MoneyWise Presentation Materials

Saving and Investing and Tax and Long-term Planning
Day 2: Modules 3 & 4

Purpose

The purpose of these presentations on personal finance is to help you understand that personal finance is not separate from, but simply part of, the gospel of Jesus Christ. We have been commanded to be wise stewards over the things we have been blessed with. These presentations will help you in that stewardship.

Topics and Assignments

Module 3: Saving and Investing: The Road to Financial Independence

Recommended Readings (on the website at http://personalfinance.byu.edu):

- Online Reading 3. Saving and Investing: the Road to Financial Independence
- Reading 3.1 Charles E. Davis, "A Banker's Dozen: Guidelines for Wise Investing" Ensign, Sept. 1991, 64.
- Reading 3.2 John W. Hardy, "Recognizing—and Avoiding—Bad Investments," Ensign, Sept. 1983, 55.
- MoneyWise/Young Married Manual: Chapter 5. Cash Management
  Chapter 17. Investments 1. Principles   Chapter 18. Investments 2. Application

Tools

- Exhibit 3.1 Couples Case Study
- Exhibit 3.2 A Risk Tolerance Test
- Exhibit 3.3 Roth versus Traditional - Which is Better?
- Exhibit 3.4 Retirement Planning Needs

Module 4: Tax and Long-term Planning: Key Issues

Recommended Readings (on the website at http://personalfinance.byu.edu):

- Online Reading 4. Tax and Long-term Planning: Key Issues
- Reading 4.1 Steven J. Dixon, "Planning Ahead: The Importance of Wills and Trusts," *Ensign*, June 1983, 28.
- Reading 4.2 Dellwyn R. Call "Tax Planning", *Marriott School Magazine*, Fall 2004, pp. 16-21.
- MoneyWise/Young Married Manual: Chapter 4. Tax Planning

Website/Reference Reading

- Free income tax help for BYU students: http://vita.byu.edu
- IRS website is very user friendly and helpful: www.irs.gov

The *MoneyWise Reference Material Manual* and learning outcomes, chapter readings, slide presentations, videos, assignments, and recommended readings are freely available at the BYU Marriott School of Management's Personal Finance website at http://personalfinance.byu.edu (Intermediate Lessons and MoneyWise Financial Workshops).   Please feel free to share this resource with others.

MoneyWise Notes from Day 2

Date:_____________

MoneyWise Workshop

Saving and Investing:
The Road to Financial Independence

Module 3

Sponsored by

H. Taylor Peery Institute of Financial Services

PLAN Provident Living

BYU Marriott School of Management

Discussion Topics

1. Financial Perspectives
2. Investing Basics: Before you start
3. Investing Steps: The Process

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1. Financial Perspectives: Spiritual Matters

- Money teaches gospel principles
  - Money is a tool to teach us many things, including the principles of sacrifice, discipline, law of the harvest and work
- Learning to manage money wisely can increase our freedom, bring peace and happiness into our lives, and teach us eternal gospel principles
  - President Ezra Taft Benson said: “The Lord desires his Saints to be free and independent in the critical days ahead. But no man is truly free who is in financial bondage.” (“Prepare Ye,” ***Ensign,*** Jan. 1974, p. 69).

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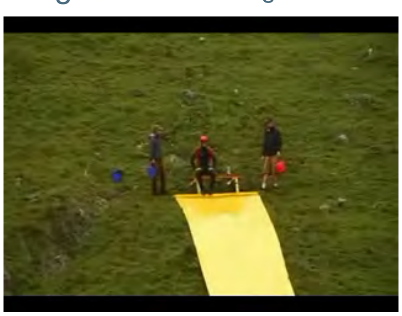
2. Investing Basics: Is It The Same As Saving?

