Adults’ Version

Instructor guide
Welcome to Wells Fargo’s *Hands on Banking*® program!

This fun, interactive, and engaging financial education program is designed for both self-paced, individual learning and group use. These Instructor Guides will help you share this valuable program with groups of any size.

In these guides, you’ll find everything you need to lead participants through real-life scenarios, group discussions, and activities that will encourage them to apply these lessons to their daily lives.

By sharing the *Hands on Banking* program with others, you’ll help them to take control of their finances and build a brighter financial future.

**Program Overview**

The *Hands on Banking* program covers all the basics of smart money management. The curriculum is designed for four age groups: Adults, Young Adults (ages 15–21), Teens (grades 6–8), and Kids (grades 4 and 5).

The *Hands on Banking* program is an easy and enjoyable way to teach and learn the essentials of financial education: the basics of bank services, the importance of saving, smart money management, using credit responsibly, investing, wealth building, and more. Whether it’s opening a checking account, avoiding identity theft, paying for college, buying a home, or starting a small business, the *Hands on Banking* program provides real-world skills and knowledge everyone can use.

**Using the Instructor Guides**

The Instructor Guides can be used alone or as an adjunct to the online/CD-ROM program; however, we strongly encourage you to review the program online or request a free CD-ROM. Even if participants will not experience the program online, gaining familiarity with the online program will help you present it more effectively. The most up to date content can always be found online at [www.handsonbanking.org](http://www.handsonbanking.org).

Each topic in the *Hands on Banking* program has its own Instructor Guide which follows the organization of the online program and includes much of the same content. The Adults’ version of the *Hands on Banking* program includes six topics:

3. Protect Yourself Financially.
4. Using Credit to Your Advantage.
5. Planning Your Future.

Each Instructor Guide includes:

- A glossary of all the relevant terms introduced in the topic.
- A lesson introduction which includes:
  - An overview.
  - Learning objectives.
  - Sample discussion questions to start the lesson.
  - “The Basics”—a list of bullet points outlining the key concepts of the lesson.
- A lesson summary of all the key concepts of the lesson.
- Activities, quizzes, discussion questions, handouts and important tips for key concepts.
- A topic summary that lists all the major concepts of the topic.
- Additional activities designed to extend the concepts presented in the topic to the real world.
- A Library Resource section that includes additional reference materials and handouts.
Lesson Concepts and Icons
Each lesson of a topic will present several key concepts. These concepts are introduced to your participants in a variety of ways which are represented in the guides by these icons.

**Activity**
An activity usually involves some sort of class participation, whether it is a matching game, a fill in the blank exercise, or worksheet completion. Typically after an activity you will have the opportunity to lead a discussion.

**Discussion**
Discussions allow you to introduce key concepts while involving your participants in the conversation and making the information relevant to them. In some places, sample discussion questions are included to help you guide the discussion.

**Quiz**
Throughout all the topics, there are short quizzes designed to start discussions or quickly test participants' knowledge of certain concepts.

**Handout**
All of the Instructor Guides include handouts that are designed as a resource for your participants to use outside the classroom in their daily lives. For example, one handout includes a list of web links for participants to use as they start, grow and manage their small business.

**Activity and Discussion Handouts**
Sometimes during a lesson, an activity or discussion will also use a handout to teach key concepts. In these cases the Handout icon is placed below the Activity or Discussion icon.

**Transition**
The Transition icon will let you know when the next concept is related to or follows up on the concept you’re presently discussing or covering with your participants.

**Library Articles**
The online/CD-ROM version of the Hands on Banking program includes a vast library with relevant articles, checklists, and worksheets for each topic and lesson.

Relevant library articles are recommended at the end of each lesson. These articles provide additional information to use in teaching key concepts (look for the library icon as seen above). We encourage you to review the full library selection online or on the CD-ROM. Feel free to enrich your sessions with additional articles from the library.

You can photocopy these articles and distribute them to participants to start a discussion, or you may want to give them away as handouts for participants to read on their own time. These library articles expand the topic content.
Pre-and Post-tests for Adults and Young Adults
When you use the Adults’ and/or Young Adults’ courses with a group or in a classroom setting, we invite you to use the Hands on Banking pre and post test we’ve developed. They can be accessed in the “Instructional Resources” section of handsonbanking.org.

- The Pre-test will help you to determine what topics to emphasis with your group.
- The Post-test will help you assess participants progress.

We'd like to request that you report the anonymous results of these tests to our Hands on Banking team. Your input will help us to continue to improve the program.

How to Access the Interactive Program
The Hands on Banking program is available free of charge in both English and Spanish.

- Available for free on CD-ROM—all four age groups are included.
- You may order a CD at HOBCD@wellsfargo.com. There is no charge for small quantities of the CD-ROM. Please email for information regarding high-volume requests. Allow two weeks for delivery.

Once again, Thank You!
Thank you for sharing these valuable financial education programs with students and adults in our communities. As an instructor, your training and guidance will provide others with the knowledge and skills they need for a brighter financial future.

We welcome your comments and suggestions for future versions of the Hands on Banking curriculum and the Instructor Guides. And, we would very much like to hear your success stories. Please contact us via email at HOBinfo@wellsfargo.com.
Topic 5 — Planning Your Future

Planning Your Future

Topic Overview
If your participants are ready to start investing or would like to formulate a strategy for retirement, this topic can help. Participants will discover guidelines for smart saving and investing, the basics of building and preserving wealth, and how to create the financial future they've been dreaming of.

This topic includes nine lessons:

1. Your goals
2. Investing basics
3. How to get started with investing
4. Your portfolio
5. Retirement basics
6. Making retirement work for you
7. Wealth building
8. Preserving your wealth
9. Recap

These lessons include a number of hands-on participant activities. Use these activities to help simulate real-world scenarios and activities with your participants.

This instructor guide is based on and follows the structure of the online Hands on Banking® program. We invite you to use and experience the online program as it is an excellent resource that will support your instructional efforts and enhance your participants’ experience. It includes a variety of interactive lessons and many helpful resource library articles to augment this guide. Visit www.handsonbanking.org to access the program. Should you require a CD ROM to access the program you may request a free copy at HOBCD@wellsfargo.com.
# Table of Contents

**Topic Overview** ................................................................................................................................. 1  
**Glossary** .............................................................................................................................................. 4  
**Lesson 1: Your Goals** ............................................................................................................................. 9  
  - What Are You Working Toward? Activity (Instructor Copy) ................................................................. 10  
  - Lesson Summary .................................................................................................................................... 13  
**Lesson 2: Investing Basics** ...................................................................................................................... 14  
  - Types of Investments (Instructor Copy) ................................................................................................. 15  
  - Saving vs. Investing Activity (Instructor Copy) .................................................................................... 19  
  - Inflation Erodes Purchasing Power ....................................................................................................... 22  
  - Compounding Grows Money .................................................................................................................. 23  
  - The Rule of 72 Activity (Instructor Copy) ............................................................................................. 24  
  - Lesson Summary .................................................................................................................................... 26  
**Lesson 3: How to Get Started With Investing** ......................................................................................... 27  
  - Ready To Invest? Activity ....................................................................................................................... 28  
  - How to Get Started ............................................................................................................................... 29  
  - Guidelines for Smart Investing .............................................................................................................. 30  
  - Lesson Summary .................................................................................................................................... 34  
**Lesson 4: Your Portfolio** ......................................................................................................................... 35  
  - Managing Your Portfolio Activity (Instructor Copy) ............................................................................. 36  
  - Matching Investments to Your Situation Activity (Instructor Copy) ..................................................... 40  
  - Your portfolio: Conservative or Aggressive? ......................................................................................... 42  
  - Lesson Summary .................................................................................................................................... 43  
**Lesson 5: Retirement Basics** ................................................................................................................... 44  
  - Retirement is as Individual As You Are .................................................................................................. 45  
  - How Much Money Will You Need To Retire Quiz? (Instructor Copy) ................................................. 46  
  - Retirement Money: Six Common Sources Activity (Instructor Copy) .................................................. 48  
  - The 4% Rule (Instructor Copy) ............................................................................................................... 51  
  - Types of Retirement Plans Activity (Instructor Copy) ........................................................................... 53  
  - Types of Retirement Plans ...................................................................................................................... 56  
  - Lesson Summary .................................................................................................................................... 57
# Topic 5 — Planning Your Future

