lead to inflation and job cuts.

When a state has a different minimum wage than the federal one, all employees covered by the Fair Labor Standards Act (which is most workers) will earn the higher of those two rates.

For instance, as of 2024, Georgia’s state minimum wage is technically $5.15 per hour. But if you work a minimum wage job in Georgia, you’d most likely still be paid $7.25. The same goes for cities and other municipalities that have their own minimum wage laws.

Employees working for extremely small businesses that don't do any interstate commerce and, therefore, aren't covered by the FLSA would be one very rare exception. There are also federal minimum wage exceptions for tipped workers.

State legislators who set lower minimum wages than the federal one know that the higher rate will override the lower number in the vast majority of cases. Some states have political reasons for keeping their lower minimum wages, like state lawmakers who want to signal their ideologies.

In some countries, the minimum wage is tied to inflation, meaning that as inflation goes up, so does the minimum wage. But in the US, the minimum wage can only be raised via Congressional action.

History

The first federal minimum wage was set at 25 cents per hour when President Franklin D. Roosevelt signed the FLSA in 1938.

The minimum wage was instituted in response to both striking workers and people left impoverished amid the Great Depression. President Roosevelt argued that having a minimum wage would help stabilize the post-depression economy.

But it wasn't applicable to workers in all industries. In fact, it only applied to about 20% of workers at the time – specifically, workers engaged in interstate commerce or the production of goods for interstate commerce. At the time, they were deemed most in need of regulation.

However, by 1968, the government was able to extend the federal minimum wage regulations in the US to apply to roughly 80% of private sector workers.

Congress has raised the federal minimum wage 22 times since its inception. The most recent time was in 2009 when amendments to the FLSA increased the minimum wage from $6.55 per hour to $7.25.

Minimum Wage Today

As of 2021, nearly 1.6 million Americans made the federal minimum wage of $7.25 per hour.

The debate over raising the minimum wage remains fierce, with some politicians like Senator Bernie Sanders arguing that the minimum wage should be raised to $17 per hour by 2028.

Without federal action on the issue, some states have taken the matter into their own hands. When the state of Washington raised its minimum wage from $15.74 to $16.28 per hour in 2024, it became the state with the highest state minimum wage.

BANKRUPTCY

For big businesses -- and for everyday individuals, local governments, and even farms and fisheries -- bankruptcy can provide a way to tackle crushing debt. It's a legal process that allows debtors to negotiate and repay money owed. For some, it's a way to get out of debt entirely. It is recommended that attorneys be involved.

An **automatic stay** is a feature of bankruptcy law that goes into effect immediately upon filing a bankruptcy petition. It forces creditors to stop all collection actions against the debtor, such as foreclosures, repossessions, garnishments, and evictions, and gives the debtor time to sort things out and come up with a solution to its problems.

Types of Bankruptcy

Bankruptcy isn't for $500 sitting on a credit card or for routine bills. It's a solution for extreme debt that a company or individual is unable to repay. Specifically, it offers a lifeline when debtors start to face lawsuits, garnished wages, and pending evictions.

What the bankruptcy process actually looks like is determined by the type of filing a business or individual pursues.

The three most popular types are Chapter 7, Chapter 11, and Chapter 13, with names referring to specific sections of the US bankruptcy code. Each type of bankruptcy filing has its own process, although they share many of the same elements.

Chapter 7 is the most common for individuals. It is voluntary or involuntary, permits the debtor to liquidate assets in an orderly way. In Chapter 7, a trustee is appointed, who collects all nonexempt assets of the debtor, sells those assets, and distributes the proceeds to creditors. Individuals, partnerships, and corporations may file for Chapter 7 bankruptcy. Businesses usually file under Chapter 7 when they can't be run profitably, there is no chance of reorganizing, and the business wants to distribute its assets to creditors. There is no minimum or maximum debt limitation for Chapter 7, and the debtor need not be insolvent. If the debtor is an individual, he or she may be entitled to a "discharge" of debts. A debtor cannot dismiss a Chapter 7 case.

It's possible that an individual could make too much money to be eligible for Chapter 7, however. In this case, they may turn to Chapter

13, which lets debtors work on a repayment plan over three- to five-year periods.

In Chapter 7, for example, debtors must first establish their filing eligibility. One requirement is that individuals may not make multiple filings too close together. Filers also must pass an income means test – essentially proving that their monthly income is below their state's median.