- Investing is how your savings are put to work!
- Investing helps you become self-sufficient
- Investing is a function of how much you save—rule of thumb for your savings rate:
  - Remember savings is a function of budgeting!
    - 0-4% savings = high risk of wipeout
    - 5-9% savings = better but probably paycheck to paycheck
    - 10-20% = moderate to extremely comfortable lifestyle
- Invest to stay ahead of inflation
  - $1 million today is worth only $355,383 in 35 years (i=3%)
  - Rule of 72

Investing Basics: Taking Risks



http://www.youtube.com/watch?v=OV9mo_TuG9g

Investing Basics: Characteristics of Millionaires

- 80% first generation
- 80% college grads, 38% master’s
- Achieve cash flow through frugality
- Invest 20% of income into diverse portfolio
- Completely self-sufficient
- Achieved through deliberate planning
- Inexpensive suits, used cars

Source: Stanley & Danko, ***The Millionaire Next Door***

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Investing Basics: The importance of starting early

- Bill—age 25
  - Assumes a 7% return
  - Invests $4,500 a year for 10 years
  - Total invested is $45,000
  - Has $62,174 by age 35
  - Stops contributing at age 35
  - He has $337,445 at age 60
- Phil—age 25
  - Waits 10 years to start investing
  - Invests $4,500 for 25 years
  - Total invested is $112,500
  - He has $284,621 at age 60
  - Phil has $52,825 less than Bill at retirement

Perspective • Investing Basics • Investing Steps 7

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Investing: Investment Plan Vehicles (the Shopping Cart)

Plan Name	Tax Status	2014 Annual Maximum Contribution	Intended For
401(k), Roth 401(k)	Pre-tax After-tax	$17,500 $23,000 if over age 50	Employees who are offered a plan
403(b) Roth 403(b)	Pre-tax After-tax	$17,500 $23,000 if over age 50	Employees of non-profits and tax-exempt organizations
"Traditional" IRA	Pre-tax subject to income limitations	$5,500 per person $6,500 if over age 50	Individuals
Roth IRA	After-tax, but earnings are tax-free after 5 years in the plan	$5,500 per person $6,500 if over age 50	Individuals
529 Plan	After-tax	$397,000 per child (Utah)	Individual Education

Perspective • Investing Basics • Investing Steps 8

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Investing: The Investments (the Groceries)

- Most common investments for young couples starting out
  - Cash instruments (e.g., savings, money markets, CDs, MMDAs)
  - Mutual Funds—pool your money to buy securities and reduce risk
- Investments to consider later
  - Bonds—represent debt owed to you
  - Stocks—represent ownership
  - Real assets (real property other than your home)

Perspective • Investing Basics • Investing Steps 9

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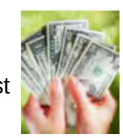
Investing: Cash Management Assets (Savings accounts, CD's, money market accounts, etc.)

- Low-risk and predictable—savings accounts.
- Ideal for short-term goals and situations where little risk can be tolerated
- Have long-term risk due to inflation!
- Know what fees, maturities, minimums, and withdrawal options exist
  - Bankrate.com is a good source for rate information and comparison



Perspective • Investing Basics • Investing Steps 10

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Investing: Mutual funds

- Most funds used for intermediate to long-range goals
- Pool your money with others to buy cash instruments, bonds, stocks and real assets
- Most funds would instantly diversify your money and provide professional manager
- Watch fees, taxes, loads (sales commissions), strategy, liquidity, history
- Asset allocation funds and Lifecycle funds often ideal for the beginning investor
- Have varying degrees of risk

Perspective • Investing Basics • Investing Steps 11

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Investing: Before you start!

- If you can you answer these four questions with a "yes", you are ready to begin investing!
  - 1. Are your priorities in order and are you square with the Lord?
  - 2. Do you have "adequate" life and health insurance?
  - 3. Are you out of high-interest credit card and consumer debt?
  - 4. Do you know your personal goals, live on a budget and have a written investment plan?

See investment plan example.