## Instructor’s Guide — Adults

### Table of Contents

<table>
<thead>
<tr>
<th>Lesson</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lesson 6: Making Retirement Work For You</td>
<td>58</td>
</tr>
<tr>
<td>Build a Retirement Strategy Team Activity</td>
<td>59</td>
</tr>
<tr>
<td>Ask Your Team For Guidance Activity</td>
<td>61</td>
</tr>
<tr>
<td>Ask Your Team For Guidance Activity</td>
<td>62</td>
</tr>
<tr>
<td>Getting Ready to Retire Activity</td>
<td>63</td>
</tr>
<tr>
<td>Determine the Money You’ll Need Activity</td>
<td>65</td>
</tr>
<tr>
<td>Closing the Retirement Money Gap</td>
<td>67</td>
</tr>
<tr>
<td>Scenario: Painting a Picture of Retirement Activity</td>
<td>69</td>
</tr>
<tr>
<td>Lesson Summary</td>
<td>71</td>
</tr>
<tr>
<td>Lesson 7: Wealth Building</td>
<td>72</td>
</tr>
<tr>
<td>What is Wealth-Building? (Instructor Copy)</td>
<td>73</td>
</tr>
<tr>
<td>The Wealth-Building Pyramid Activity</td>
<td>74</td>
</tr>
<tr>
<td>The Three Pillars of Wealth-Building</td>
<td>76</td>
</tr>
<tr>
<td>Lesson Summary</td>
<td>78</td>
</tr>
<tr>
<td>Lesson 8: Preserving Your Wealth</td>
<td>79</td>
</tr>
<tr>
<td>Protect Your Assets (Instructor Copy)</td>
<td>80</td>
</tr>
<tr>
<td>The Value of Insurance (Instructor Copy)</td>
<td>82</td>
</tr>
<tr>
<td>The Value of Insurance</td>
<td>84</td>
</tr>
<tr>
<td>The Growing Cost of Health Care</td>
<td>86</td>
</tr>
<tr>
<td>Three Plans For Your Future Activity</td>
<td>88</td>
</tr>
<tr>
<td>Lesson Summary</td>
<td>90</td>
</tr>
<tr>
<td>Topic Summary</td>
<td>91</td>
</tr>
<tr>
<td>Additional Activities</td>
<td>91</td>
</tr>
<tr>
<td>Appendix</td>
<td>92</td>
</tr>
</tbody>
</table>
Glossary

Instructor note:
The Glossary contains definitions and descriptions of valuable terms and phrases related to this topic. Encourage your participants to use the Glossary during and after the class to become more familiar and comfortable with the terminology.

Photocopy the glossary on the next page and hand it out to your participants.
Topic 5 — Planning Your Future

Glossary

401(k) plan A flexible retirement plan for businesses with employees. Investors in the plan don't have to pay taxes on the income they invest until they withdraw the funds at retirement age.

Asset allocation The division of an investment portfolio across various types of securities, such as mutual funds, stocks and bonds, in an effort to help reduce risks.

Assets Anything of value owned by a person or company. For example, a person's assets might include cash, a house, a car, and stocks. A business's assets might include cash, equipment, and inventory.

Bond An investment offered to the public by a corporation, the U.S. Government, or a city. A bond pays interest annually and is payable in full at a specified date. Bonds are rated, and the rating indicates their probability of default.

Capital The assets a borrower owns, for example a car, or cash in a savings account minus your liabilities. If a borrower is unable to make his or her loan payments, a lender might use these assets to pay the debt. Capital is also known as collateral or assets.

Capital gain The dollar amount by which an asset's selling price exceeds its initial purchase price. For example, if you buy a stock for $4 per share and sell it for $7 per share, your capital gain is $3 per share.

Capital loss The decrease in value of an investment or asset. The opposite of capital gain.

Certificates of Deposit (CDs) A bank account in which you agree to keep the money for a specified period of time, usually anywhere from three months to several years. As a result, this account usually offers higher rates of return than a savings account. Money removed before the agreed upon date is subject to an early withdrawal penalty. The account pays interest on the deposit and is FDIC-insured. Banks issue an actual certificate for a CD account. If no certificate is issued, the account is known instead as a “time deposit.”

Defined Benefit Plan A corporate retirement plan that pays employees a fixed retirement benefit either as a lump sum or as a pension (a lifetime payment). Payments are determined by salary earned and length of employment.

Defined contribution plan A corporate retirement plan, such as a 401 (k) or 403 (b), where employees defer a percentage of their salaries and invest for retirement.

Diversification An investing strategy designed to reduce risk by combining a variety of investments (such as stocks, bonds, and real estate). Having a variety of investments makes it less likely that all of them will move up and down at the same time or at the same rate.

Dividend If a company does well financially, its board of directors may decide to pay a small amount of its profits, called a dividend, directly back to its shareholders. Dividends are usually cash, but may also take the form of stock or other property.
### Glossary

**Dollar cost averaging**
A method of accumulating assets by purchasing securities at regular intervals with a fixed dollar amount.

**Equity**
The value of your investment above the total of your lien (debt).

**Estate**
The net worth of an individual including all of their assets.

**Home equity**
The financial difference between what your home or other real estate is worth and the amount you still owe as debt on the home or other real estate. For example, your home is worth $100,000 and you owe $75,000 on your mortgage, then you have $25,000 of equity in your home.

**Individual Retirement Account (IRA)**
An account that holds your investments to help pay for your retirement. The major benefit is that the government doesn't tax the interest you earn until you withdraw the money. You may have to pay a penalty if you withdraw money before age 59½. You can currently contribute up to $4,000 a year to your IRA account, up to age 70½. Beginning at age 70½ you must begin to make withdrawals. Your IRA contributions may be deductible on your tax return. Check with your tax advisor.

**Internal Revenue Service (IRS)**
U.S. Government agency responsible for tax collection and tax law enforcement.

**Investing**
Purchasing something of value (for example, stocks or real estate) with the goal of earning money over time if the value increases.

**Liability**
The amount of money an individual or business owes to someone else: a debt.

**Liquidity**
The ability of an asset to be converted into cash quickly.

**Long term care insurance (LTC)**
Some illnesses and injuries require specialized care over a period of time that may not be covered by traditional medical insurance. If you become debilitated due to such an ailment, this type of coverage generally allows you to pay for services such as in-home health care or assistance with daily activities, adult day care and assisted living.

**Matching contributions**
When an employee invests a dollar(s), and that investment is matched by the employer as a type of reward or compensation.

**Money Market Deposit Account (MMDA)**
A form of savings account that requires a larger balance than CDs or regular savings accounts, usually $10,000 or more.

**Mutual fund**
A type of investment where an investment company sells shares to the public and then invests the money in a group of investments such as stocks and bonds.

**Net worth**
The value of a company or individual's assets. Including cash, less total liabilities.

**Penalty fee**
A fee charged for the violation of a rule in a financial agreement.

**Pension**
An annual yearly income paid to an employee usually after retirement. Payments will be based upon employee's age at retirement, final salary, and number of years on the job.
Glossary

Portfolio
A collection of investments all owned by the same person or organization. For example, a portfolio might include a variety of stocks, bonds, and mutual funds.