Once a debtor has determined that they are eligible, the next step is to begin the paperwork associated with the filing. Most experts recommend that individuals hire a lawyer to help with these proceedings, as they can be complex.

After the paperwork has been turned in, the bankruptcy court verifies what a debtor has submitted, and filers will then go before the court for a meeting to review their claims.

In Chapter 7, filers will sell off assets like family heirlooms or investments to pay back what they owe. If they have debt on large purchases like furniture, they may need to return those items. Once this has been done, or if filers have no qualifying assets to sell, the court can "discharge" or erase the rest of the outstanding debt.

Chapter 11 is a popular option for businesses. It allows companies time to restructure their liabilities and come up with a repayment plan. Companies that have filed are able to remain operating while working through the court process.

It can be voluntary or involuntary, permits the debtor (usually a business) to restructure or reorganize its debt. A trustee is usually not appointed; the debtor is allowed to continue to manage its business. The debtor develops a "plan" outlining how its debts will be repaid. Usually, the plan does not involve "liquidating" assets; rather, a debtor plans on reorganizing its debts so that it can continue to operate, hopefully on a profitable basis.

Individuals, partnerships and corporations may file under Chapter 11. Businesses usually file under Chapter 11 when they are facing a cash flow shortage or temporary downturn in business. Upon confirmation, a Chapter 11 debtor receives a discharge of any debt that arose before confirmation. However, confirmation of a plan does not discharge an individual debtor from certain debts that are exceptions to discharge under the Bankruptcy Code. A debtor cannot dismiss a Chapter 11 case.

Chapter 13 can be used by individuals (including those engaged in business) to restructure or reorganize debt. A debtor "engaged in business" is someone who is self-employed and incurs trade credit in the production of income from that employment. The debtor may continue to operate his or her business in a Chapter 13 case. Partnerships and corporations may not file under Chapter 13.

The debtor proposes a plan that outlines how his or her debts will be repaid. The debtor must devote all of his or her disposable income to payments under the plan for three to five years. To qualify for Chapter 13, a debtor must have regular income; unsecured debts of less than $$336,900; and secured debts of less than $1,010,650. A trustee is appointed in a limited capacity. The debtor receives a discharge when he or she has completed all payments under the plan. Only a debtor may commence a Chapter 13 bankruptcy proceeding. Creditors may not commence an involuntary proceeding under Chapter 13. A debtor may dismiss a Chapter 13 case.

Consequences of Bankruptcy

Because a bankruptcy filing indicates that someone is unable to make payments on their debt, it can lower an individual's credit score by as much as 200 points.

The process also doesn't eliminate all debt. For instance, alimony and child support payments are not eligible for discharge. And, after the Chapter 7 or Chapter 13 process wraps up, debtors could still face foreclosure.

In corporate bankruptcies, common stockholders are the first to suffer. The process prioritizes all other creditors – so if you have stock in a company that files for Chapter 11, your investment is likely going to zero

SEEKING PROFESSIONAL ADVICE

Finding a Retirement Professional

Consider consulting with a financial advisor to optimize your retirement plan. Ensure they are a fiduciary and looking out for your best interest over theirs. A financial advisor can provide personalized advice based on your unique situation and goals. They can also help you navigate tax-efficient investment strategies and retirement withdrawals. As well as ensuring your estate plan aligns with your retirement goals and provides for your heirs.

Many people may hesitate to seek professional financial advice because they assume the cost could outweigh the potential benefits.

However, this common misconception could lead to missed opportunities for financial security and the potential for growing wealth. In fact, working with a financial advisor could potentially add 35%-200% more dollar value to investors' portfolios over a lifetime, depending on multiple unique, individual factors.

Navigating the complexities of retirement investing can be challenging, which is why seeking the guidance of a retirement professional is highly recommended.

Determine what specific services you require, such as financial planning, investment management, or tax advice.

Look for licensed professionals with reputable credentials, such as Certified Financial Planner (CFP) or Chartered Financial Analyst (CFA) designations.

Consider the professional's experience in retirement planning and their track record of helping clients achieve their retirement goals.

Understand their fee structure, whether it's fee-only, fee-based, or commission-based, and choose one that aligns with your preferences. There are some that do not charge fees.

Meet with potential advisors to discuss your goals, ask questions, and assess their communication style and approach.