Source: Prof. Bryan Sudweeks, BYU Marriott School

Perspective • Investing Basics • Investing Steps 12

Investing: Four steps to building your investment portfolio

Steps and Goals	Investment Assets
1. Build your Emergency Fund (EF) and Food Storage	Cash Instruments (savings, checking, CDs, MMMFs, etc.)
2. Build a Core Strategy (for those starting out who already have their EF) to give access to your major equity asset classes	Mutual Funds, Broad market and index funds (e.g. S&P 500) or life-cycle funds
3. Broaden and diversify your portfolio (once you have your EF and a Core strategy)	Mutual Funds, Add more funds following different asset classes, i.e., small cap, international, REITs, etc.
4. You may (or may not) want to add opportunistic investments (many successful investors never do this)!	Individual Assets. Specialized and sector funds, individual stocks and bonds, real estate, etc. (most risky)

Investing: Your Emergency Fund

- Before you begin, your first investment priority is 3–6 months of living expenses in liquid assets
  - It could be more depending on stability of your monthly income
- Suitable investments for your Emergency Fund
  - Unknown time horizon means you shouldn't take risk
  - Short-term investments only
    - Bank or credit union savings account
    - Bank or credit union money market account
    - Money market fund
      - Minimum initial investment may be $2,500 to $3,000
      - Internet MM accounts may pay higher interest rates

Your Emergency Fund: Financial Priority 5

- Take two minutes to talk as a group or couple
  - What is the importance of your emergency fund?
    - How much of an emergency fund will you have? (generally 3-6 months is recommended)
    - What is your plan to save for your emergency fund?
    - Write these on your "Financial Priorities" sheet
  - Remember
    - Always assume the spouse is doing their very best
    - You and your spouse are equal partners

Investing: Food Storage

- Along with building your Emergency Fund, ***begin*** building your food storage
  - Use wisdom in your expenditures
    - Start to build your first aid and 72-hour kits
    - Start to build your food storage and other emergency essentials

www.providentliving.org

http://www.lds.org/topic/self-reliance/

3. Investing Steps: The Process

1. Budget and Save
   - You cannot invest without savings
2. Determine what you need for your goals
   - Time horizon, risk tolerance, and investment vehicles
3. Select good people to work with
   - Invest low-cost with good people
4. Choose your investments
   - Choose low cost, low tax, diversified assets
5. Get the match and automate investing
   - Make investing contributions automatic
6. Monitor your plan

Investment Step 1: Budget and Save

- Budget and Save
  - We recommend 10% to Tithing, 10-20% (10% minimum) to yourself, and 70-80% to your budget
- Turn saving into investing—prioritize goals
  - Emergency fund
  - Pay off consumer debt
  - Saving for specific purchase—house
  - Retirement savings
  - College and mission funds

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Investment Step 2: Determine what investment characteristics you need for your goals

- What characteristics do you need?
  - Time horizon (when will you need the money)
  - Risk tolerance (how much risk will you take)
    - Conservative, moderate, aggressive
    - Many web sites offer a short risk tolerance test
  - Type of investment vehicle (account) to use
    - Which investment vehicle will help you attain your goals the fastest?

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Investment Step 3: Select a reputable company

For company retirement plans (401k, 403b, etc.)

- Your firm has already chosen the company

For investing outside of company plans:

- We recommend using no-load mutual funds
  - Use no-load, low cost, and tax efficient funds
- Some of the larger Mutual Fund Companies are
  - Vanguard (800) 662-7447
  - T Rowe Price (800) 638-5660
  - Fidelity (800) 544-7272

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Investment Step 3: (continued)

- Invest only with high quality, licensed, and reputable people and institutions
  - Are they credentialed?
    - Are they a CPA, CFA, CFP?
    - Securities licenses (Series 6/7) are not credentials
  - What products can and do they sell?
    - How are they compensated?
    - What are the expenses of the investment?
  - How much experience do they have?
    - How good are the references?