Profit
The positive gain from an investment or a business operation after subtracting all expenses.

Rate of return
The annual rate of return is the percentage change in the value of an investment. For example: If you assume you earn a 10% annual rate of return, then you are assuming that the value of your investment has grown by that percentage.

Real property assets
Land and anything permanently affixed, including building, fences, trees, and minerals that has monetary value that is owned by a person or a company.

Rebalancing
Is bringing your portfolio back to your original asset allocation mix. This is necessary because over time some of your investments may become out of alignment with your investment goals. You’ll find that some of your investments will grow faster than others. By rebalancing, you’ll ensure that your portfolio does not overemphasize one or more asset categories, and you’ll return your portfolio to a comfortable level of risk.

Retirement plan
SEE 401(k), Defined Contribution Plan and Defined Benefits Plan.

Return on investment (ROI)
The income that an investment produces for the investor.

Roth Individual Retirement Account (IRA)
An individual retirement account with non-deductible contributions, subject to certain income limits, designed to provide tax-free distributions during retirement. Contributions may be withdrawn tax-free at anytime. Tax- and penalty-free withdrawals of earnings may begin when the account has been established for at least five years, and you're at least 59½ years old, for a first time home purchase ($10,000 lifetime limit), or in the event of disability or death. Non-qualified distributions of earnings may be subject to income tax as well as a 10% IRS penalty. Unlike Traditional IRAs, you aren’t required to start taking distributions at age 70½.

Rule of 72
A way to estimate the time or interest rate you would need to double your money on an investment. For example, if you have an investment that's earning 8% per year, 72 divided by 8 equals 9. This means it would take about nine years for your original investment to double.

Safety deposit box
A secure box which you may rent at your bank to store important documents such as birth certificates, stocks, wills, etc.

Simplified Employee Pension Individual Retirement Account (SEP)
Pension plan in which both the employee and employer contribute to an IRA. Limited to small businesses with less than 25 employees. Employee participation must be at least 50%. As with an IRA, contributions are tax-deductible.

Stock
Certificate of ownership in a company.
### Glossary

<table>
<thead>
<tr>
<th><strong>Stock exchange</strong></th>
<th>An organized marketplace in which stocks are traded by members of the exchange, such as brokers and principals.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Term</strong></td>
<td>A period of time over which a loan is scheduled to be repaid. For example, a home mortgage may have a 30-year term, meaning it must be repaid within 30 years.</td>
</tr>
<tr>
<td><strong>Traditional Individual Retirement Account (IRA)</strong></td>
<td>An individual, tax-deferred retirement account for employed persons. Subject to certain limits, contributions are deductible against income earned that year. Interest and profits accumulate tax-deferred until the funds are withdrawn at age 59½ or later. Early withdrawals are subject to a 10% penalty. Withdrawals also may be subject to income tax.</td>
</tr>
<tr>
<td><strong>Trust</strong></td>
<td>A contract naming a trustee to manage the investments or property within the trust for another person or entity, the trustor, for the benefit of a named beneficiary</td>
</tr>
<tr>
<td><strong>Will</strong></td>
<td>A legal document that specifies who has rights to your assets upon your death.</td>
</tr>
</tbody>
</table>
Lesson 1: Your Goals

In this lesson, participants will learn how writing down their short-term and long-term goals and updating them when needed can help them move their ideas to reality.

Learning Objectives
After completing this lesson, participants will be able to:

- Understand the importance of their short term and long term goals.
- Realize the importance of writing goals down and reviewing, refreshing, and updating them over time.

Start the Discussion
To start a discussion with your participants, ask some open-ended. Here are some examples you could use:

- What are your short term and long term goals?
- What plans do you have in place to realize these goals?
- How often do your goals change?
- Why is it important to write down your goals?

The Basics

- Writing down your goals is an important step in moving toward making them come true.
- Goals will change based on time, situations or events.
- It is important to review your goals on a regular basis to stay current as your lifestyle changes.
What Are You Working Toward? Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the following page. Instruct your participants to list as many answers as they can under each question. When they are finished, discuss their goals.

Instructions:
Have your participants write down as many answers as they can for each question.

What are your short term and long term goals?
- Most likely you have some short-term goals: let’s say, getting a promotion at work, buying new clothes, or going on a vacation trip.
- And you probably have a few long-term goals, too—whether it’s buying a home, starting a business, or paying for college education.

Why should you write your goals on paper?
- To reach your goals, it can be very helpful to write them down on paper as opposed to just thinking about them.
- Writing your goals can help you determine exactly what you want to accomplish, and by when.
- It’ll help you see what’s really important to you and where to focus your time and effort.
- That’s why writing down your goals is a great first step for moving your ideas from dreams to reality.

What happens to your goals if you experience large life changes?
- As your personal circumstances change, your short- and long-term goals may need to change as well, so look back at your list on a regular basis.
- If there are big changes happening in your life, consider updating your goals, too.

What are some examples of life changes you may experience?
These are all examples of some changes you may experience:
- Your household income changes.
- You purchase a home.
- You or your spouse change jobs.
- You start or grow your family.
- You begin caring for elders.
- You have increased medical expenses.
- You have other major expenses.
What Are You Working Toward? Activity

Instructions:
For each question, write down as many answers as you can think of.

What are your short-term goals?

What are your long-term goals?

What life changes might impact these goals?

What is an example of how your goals have changed this past year or will be changed this coming year?
**Instructor note:**
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

**Recommended Article: Personal Goal Setting**

Remember, the online *Hands on Banking®* program has dozens of additional library articles that you can use and distribute for this and other topics. Visit [www.handsonbanking.org](http://www.handsonbanking.org) to browse all the available articles.
Lesson Summary

**Instructor note:**
*Summarize this lesson by reviewing these key points with your participants.*

Key points from the Your Goals lesson:

- Writing down your goals is an important step in moving toward making them come true.
- Goals will change based on time, situations or events.
- It is important to review your goals on a regular basis to stay current as your lifestyle changes.
Lesson 2: Investing Basics

In this lesson, participants will learn the basic concepts of investing, the common types of investing and the difference between investing and saving.

Learning Objectives
After completing this lesson, participants will be able to:

• List the basic concepts of investing.
• Define the common types of investments.
• State the difference between investing and saving.
• Describe how inflation can reduce earning power.
• Describe how compounding can make your money grow.

Start the Discussion
To start a discussion with your participants, ask some open-ended. Here are some examples you could use:

• What are some common types of investments? How do they work?
• What happens during inflation? Are we having inflation right now?
• How does compound interest work?
• What is investing and what is saving?

The Basics

• Investing is putting money you’ve saved into things you think will increase in value over time.
• There are lots of possible investments. Two examples are stocks and real estate.
• Buy investments when the price is low, then try to sell when the price is high. That’s how you make a profit.
• Any time you sell an investment for a profit, your earnings are called capital gains. If you lose money when you sell your investment, you’ll have what’s called a capital loss.
• With investing, there’s always a risk of losing some or even all of your money if the investment doesn’t perform well.
• The greater the risk of a loss on an investment, the greater the potential return. The lower the risk of loss, the lower the potential return.
• Use the Rule of 72 to determine how many years it will take you to double your investment.
### Types of Investments (Instructor Copy)

**Instructor note:** Photocopy the activity handout on the following page. Instruct your participants to follow along as you lead a discussion about the different types of investments.