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Investment Step 4: Choose your investment assets

- Follow the principles of successful investing
  - Do not borrow to invest
  - Invest low cost and tax efficiently
  - Limit turnover and transactions costs
    - Don't try to time the market
    - Use a buy and hold strategy and limit trading
  - Stay diversified (don't put all your eggs in one basket)
    - Invest in multiple asset classes
  - Don't try to beat the market
  - Do not invest in individual assets and sector funds until your asset size is greater than $500,000, if at all!

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Investment Step 5: Get the match and automate your investment program

- Find out if your company provides a match for retirement saving
  - It is free money - get this money first!
- Set your savings goal and then use your institution's automatic features to make it happen
  - Dollar-cost average—set dollar amount to invest regularly over set period—i.e. $100 month. Lowers your average cost of investing!
- Diversify—you can do that with one fund. Asset allocation (or lifecycle) funds are good to start out
  - Diversification is your key defense against risk
- Know what you own and why (Peter Lynch, famous fund manager)
  - Research—helpful websites (smartmoney.com, morningstar.com, cnnfn.com).
- Manage advice—There are lots of ideas but not all are right for you
- Stick to your guns (stay in the market)!
  - Timing the market (moving large blocks in an out), or not continuing to save and invest hinders your progress.

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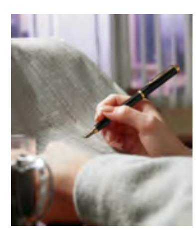
Investment Step 6: Monitor your plan

- Monitor performance versus benchmarks
- Review investments on regular basis—at least annually
- Ensure investment still matches your goals, time frame, and risk tolerance, and rebalance as needed
- Follow the principles of investing
- When selling, see what tax strategies are available to you



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Saving for Long-term Goals: Financial Priority 6

- Take two minutes to talk as a group or couple
  - What is the importance of saving for retirement?
    - What are your plans to save for your retirement and perhaps mission and education costs for your children?
    - What can you do to start now?
    - Write these on your “Financial Priorities” sheet
  - Remember
    - You and your spouse are equal partners
    - Always assume the spouse is doing their very best

Perspective • Investing Basics • Investing Steps 25

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Case Scenario *

*Lots of assumptions here—including rates of return. Be careful in applying this to your situation

John
- 25 years old, married with 1 child
- New job—$36,000 a year (nets $30,000 a year, or $2,500/month)
- Has 401k — 3% company match
- 10% saver, with $1,000 saved
- Goals in order of importance =
  - Emergency Funds ($7.5k)
  - House Savings ($10k)
  - Retirement ($1mn), and
  - Child’s Education ($65k)

Perspective • Investing Basics • Investing Steps 26

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Case Scenario *

*Save 10%, accomplish goals 1 & 2. Save 15%, accomplish goals 1 & 2 & 3. Save 20%, accomplish all goals

Goal 1 = $7,500 Emergency Savings, 5 years
* $100/month @ 3% = $6,465, add 1k saved = $**7,465**

Goal 2 = $10,000 House Savings, 7 years
* $100/month @ 4%, 7 years = $**9,675**.

Goal 3 = $1 Million Retirement Savings, 40 years
* $196 + $90 match = $286/month @8% = $998,428.

Goal 4 = $65,000 Education Savings, 18 years
* $100/month, 18 years @ 8% = $48,008
* $100/month, 10 years @ 8% = $18,295

$**66,303**

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Summary

1. Financial Perspectives
   - Money teaches gospel principles
     - Money is a tool to teach us many things, including the principles of sacrifice, discipline, law of the harvest and work
   - Learning to manage money wisely can:
     - Increase our freedom, bring peace and happiness into our lives, and teach us eternal gospel principles

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Summary

2. Investing Basics
   - Savings is not investing
   - Investment is a function of how much you save
   - Choose wisely your investment vehicles (your shopping cart)
   - Choose wisely your financial assets (the groceries)
   - Know what to do before you start investing
   - Know how to build your investment portfolio

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Summary

3. Investing Steps: the Process
   1. Budget and save
   2. Determine what you need for your goals
   3. Select good people to work with
   4. Choose your investments
   5. Get the match and automate investing
   6. Monitor your plan and follow the principles

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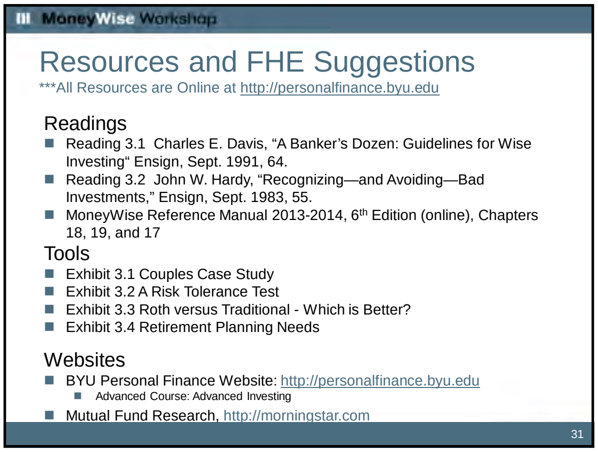
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Resources and FHE Suggestions
***All Resources are Online at http://personalfinance.byu.edu
Readings
Reading 3.1 Charles E. Davis, "A Banker's Dozen: Guidelines for Wise Investing" Ensign, Sept. 1991, 64.
Reading 3.2 John W. Hardy, "Recognizing—and Avoiding—Bad Investments," Ensign, Sept. 1983, 55.
MoneyWise Reference Manual 2013-2014, 6th Edition (online), Chapters 18, 19, and 17
Tools
Exhibit 3.1 Couples Case Study
Exhibit 3.2 A Risk Tolerance Test
Exhibit 3.3 Roth versus Traditional - Which is Better?
Exhibit 3.4 Retirement Planning Needs
Websites
BYU Personal Finance Website: http://personalfinance.byu.edu
Advanced Course: Advanced Investing
Mutual Fund Research, http://morningstar.com
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MoneyWise Workshop
Saving and Investing:
The Road to Financial Independence
Module 3
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PLAN Provident Living Associates Network
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MoneyWise Workshop

Tax and Long-term Planning:
Key Issues

Module 4

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Discussion Topics

1. Financial Perspectives: Planning
2. Learn the Tax Rules
3. Credits
4. Deductions
5. Shelters & Savings
6. Long-term Planning: Estates and Wills

Perspective • Rules • Credits • Deductions • Shelters & Savings • Estates 2

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1. Financial Perspectives: Planning

President Ezra Taft Benson counseled:

Plan for your financial future. As you move through life toward retirement and the decades which follow, we invite all . . . to plan frugally for the years following full-time employment. Be even more cautious . . .about "get-rich" schemes, mortgaging homes, or investing in uncertain ventures. Proceed cautiously so that the planning of a lifetime is not disrupted by one or a series of poor financial decisions. ***Plan your financial future early; then follow the plan.***

(italics added, "To the Elderly in the Church," ***Ensign,*** Nov. 1989, 4).

Perspective • Rules • Credits • Deductions • Shelters & Savings • Estates 3

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Financial Perspectives: Planning

Elder Marvin J. Ashton stated:

Some claim living within a budget takes the fun out of life and is too restrictive. But those who avoid the inconvenience of a budget must suffer the pains of living outside of it. The Church operates within a budget. Successful business functions within a budget. Families free of crushing debt have a budget. ***Budget guidelines encourage better performance and management***.

(italics added, Marvin J. Ashton, "It's No Fun Being Poor," ***Ensign,*** Sept. 1982, 72.)