#### Types of Investments

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stocks</strong></td>
<td>• When you invest in stocks, you’re investing in businesses. These could be small, medium, or large companies in the U.S. or around the world.</td>
</tr>
<tr>
<td></td>
<td>• Buying stock gives you part ownership in a company. That’s why you should only buy stocks in companies you believe in—and believe can do well.</td>
</tr>
<tr>
<td></td>
<td>• Stocks are usually bought and sold in units called shares. A share’s value, or share price, rises and falls based on how much people will pay for a share.</td>
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<tr>
<td></td>
<td>• People will pay money for the stock if they think the company will be successful. If it is, its stock will increase in value.</td>
</tr>
<tr>
<td></td>
<td>• Sometimes the company will also pay its investors a dividend. That’s when the company pays the shareholders a part of its profits.</td>
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<tr>
<td></td>
<td>• Investing in stocks can be risky because their value can change from day to day. But stocks can also have great potential for growth and total return.</td>
</tr>
<tr>
<td><strong>Mutual funds</strong></td>
<td>• A mutual fund is a professionally managed collection of money from a group of investors. Instead of deciding for yourself what stocks or bonds to buy, a mutual fund manager makes these decisions for everyone in the group—deciding what to buy or sell, and when.</td>
</tr>
<tr>
<td></td>
<td>• Some mutual funds will be higher risk than others, and no mutual fund is a sure thing. But because the fund invests in a variety of stocks, bonds, and other products, there is usually greater potential reward than many low-risk investments, and less risk than buying individual stocks and some bonds.</td>
</tr>
<tr>
<td><strong>Bonds</strong></td>
<td>• Corporations, governments and municipalities issue bonds to raise funds. In return they typically repay the bond owners with interest. In this way, a bond is like a loan.</td>
</tr>
<tr>
<td></td>
<td>• When you purchase a bond, you are lending money to a corporation or to the government for a certain period of time called a term.</td>
</tr>
<tr>
<td></td>
<td>• The bond certificate is a promise from the corporation or government that they will repay you on a specific date, usually with a fixed rate of interest.</td>
</tr>
<tr>
<td></td>
<td>• Bond terms can range from a few months to 30 years. The longer you hold your investment in bonds, the better the return—so consider bonds a long-term investment.</td>
</tr>
<tr>
<td></td>
<td>• Objectives of investing in bonds: current income and potential for stability &amp; future income.</td>
</tr>
<tr>
<td></td>
<td>• Government bonds are low-risk because they are backed by the U.S. government. Corporate bonds, though, have a higher potential risk. You should research the company before you invest to make sure it has the ability to repay the loan.</td>
</tr>
</tbody>
</table>
### Types of Investments (continued)

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Low-risk investments** | • Low-risk investments enable you to earn interest on your money while maintaining some liquidity—flexible access to your cash.  
• The odds of losing your money through these investments are extremely low, but they have lower potential return compared to higher-risk investments like stocks.  
• Ex: Certificates of Deposit (CDs) can be opened with an initial deposit of as little as $1,000. With CDs, you agree that you won't touch the money you deposit for a specific period of time. The longer you keep your money in the account, the greater your rate of return. |
| **Real estate**      | • Many people invest in real estate, such as a home or property.  
• One positive aspect to investing in real estate is that it usually increases in value over time without the daily ups and downs that happen in the stock market.  
• Like stocks, you earn money when you sell real estate for more than what you paid for it.  
• It takes time to sell property. There are costs involved in buying, selling, owning real estate. |
### Types of Investments

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stocks</strong></td>
<td>• When you invest in stocks, you’re investing in businesses. These could be small, medium, or large companies in the U.S. or around the world.</td>
</tr>
<tr>
<td></td>
<td>• Buying stock gives you part ownership in a company. That’s why you should only buy stocks in companies you believe in—and believe can do well.</td>
</tr>
<tr>
<td></td>
<td>• Stocks are usually bought and sold in units called shares. A share’s value, or share price, rises and falls based on how much people will pay for a share.</td>
</tr>
<tr>
<td></td>
<td>• People will pay money for the stock if they think the company will be successful. If it is, its stock will increase in value.</td>
</tr>
<tr>
<td></td>
<td>• Sometimes the company will also pay its investors a dividend. That’s when the company pays the shareholders a part of its profits.</td>
</tr>
<tr>
<td></td>
<td>• Investing in stocks can be risky because their value can change from day to day. But stocks can also have great potential for growth and total return.</td>
</tr>
<tr>
<td><strong>Mutual funds</strong></td>
<td>A mutual fund is a professionally managed collection of money from a group of investors. Instead of deciding for yourself what stocks or bonds to buy, a mutual fund manager makes these decisions for everyone in the group—deciding what to buy or sell, and when.</td>
</tr>
<tr>
<td></td>
<td>• Some mutual funds will be higher risk than others, and no mutual fund is a sure thing. But because the fund invests in a variety of stocks, bonds, and other products, there is usually greater potential reward than many low-risk investments, and less risk than buying individual stocks and some bonds.</td>
</tr>
<tr>
<td><strong>Bonds</strong></td>
<td>• Corporations, governments and municipalities issue bonds to raise funds. In return they typically repay the bond owners with interest. In this way, a bond is like a loan.</td>
</tr>
<tr>
<td></td>
<td>• When you purchase a bond, you are lending money to a corporation or to the government for a certain period of time called a term.</td>
</tr>
<tr>
<td></td>
<td>• The bond certificate is a promise from the corporation or government that they will repay you on a specific date, usually with a fixed rate of interest.</td>
</tr>
<tr>
<td></td>
<td>• Bond terms can range from a few months to 30 years. The longer you hold your investment in bonds, the better the return—so consider bonds a long-term investment.</td>
</tr>
<tr>
<td></td>
<td>• Objectives of investing in bonds: current income and potential for stability &amp; future income.</td>
</tr>
<tr>
<td></td>
<td>• Government bonds are low-risk because they are backed by the U.S. government. Corporate bonds, though, have a higher potential risk. You should research the company before you invest to make sure it has the ability to repay the loan.</td>
</tr>
</tbody>
</table>
**Types of Investments (continued)**

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Low-risk investments** | • Low-risk investments enable you to earn interest on your money while maintaining some liquidity—flexible access to your cash.  
• The odds of losing your money through these investments are extremely low, but they have lower potential return compared to higher-risk investments like stocks.  
• Ex: Certificates of Deposit (CDs) can be opened with an initial deposit of as little as $1,000. With CDs, you agree that you won’t touch the money you deposit for a specific period of time The longer you keep your money in the account, the greater your rate of return |
| **Real estate**       | • Many people invest in real estate, such as a home or property.  
• One positive aspect to investing in real estate is that it usually increases in value over time without the daily ups and downs that happen in the stock market.  
• Like stocks, you earn money when you sell real estate for more than what you paid for it.  
• It takes time to sell property. There are costs involved in buying, selling, owning real estate. |
Saving vs. Investing Activity (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Divide the class into small groups. Instruct them to brainstorm the differences between savings and investing. Then, use the key points below to lead the discussion.

**Instructions:**
Have your participants list differences and similarities between investing and saving.

### Savings vs. Investing

<table>
<thead>
<tr>
<th></th>
<th>Savings</th>
<th>Investing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ready cash</strong></td>
<td>• Gives you ready cash; provides funds for emergencies; often used for specific purchases in the near future (usually three years or less).</td>
<td>• Can help you achieve long-term, major financial goals.</td>
</tr>
<tr>
<td><strong>Minimal risk</strong></td>
<td>• Minimal or no risk (if money is in a savings account).</td>
<td>• You may lose some or all of the money you invest.</td>
</tr>
</tbody>
</table>
| **Earn interest**| • You earn interest, but savings accounts generally earn a lower return than do investments. | • Investments have the potential for higher return than a regular savings account.  
  • Your investments may appreciate (go up in value) over time.  
  • This increases your net worth, which is the value of your assets (what you own) minus your liabilities (what you owe).  
  • If you sell for higher price than you invested initially, you make a profit. |

Potential for profit
## Topic 5 — Planning Your Future

### Saving vs. Investing Activity

**Instructions:**
List differences and similarities between investing and saving.

<table>
<thead>
<tr>
<th>Savings</th>
<th>Investing</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Example: Provides ready cash for emergencies</em></td>
<td><em>Example: Can help you achieve long-term goals.</em></td>
</tr>
</tbody>
</table>
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Investing FAQ

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
Inflation Erodes Purchasing Power

Instructor note:
Discuss the concept of inflation using these key points. You can use the graph and example to enhance inflation information.

Inflation
- Occurs when the general price level of goods and services goes up, which means the purchasing power of your dollar goes down.
- Can really consume your future purchasing power.

Decline in Purchasing Power Over Time
What will $1,000 today look like tomorrow?

Example:
Let’s say you stash $1,000 in a safety deposit box and leave it there for 25 years. Assuming an inflation rate of 4%, when you take the money out, your original $1,000 would only be able to purchase $368 worth of goods!

Tip!
If your money isn’t growing at a rate at least equal to the rate of inflation, you’re losing money. Saving and investing money can help you counteract the effects of inflation.
Compounding Grows Money

Instructor note:
Lead a discussion about the important concept of compounding, including why it pays to start investing early. At the end of the discussion, direct your participants to go online and find compounding calculators to see it in action.

What is compounding?

- Compounding occurs when your earnings on an investment are added to the amount you originally invested.
- As your total investment grows larger, your earnings have the potential to grow larger, too. (The same principle applies when you earn compound interest in a savings account.)
- How fast an investment grows over time depends on the rate of return you earn each year.

The length of time you invest is a key factor in meeting your financial goals.

- The earlier you start, the easier it will be to achieve them.
- Many investors lose out because they wait too long to get started or invest too little.
- If you don’t start early, it can be difficult to catch up.
- It pays to start investing as soon as you can, and to take advantage of the power of compounding.

Find a compounding calculator.

- There are many interactive, compounding calculators online including the Hands on Banking site at www.handsonbanking.com.
- By conducting a simple web search you can find different calculators where you can type in an amount of money and see how compounding works.
- You can use them to estimate the future value of an investment based on different rates of return.

Tip!
The sooner you start investing, the more time your money has to grow and the harder your money works for you. Get started investing as early as you can!
The Rule of 72 Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the following page. Explain the formula to the participants and say it out loud so they understand the division: “72 divided by the interest rate will show you how many years it will take to double your investment.” Instruct them to complete the three math problems on the sheet.

Instructions:
Have your participants complete the math problems on the page using this formula:

\[ 72 \div \text{interest rate} = \text{years it will take to double your investment} \]

1. Take the interest rate of your investment.
2. Divide 72 by the interest rate.
3. The number you come up with is how many years it will take your original investment to double.

Scenario 1:
You have an investment that’s earning 8% per year. How many years will it take to double your investment?

Answer: _______ 9 years _______

Scenario 2:
You have 10 years to invest your money. What interest rate will you need to have to double your money in that time?

Answer: _______ 7.2% _______

Scenario 3:
Your investment earns 6%. How many years will it take to double that investment?

Answer: _______ 12 years _______
The Rule of 72 Activity

**Instructions:**
Complete the math problems on the page using this formula:

\[ 72 \div \text{interest rate} = \text{years it will take to double your investment} \]

1. Take the interest rate of your investment.
2. Divide 72 by the interest rate.
3. The number you come up with is how many years it will take your original investment to double.

**Scenario 1:**
You have an investment that’s earning 8% per year. How many years will it take to double your investment?

Answer: ________________

**Scenario 2:**
You have 10 years to invest your money. What interest rate will you need to have to double your money in that time?

Answer: ________________

**Scenario 3:**
Your investment earns 6%. How many years will it take to double that investment?

Answer: ________________
Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Investing Basics lesson:

- Investing is putting money you’ve saved into things you think will increase in value over time.
- There are lots of possible investments. Two examples are stocks and real estate.
- Buy investments when the price is low, then try to sell when the price is high. That’s how you make a profit.
- Any time you sell an investment for a profit, your earnings are called capital gains. If you lose money when you sell your investment, you’ll have what’s called a capital loss.
- With investing, there’s always a risk of losing some or even all of your money if the investment doesn’t perform well.
- The greater the risk of a loss on an investment, the greater the potential return. The lower the risk of loss, the lower the potential return.
- Use the Rule of 72 to determine how many years it will take you to double your investment.
Lesson 3: How to Get Started With Investing

In this lesson, participants will learn basic guidelines for smart investing and how to get started.

Learning Objectives
After completing this lesson, participants will be able to:

• Determine whether or not they’re ready to invest.
• Identify the steps they should take to get started with investing.
• Follow guidelines for smart investing.

Start the Discussion
To start a discussion with your participants, ask some open-ended. Here are some examples you could use:

• How much money do you think you need before you can start investing?
• Where did you come up with that figure?
• If you are ready to invest, what is your next step?

The Basics
Remember these key points from the How to Get Started With Investing lesson:

• Before you start to invest, be sure you’re prepared to cover your expenses in case of an emergency, a sudden illness, or if you lose your job.

• There are six basic steps you should take before investing:
  1. Make an investing plan.
  2. Determine how much risk you are comfortable taking.
  3. Save enough to cover two to six months of expenses.
  4. Determine how much money you need to invest every month and make a commitment to do so.
  5. Decide on the mix of investments you want to maintain to reach your goals.
  6. Research investments before you buy.

• There are specific guidelines you can follow to invest wisely.
Ready to Invest? Activity

Instructor note:
Pose the following question to your participants. Ask them to write down the letters of the correct answer(s). Identify the correct answers and lead discussion

Which two of the following should be in place before you start investing?

A. Enough savings to cover two to six months of expenses.
B. Debts low enough that you can comfortably pay them.
C. Own a home with a 30-year mortgage loan.
D. You’ve repaid all of your loans on time and in full.
E. No more than $1,000 in credit card debt.
F. Enough savings to cover 9 to 12 months of expenses.

Key points to make during the discussion:

- Before you start to invest:
  - Be sure you're prepared to cover your expenses in case of an emergency, a sudden illness, or if you lose your job.
  - Consider working with professionals. Ask at your financial institution—many offer investment products and guidance.
How to Get Started

**Instructor note:**
*Lead a discussion about getting started with investing using these key points.*

1. **Save enough to cover two to six months of expenses.** Make sure your expenses are low enough that you can comfortably pay them.

2. **Make an investing plan.** List your financial goals and how much time you have to reach them.

3. **Determine how much risk you are comfortable taking.**

4. **Decide on the mix of investments you want to maintain** to reach your goals.

5. **Determine how much money you need to invest** every month and make a commitment to do so.

6. **Research investments before you buy.** Base your decisions on facts, not emotions. Visit Web sites that offer investment information and news. Consider seeking guidance from investing professionals.
Guidelines for Smart Investing Activity (Instructor Copy)

**Instructor note:**
Photocopy the activity handouts on the next two pages. Pass out the first activity handout and instruct your participants to match the action phrase with its correct description. When they are finished, pass out the second handout (the fully filled in chart) and lead a discussion based on these guidelines for smart investing.