Perspective • Rules • Credits • Deductions • Shelters & Savings • Estates 4

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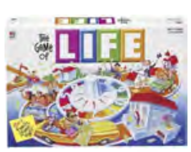
Learn the Tax Rules:
To Win the Game You Must Know the Rules

- "Everybody talks about the weather, but nobody does anything about it." - Charles Dudley Warner
  - Taxes are not like the weather, you ***can*** do something about it
- Tax planning is a year-round process
  - Tax filing is not optional if you have income



Perspective • **Rules** • Credits • Deductions • Shelters & Savings • Estates 5

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Tax Rules: The Tax Process Simplified

1. Start with Gross Income from all sources (wages, interest) less exclusions and deferrals = Gross Income
2. Subtract adjustments to Gross Income = Adjusted Gross Income (AGI)
3. Subtract the greater of Standard or Itemized Deductions
4. Minus Exemptions = Taxable Income
5. Look up tax on tax table = Tentative Tax
6. Minus Credits = Total Tax Owed
7. Minus Taxes already Paid = Balance Due or Amount of Refund

Perspective • **Rules** • Credits • Deductions • Shelters & Savings • Estates 6

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Rules: Simplified Tax Format

Gross Income (Wages, interest, etc.)
Minus: "Above the line" Adjustments
= **Adjusted Gross Income (AGI)**
Minus: Itemized or Standard Deductions
Minus: Personal Exemptions ($3,950/each in 2014)
= **Taxable Income**
Times: Tax Rate (10% / 15% / 25% / 28%/ 33%/ 35%)
= **Tax Owed**
Minus: Credits
Minus: Taxes Withheld from Wages/Prepaid
= **Refund/Amount Owed**

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Tax Rules: Taxing Terms

- Tax deductible: Subtracted from your income on your tax return before calculating taxes
- Pretax: Subtracted from your income before the amount reported on your tax return
- Tax deferred: Taxed later rather than right now
- Tax credit: A dollar for dollar reduction of your taxes
- After tax: Subtracted from income after calculating taxes
- Tax free: Not taxed at all

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Tax Rules Example: Tax Deduction versus Tax Credit in 2014

	Jack Deduction	Jill Credit
Income	$35,000	$35,000
Minus: Adjustments	1,000	0
= **Adjusted Gross Income (AGI)**	**$34,000**	**$35,000**
Minus: Standard Deductions	12,400	12,400
Minus: Personal Exemptions	7,900	7,900
= **Taxable Income**	**$13,700**	**$14,700**
Times: Tax Rate (10%)	x 10%	x 10%
= **Tax Owed**	**$1,370**	**$1,470**
Minus: Credits	0	1,000
Minus: Taxes Withheld	$1,500	$1,500
= **Refund**	**$130**	**$1,030**

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Tax Rules: Uncle Sam's Big Plans for You

The U.S. tax system isn't just for generating revenue

- Tax incentives drive social objectives
  - Home ownership
  - Education
  - Charity
  - Retirement savings
  - Welfare

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Tax Rules: Tax Withholding

- The IRS requires employers to "withhold" taxes
  - Social Security, Federal Income Tax, State Income Tax
- Withholding federal and state taxes ***prepays*** any amount you would owe April 15th
- Employees decide how much to have withheld
  - Form W-4 is completed when hired
  - W-4 can be updated at any time
  - The more exemptions you claim, the less tax is withheld
- Tip: Have just enough withheld to cover taxes owed
- See IRS Withholding Calculator at http://www.irs.gov/individuals/article/0,,id=96196,00.html

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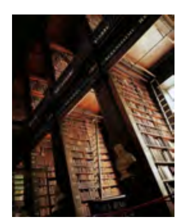
Credits: A Social Tool



- Credits help support the governments social agenda. There are credits for:
  - Education
  - Savers
  - Children
  - Dependent care
  - Earned income

Credits: Education (AOC and LLC)