**Instructions:**
Have your participants use the Word Bank to match the correct action phrase to its description.

**Word Bank**
- Buy low and sell high
- Diversify
- Buy and hold
- Decide when to sell
- Pay attention to costs
- Keep track
- Stick with your plan

**Guidelines for Smart Investing**

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<td><strong>Buy low and sell high</strong></td>
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<tr>
<td><strong>Diversify</strong></td>
<td>• Divide your money among different types of investments to reduce your risk. • Have a balance of different types of investments in a variety of companies and industries.</td>
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<td><strong>Buy and hold</strong></td>
<td>• Avoid overacting to “hot tips” or trying to make quick gains. These strategies rarely work and can put you in serious danger of losing your money. • Stay objective and focus on the long term. Be an investor, not a gambler. • Avoid the impulse to react to sudden changes in the market or to buy the latest hot stock.</td>
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<td><strong>Decide when to sell</strong></td>
<td>• This is a key to successful investing—look at your investments that are doing poorly as well as those that have increased in value and make an educated decision. • Review your portfolio on a regular basis to see which investments have significantly increased in value, which have dropped, and whether the time to sell is now.</td>
</tr>
<tr>
<td><strong>Pay attention to costs</strong></td>
<td>• Taxes, fees, inflation can all affect your return on an investment. • It’s wise to consult with an investment professional and your tax adviser regarding the best way to minimize these costs.</td>
</tr>
<tr>
<td><strong>Keep track</strong></td>
<td>• A fast and convenient way to do this is through online account access offered by many investment brokerage companies. • This service allows you to view balance and transaction information, transfer money, contact customer service, and more. It’s usually provided for free.</td>
</tr>
<tr>
<td><strong>Stick with your plan</strong></td>
<td>• Periodically review your investing plan so that you don’t lose sight of your goals. • Adjust your portfolio as needed to maintain the mix of investments you want at your target level of risk.</td>
</tr>
</tbody>
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Guidelines for Smart Investing Activity

Instructions:
Use the Word Bank to match the correct action phrase to its description.

Word Bank
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- Diversify
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- Decide when to sell
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Guidelines for Smart Investing

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### Guidelines for Smart Investing

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<tr>
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</tr>
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</table>
| **Buy low and sell high** | • Selling an investment for more than you paid is how you make a profit.  
  • The historical trend of a stock's price may help indicate what might happen in the future.  
  • When you research possible investments, many advisors recommend that you focus on the investment's objective (in other words, whether the goal is to give investors income, growth, safety, or some combination of the three), risk profile, and how well it fits into your overall portfolio.  
  • Try to avoid buying a stock at its high point. Look for opportunities to buy stocks with good potential at low prices after a major market downturn.  
  • Use dollar cost averaging as an alternative. Invest equal amounts of money on a regular basis. Then purchase more shares when prices are low, fewer when prices are high, with the goal of reducing the average cost per share over time. |
| **Diversify**       | • Divide your money among different types of investments to reduce your risk.  
  • Have a balance of different types of investments in a variety of companies and industries.                                                                                                       |
| **Buy and hold**    | • Avoid overreacting to "hot tips" or trying to make quick gains. These strategies rarely work and can put you in serious danger of losing your money.  
  • Stay objective and focus on the long term. Be an investor, not a gambler.  
  • Avoid the impulse to react to sudden changes in the market or to buy the latest hot stock.                                                                                                           |
| **Decide when to sell** | • One of the keys to successful investing is deciding when to sell investments that are doing poorly as well as those that have increased in value.  
  • Most professional investors set strict guidelines for themselves regarding the specific price, either high or low, at which they will sell.  
  • To cut your potential losses and maximize your gains, consider adopting the same approach. Review your portfolio on a regular basis to see which investments have significantly increased in value, which have dropped, and whether the time to sell is now. |
| **Pay attention to costs** | • Taxes, fees, inflation, and other costs can all affect your return on an investment.  
  • It's wise to consult with an investment professional and your tax adviser regarding the best way to minimize these costs.                                                                           |
| **Keep track**       | • Whether you invest online or through a professional, it's important to keep track of your investments.  
  • A fast and convenient way is through online account access offered by many investment brokerage companies.  
  • This service allows you to view balance and transaction information, transfer money, contact customer service, and more. It's usually provided for free.                                                   |
| Finally, stick with your plan | • Periodically review your investing plan so that you don't lose sight of your goals.  
  • Adjust your portfolio as needed to maintain the mix of investments you want at your target level of risk.                                                                                |
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Articles: Avoid Common Investing Mistakes and Minimize Investment Taxes

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
Topic 5 — Planning Your Future

Lesson Summary

_Instructor note:_
_Summarize this lesson by reviewing these key points with your participants._

Remember these key points from the How to Get Started With Investing lesson:

- Before you start to invest, be sure you're prepared to cover your expenses in case of an emergency, a sudden illness, or if you lose your job.
- There are six basic steps you should take before investing:
  1. Make an investing plan.
  2. Determine how much risk you are comfortable taking.
  3. Save enough to cover two to six months of expenses.
  4. Determine how much money you need to invest every month and make a commitment to do so.
  5. Decide on the mix of investments you want to maintain to reach your goals.
  6. Research investments before you buy.
- There are specific guidelines you can follow to invest wisely.
Lesson 4: Your Portfolio

This lesson will teach your participants different strategies to help reduce risk and increase investing success.

Learning Objectives
After completing this lesson, participants will be able to:

• Follow good strategies for managing their portfolios.
• Compare and contrast aggressive and conservative investment styles.

Start the Discussion
To start a discussion with your participants, ask some open-ended. Here are some examples you could use:

• What are some examples of what would be part of an investment portfolio?
• Can you define the risk vs. return principal?
• How do you determine how much risk can you handle when considering to invest?

The Basics

• Once you start investing, you need to manage your portfolio, or the collection of investments that you own.
• There are several good strategies for managing your portfolio in ways that can help reduce your risk and increase your investing success.
• In general, stocks have greater potential for growth and total return compared to bonds.
• Bonds offer greater potential for stability and income compared to stocks.
Managing Your Portfolio Activity (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Instruct participants to match the correct term from the Word Bank with the right descriptions.

**Instructions:**
Have your participants write in the correct investing term that matches its description.

**Word Bank**
- Asset allocation
- Deflation
- Diversification
- Dollar cost averaging
- Inflation
- Investment mix
- Liability
- Rebalancing

**Investing Terms**

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
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</table>
| **Diversification**         | • An investing strategy designed to reduce risk by combining a variety of investments (such as stocks, bonds, and real estate).  
• Having a variety of investments makes it less likely that all of them will move up and down at the same time or at the same rate.  
• In a portfolio of stocks, diversification means reducing the risk of any individual stock by holding stock in a variety of companies.  
• Mutual funds offer one way to diversify if you choose funds that represent a variety of industries and companies. |
| **Asset allocation**        | • Asset allocation means investing in different broad categories (or "classes") of investments.  
• The three major classes in the investment markets are stocks, bonds and cash. Each of these performs differently in response to market changes.  
• When deciding what percentage of each to hold in your portfolio it’s important to consider your financial goals, investment time frame and tolerance for market risk.  
• According to some financial advisors, asset allocation can account for roughly 90% of the variability in an investment portfolio’s performance.  
• To determine the right asset allocation for you, you need to consider factors such as your financial goals, your tolerance for risk, and your investing time horizon. Discuss these factors with your investment advisor.  
• Adjust your asset allocation strategy annually or when your personal circumstances or financial goals change. |
### Managing Your Portfolio Activity (Instructor Copy) (continued)

#### Investing Terms (continued)

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
</table>
| **Rebalancing**             | • Because investment values tend to rise and fall, the percentages you have allocated to specific asset classes (stocks, bonds, cash) may not remain consistent with your original intentions over time.  
                             | • Be sure to review your investments against your target asset allocation at least annually.  
                             | • For example: Assume you started with an asset allocation of 50% bonds and 50% stocks. If your stocks have consistently increased in value during the last five years but the value of your bonds have remained flat, you may find that your stocks have grown to represent 70% of your portfolio. To maintain your original asset allocation, you may wish to sell some stock, and purchase additional bonds to achieve a 50% - 50% split. |
| **Dollar cost averaging**   | • This is a technique that can help soften the effect of market ups and downs on your portfolio and take much of the emotion and guesswork out of investing.  
                             | • You invest a set amount of money on a regular basis over a long period of time, regardless of what the price of the investment is.  
                             | • When the value of the investment is up, you buy fewer shares; when the value of the investment is down, you buy more shares.  
                             | • The result is that you will acquire most of the shares at a below-average cost per share.                                                                                          |
Managing Your Portfolio Activity

Instructions:
In the left hand column, write in the correct investing term that matches its description. Use the Word Bank, but be careful, some will not match up.