- American Opportunity Credit (AOC)
  - First four years of post-secondary education
  - Qualified expenses include tuition, fees, and other "course materials" (i.e., books, supplies and equipment)
    - $2,500 maximum per student, 100% of first $2,000 and 25% of the next $2,000
    - Payments made with loans qualify, but not with scholarships or Pell grants
    - Maximum credit is per student
    - 40% of credit is refundable (can receive up to $1,000 even if owe no taxes)
- Lifetime Learning Credit (LLC)
  - Must choose either AOC or LLC, not both
  - 20% of first $10,000 per family

See IRS Publication 970, http://www.irs.gov/publications/p970/index.html

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Credits: Education Incentives

- Education expense deduction
  - Above-the-line adjustment up to $4,000
  - Can't claim with education credits
- Student loan interest deduction
  - More liberal definition of qualified expenses
    - Tuition and fees
    - Room and board (generally)
    - Books, supplies, and equipment, transportation
  - Up to $2,500 in interest
  - Above-the-line adjustment to income
  - Phased out for MAGI income from $130,000-$160,000 in 2014

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Credits: Savers Credit

- Nonrefundable credit, percentage based on AGI (2014)
- Full-time students ineligible, but spouses eligible
- Credit is 10–50% of first $2,000 contributed to 401(k), IRA, or Roth IRA
  - Percentage depends on AGI

Credit Rate	Joint Filers AGI
50%	$0 - $36,000
20%	$36,001 - $39,000
10%	$39,001 - $60,000
0%	$60,001 +

See IRS Form 8880

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Credits: More credits

- Child tax credit
  - $1,000 per child under age 17
- Dependent care credit
  - Up to $3,000 of qualifying expenses per child under age 13
  - Max of $6,000
  - Credit is 20–35% of expenses depending on income
  - Day care must be so both spouses can work
    - Exception if spouse is full-time student

  See IRS Publication 503, http://www.irs.gov/pub/irs-pdf/p503.pdf
- Adoption credit
- Residential energy credit

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Credits: Earned Income Credit

- Based on 2014 earned income, number of children and married filing jointly (MFJ)
  - >2 children and earned less than $52,427 (Max $6,431)
  - 2 children and earned less than $49,186 (Max $5,460)
  - 1 child and earned less than $43,941 (Max $3,305)
  - No child and earned less than $20,020 (Max $496)
- Investment income of $3,350 or less
- Must be age 25 or have a child

See IRS Publication 596 http://www.irs.gov/publications/p596/index.html

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4. Deductions: Second Prize

- Deductions only benefit you to the extent they exceed the standard deduction
  - The standard deduction in 2014 is $12,400 MFJ
  - Take the higher of your itemized versus standard deduction
- Major deductions include:
  - Mortgage and home equity loan interest
  - Charitable contributions (tithing, DI, etc.)
  - Property and state taxes
  - Excessive medical expenses (amount over 7.5% of income)

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5. Shelters and Savings: Company and Individual Plans

- Best way to beat the tax game!
  - Understand the traditional and Roth difference
  - Contribute enough to get the full employer match
    - You can't beat a 100%, risk-free, instant return
  - Contribute more if you prefer the traditional vehicles:
    - Contribute to your traditional 401k
    - The only way you ever save is through payroll deduction
  - If you prefer Roth vehicles:
    - Contribute to your Roth IRAs, with additional in the traditional vehicles
    - You can contribute up to $5,500 in either an IRA or Roth IRA
    - You can contribute up to $17,500 in a Roth or traditional 401k/403b

Perspective • Rules • Credits • Deductions • **Shelters & Savings** • Estates 19

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Shelters and Savings: College Savings Plans

- The decision to contribute to your children's education is your decision
  - You're not a bad parent if you're not saving to put your kids through law school
    - Prioritize this somewhere after your own retirement planning and debt elimination (including mortgage)
    - Retirement for parents is a higher priority than the children's education savings
- Talk to your kids about what they can expect
  - Let them know early if they will need a scholarship or loans to afford school