Word Bank
- Asset allocation
- Deflation
- Diversification
- Dollar cost averaging
- Inflation
- Investment mix
- Liability
- Rebalancing

Investing Terms

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<td>• An investing strategy designed to reduce risk by combining a variety of investments (such as stocks, bonds, and real estate).</td>
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<tr>
<td></td>
<td>• Having a variety of investments makes it less likely that all of them will move up and down at the same time or at the same rate.</td>
</tr>
<tr>
<td></td>
<td>• In a portfolio of stocks, diversification means reducing the risk of any individual stock by holding stock in a variety of companies.</td>
</tr>
<tr>
<td></td>
<td>• Mutual funds offer one way to diversify if you choose funds that represent a variety of industries and companies.</td>
</tr>
<tr>
<td></td>
<td>• Asset allocation means investing in different broad categories (or “classes”) of investments.</td>
</tr>
<tr>
<td></td>
<td>• The three major classes in the investment markets are stocks, bonds and cash. Each of these performs differently in response to market changes.</td>
</tr>
<tr>
<td></td>
<td>• When deciding what percentage of each to hold in your portfolio it’s important to consider your financial goals, investment time frame and tolerance for market risk.</td>
</tr>
<tr>
<td></td>
<td>• According to some financial advisors, asset allocation can account for roughly 90% of the variability in an investment portfolio’s performance.</td>
</tr>
<tr>
<td></td>
<td>• To determine the right asset allocation for you, you need to consider factors such as your financial goals, your tolerance for risk, and your investing time horizon. Discuss these factors with your investment advisor.</td>
</tr>
<tr>
<td></td>
<td>• Adjust your asset allocation strategy annually or when your personal circumstances or financial goals change.</td>
</tr>
</tbody>
</table>
Managing Your Portfolio Activity (continued)

Investing Terms (continued)

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
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<tbody>
<tr>
<td>•</td>
<td>Because investment values tend to rise and fall, the percentages you have allocated to specific asset classes (stocks, bonds, cash) may not remain consistent with your original intentions over time.</td>
</tr>
<tr>
<td>•</td>
<td>Be sure to review your investments against your target asset allocation at least annually.</td>
</tr>
<tr>
<td>•</td>
<td>For example: Assume you started with an asset allocation of 50% bonds and 50% stocks. If your stocks have consistently increased in value during the last five years but the value of your bonds have remained flat, you may find that your stocks have grown to represent 70% of your portfolio. To maintain your original asset allocation, you may wish to sell some stock, and purchase additional bonds to achieve a 50%-50% split.</td>
</tr>
<tr>
<td>•</td>
<td>This is a technique that can help soften the effect of market ups and downs on your portfolio and take much of the emotion and guesswork out of investing.</td>
</tr>
<tr>
<td>•</td>
<td>You invest a set amount of money on a regular basis over a long period of time, regardless of what the price of the investment is.</td>
</tr>
<tr>
<td>•</td>
<td>When the value of the investment is up, you buy fewer shares; when the value of the investment is down, you buy more shares.</td>
</tr>
<tr>
<td>•</td>
<td>The result is that you will acquire most of the shares at a below-average cost per share.</td>
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Matching Investments to Your Situation Activity (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Instruct your participants to read each scenario and then decide whether that portfolio should have a majority of stocks, bonds, or cash.

**Instructions:**
Have your participants read each scenario in the right column and decide whether that portfolio should have a majority of stocks, bonds, or cash. Have them write in stocks, bonds, or cash in the left column.

### Matching Investments to Situations

<table>
<thead>
<tr>
<th>Stock, bonds, or cash?</th>
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<td>STOCKS</td>
<td>You have a relatively long investment time frame—5 to 10 years or longer.</td>
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<td>BONDS</td>
<td>Your goal is to preserve your assets.</td>
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<td>STOCKS</td>
<td>You want the potential to make substantial returns on your investments to reach your goals.</td>
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<tr>
<td>BONDS</td>
<td>You have a mid- to long-term investment timeframe.</td>
</tr>
<tr>
<td>BONDS</td>
<td>You can withstand some fluctuation in asset values on the way to achieving your goals.</td>
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<tr>
<td>CASH</td>
<td>You don’t mind a minimal return on your money.</td>
</tr>
<tr>
<td>BONDS</td>
<td>You need an income stream from your investments.</td>
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<tr>
<td>STOCKS</td>
<td>You have the risk tolerance to handle major ups and downs in the market.</td>
</tr>
<tr>
<td>CASH</td>
<td>You may need to access a significant portion of your money in the near term.</td>
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**Tip!**
A savings account or a certificate of deposit (CD), may be better suited to meet a short-term goal (buying a car). Stocks, bonds, and mutual funds are best for long-term planning and saving (retirement).
**Matching Investments to Your Situation Activity**

**Instructions:**
Read each scenario in the right column. Decide whether that portfolio should have a majority of stocks, bonds, or cash. Write in stocks, bonds, or cash in the left column.

### Matching Investments to Situations

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**Tip!**
A savings account or a certificate of deposit (CD), may be better suited to meet a short-term goal (buying a car). Stocks, bonds, and mutual funds are best for long-term planning and saving (retirement).
Your portfolio: Conservative or Aggressive?

**Instructor note:**
Lead a discussion about the differences between a conservative or aggressive investment strategy. Mention these key points and use the chart to show portfolio types.

- In general, stocks have greater potential for growth and total return compared to bonds.
- On the other hand, bonds offer greater potential for stability and income compared to stocks.
- Most financial advisors agree that a portfolio more heavily weighted with stocks is more “aggressive” and one with more bonds is more “conservative.”

Have participants review these different investment mixes.
Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Your Portfolio lesson:

- Once you start investing, you need to manage your portfolio, or the collection of investments that you own.
- There are several good strategies for managing your portfolio in ways that can help reduce your risk and increase your investing success.
- In general, stocks have greater potential for growth and total return compared to bonds.
- Bonds offer greater potential for stability and income compared to stocks.
Lesson 5: Retirement Basics

In this lesson, participants will learn basics they should know before creating their financial strategy. It also includes a helpful overview of retirement plans.

Learning Objectives
After completing this lesson, participants will be able to:

- Determine how much money they need to retire.
- List six common sources of retirement money.
- Explain the 4% rule.
- Define the different types of retirement plans.

Start the Discussion
To start a discussion with your participants, ask some open-ended. Here are some examples you could use:

- Do you have a plan or strategy for retirement?
- How much money do you think you’ll need per year to retire?
- How many years do you think you’ll need to work to comfortably retire?

The Basics

- Most of us would like to retire someday with the peace of mind that we can take care of ourselves financially.
- Having a financial strategy is critical because you may spend quite a few years in retirement.
- When it comes to creating a retirement strategy, there’s no such thing as “one size fits all.”
Retirement is as Individual As You Are

Instructor note:
Lead a discussion about retirement. Use general terms and hit the key points listed below. Invite participants to share their thoughts and questions about retirement.