Perspective • Rules • Credits • Deductions • **Shelters & Savings** • Estates 20

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Shelters and Savings: Tax-favored Education Savings Options

- 529 plans
  - Each state has teamed up with an investment company to create their own plan
  - You can choose any state's
    - Utah's is highly rated (www.uesp.org)
    - State income tax credit of 5% for contributions up to $3,720 per beneficiary in 2014 (MFJ)
- Prepaid tuition programs
  - Good idea if you can find one
- Coverdell ESA ("Education IRAs")
  - Up to $2,000 per year, non-deductible
  - Can be used for qualified elementary, secondary, postsecondary

Perspective • Rules • Credits • Deductions • **Shelters & Savings** • Estates 21

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6. Long-term Planning: Estates and Wills

- Children's custody is your primary concern
  - Without a valid will, courts must decide on guardian for your children
- Dividing your assets is a secondary concern
  - Most assets don't fall under the will
    - Retirement accounts and insurance policies have named beneficiaries and contingents
    - Homes, vehicles, and joint accounts transfer to the surviving owner ("joint tenancy with right of survivorship")

Perspective • Rules • Credits • Deductions • Shelters & Savings • **Estates** 22

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Estate Planning and Wills: A Simple Will

- Three alternatives
  - Holographic will for students with simple wills
    - Biggest advantage is you can do it ***right now!***
    - Handwritten wills don't need witness signatures
      - State that you intend this to be your will
      - Name a guardian for children if you and spouse should die
      - List any specific bequests, with remainder to spouse
  - Will preparation software
    - Appropriate if situation is uncomplicated
    - Recommendations in ***Personal Finance for Dummies***
    - Can also help with power of attorney and health care
  - Attorney
    - Trusts, individually titled assets, own business, divorce

Perspective • Rules • Credits • Deductions • Shelters & Savings • **Estates** 23

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Summary

1. Financial Perspectives: Planning
   - Plan your financial life early then live your plan
   - Develop and live on a budget
   - Budgeting helps us to be wise and better stewards
2. Learn the Tax Rules
   - Understand the Federal Tax Process
   - Understand Taxing Terms
   - Know the difference between a deduction and credit
   - Understand Tax Withholding

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Summary

3. Credits
   - Understand Education Credits / Incentives
   - Understand Savers and Retirement Savings Credit
   - Understand other credits including Child, Dependent Care, and Earned Income Credits
4. Deductions
   - Understand the different between the standard and itemized deduction
   - Key deductions are for mortgage and home equity loan interest, charitable contributions, non-cash contributions, and medical deductions

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Summary

5. Shelters and Saving Plans
   - Company and Individual Retirement Plans
   - Tax-favored Education Savings Options
6. Long-term Planning: Estates and Wills
   - Custody of your Children
   - Dividing Your assets
   - Three Alternatives

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FHE Suggestions

- Review list of tax credits and deductions and discuss whether you're taking full advantage of "the tax game"
- Discuss whether you need to change your withholdings to help with budgeting
- Get two sheets of notebook paper and have each spouse write a holographic will, sign and date it
- Decide whether you need an attorney or can use will preparation software to create a more permanent will

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Resources

***All Resources are Online at http://personalfinance.byu.edu

Readings

- Reading 4.1 Steven J. Dixon, "Planning Ahead: The Importance of Wills and Trusts," ***Ensign***, June 1983, 28.
- Reading 4.2 Dellwyn R. Call "Tax Planning", ***Marriott School Magazine,*** Fall 2004, pp. 16-21. (The numbers are outdated but the principles are still sound and useful.)
- MoneyWise Reference Manual 2013-2014 (online)

Websites

- BYU Personal Finance Website: http://personalfinance.byu.edu
  - Advanced Lesson: Tax Planning
- Free income tax help: http://vita.byu.edu
- IRS website is very user friendly and helpful: www.irs.gov

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Tax and Long-term Planning:
Key Issues

Module 4

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Date:____________