- Most of us would like to retire someday with the peace of mind that we can take care of ourselves financially.
- Having a financial strategy is critical because you may spend quite a few years in retirement.
- The length of your retirement may equal the number of years you were in the workforce.
- So it makes sense to create a strategy—a retirement plan—and start to implement that plan as early as you can.
- Everyone's circumstances and financial situation are a little different. With your own personal strategy, you'll know how much you can afford to spend each month and not outlive your retirement savings.
- If you're counting on the federal government's Social Security program to fully fund your retirement, don't bet on it. In December 2006, the average monthly Social Security benefit nationwide was $1,044. That's just over $12,500 a year, an amount that's not likely to give you the retirement of your dreams.
- 2006 Social Security Average benefit = $1,044 / month = $12,528 / year.*

How Much Money Will You Need To Retire? Quiz (Instructor Copy)

_Instructor note:_
Photocopy the activity handout on the following page. Instruct your participants to answer the six quiz questions.

_Instructions:_
Have your participants answer each question.

1. How much money you’ll need in retirement depends on three factors. What are they?
   • Where you plan to live and the cost of living there
   • How many years you’ll live in retirement
   • How much your health care expenses will be during your retirement years.

2. What is the life expectancy for U.S. women?
   a. 75
   b. 77
   c. 80
   d. 85

3. What is the life expectancy for U.S. men?
   a. 75
   b. 77
   c. 80
   d. 85

4. The retirement years are when most people have their highest:
   a. Mortgage costs
   b. **Health care costs**
   c. Car loan costs
   d. Investment costs

5. What percentage of today’s income do experts recommend you aim for in retirement?
   a. 50–60%
   b. 65–75%
   c. **75–85%**

6. How much money you’ll want to have for retirement depends on:
   a. **Your lifestyle**
   b. Your age
   c. Your city
   d. How many years of retirement you forecast
Topic 5 — Planning Your Future

How Much Money Will You Need To Retire?

Instructions:
Read each question. Either fill in the blank or select the best answer.

1. How much money you’ll need in retirement depends on three factors. What are they?

2. What is the life expectancy for U.S. women?
   a. 75
   b. 77
   c. 80
   d. 85

3. What is the life expectancy for U.S. men?
   a. 75
   b. 77
   c. 80
   d. 85

4. The retirement years are when most people have their highest:
   a. Mortgage costs
   b. Health care costs
   c. Car loan costs
   d. Investment costs

5. What percentage of today’s income do experts recommend you aim for in retirement?
   a. 50–60%
   b. 65–75%
   c. 75–85%

6. How much money you’ll want to have for retirement depends on:
   a. Your lifestyle
   b. Your age
   c. Your city
   d. How many years of retirement you forecast
Instructor note:
Photocopy the activity handout on the following page. Instruct participants to match the correct term from the Word Bank with the right description.

There are six common sources of money in retirement.

Instructions:
Have your participants match the correct source of money with its definition.

<table>
<thead>
<tr>
<th>Word Bank</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>Disability check</td>
<td>New income</td>
</tr>
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<td>Gifts</td>
<td>Pension</td>
</tr>
<tr>
<td>Home equity</td>
<td>Savings</td>
</tr>
<tr>
<td>Inheritance</td>
<td>Social security</td>
</tr>
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<td>Investments</td>
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Sources of Retirement Money

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<tr>
<th>Money Source</th>
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</tr>
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<tr>
<td>Social security</td>
<td>The amount you receive in Social Security will vary based on how much you earn, but for many retirees today, their benefits equate to 20% to 30% of their pre-retirement income.</td>
</tr>
<tr>
<td>Savings</td>
<td>This is money you save. Try to earn the highest rate of compound interest you can.</td>
</tr>
<tr>
<td>Investments</td>
<td>Your portfolio of investments might include stocks, mutual funds, bonds, etc.</td>
</tr>
<tr>
<td>Pension</td>
<td>Not too many people are lucky enough to have a pension. Even when pension plans were at their peak in 1985, fewer than half of Americans working for private companies were covered. By one current estimate, only 17% of those employed outside of government agencies can expect to receive traditional pension checks in retirement.</td>
</tr>
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<td>New income</td>
<td>Many people—if they can—continue to earn money by working part-time, running a small business, or cycling between periods of employment and leisure. In addition to the income, continuing to work helps many people to feel connected, useful, and satisfied with life.</td>
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<td>Home equity</td>
<td>If you’re a homeowner, another source of retirement funds might be the home equity you have accumulated over the years.</td>
</tr>
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**Topic 5 — Planning Your Future**

**Retirement Money: Six Common Sources Activity**

There are six common sources of money in retirement.

**Instructions:**
In the left hand column, write in the correct source of money that matches its definition. Use the Word Bank, but be careful, some will not match up.

**Word Bank**
- Disability check
- Gifts
- Home equity
- Inheritance
- Investments
- New income
- Pension
- Savings
- Social security
- Social security
- Social security
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**Sources of Retirement Money**

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<td>Home equity</td>
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Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Start Saving For Retirement

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
The 4% Rule (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. As you begin the discussion mention the four bullet points below first. Then discuss the bolded phrase. At this point, hand out the worksheet you’ve photocopied. Then, walk the participants through the example.

- Many studies indicate that if you want your retirement savings to last, you should withdraw no more than 4% to 6% of your savings each year.
- The exact percentage depends on many factors, including how long you live.
- If you’re in good health and retire at a relatively early age, withdrawing a smaller percentage each year will help insure that your savings last.
- The amount of savings that you spend each year will also depend on how much you receive from other sources of income—part-time work, social security, etc.

**Assuming a withdrawal rate of 4%, for every dollar you want to withdraw annually during retirement, you need to have $25 in assets set aside at the time you retire.**

In this example:
1. The investor wants $80,000 in annual income during retirement.
2. Each year, he’s going to receive $20,000 of that from Social Security and $10,000 from a pension.
3. He’ll need to make up the difference between the $80,000 he’d like and the 30,000 he knows he’s getting (from Social Security and his pension).
4. This difference is $50,000, which he’ll take from savings.
5. To make this scenario work and have all the money he needs for retirement, the investor will have to have a portfolio of at least $1.25 million dollars set aside by the time he retires.
6. $50,000 is 4% of $1.25 million—hence the 4% rule.

### The 4% Rule

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<th>Desired retirement income:</th>
<th>$80,000</th>
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<tr>
<td>Social security:</td>
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<td>Investment income needed:</td>
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<tr>
<td>4% withdrawal rate</td>
<td>x 25</td>
</tr>
<tr>
<td>Total investment assets needed:</td>
<td>$1,250,000</td>
</tr>
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If someone has $100,000 in savings and withdraws 4% a year, that’s just $4,000 a year. With $1,000,000 dollars in savings (at the same 4% withdrawal rate) the amount grows to $40,000 a year…which sounds like a much nicer retirement!
The 4% Rule

Instructions:
Use the diagram to help illustrate this example.

Assuming a withdrawal rate of 4%, for every dollar you want to withdraw annually during retirement, you need to have $25 in assets set aside at the time you retire.

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Types of Retirement Plans Activity (Instructor Copy)

**Instructor note:**
Photocopy the activity handouts on the following pages. Instruct your participants to answer the questions in the space provided. Then lead a discussion using participants’ answers and the key points below. After these activities, transition to a discussion of the different types of retirement plans.

**Instructions:**
Have your participants answer the following questions in the spaces provided in the handout on the next page:

1. What components do you need to consider for a retirement plan?
2. What benefits does contributing to a retirement plan offer you?
3. Give an example of a retirement plan.
4. How can your employer help with retirement plans?
5. What should you do about retirement plans if you’re a non-working spouse or have a business of your own?

**Key points for the Word Bank activity:**

1. A retirement plan is a way to set aside money for the future and avoid spending it now.

2. Contributing to a retirement plan can help you save more, save more often, and start saving now. That gives your money more time to grow.

3. Even small amounts of savings have the potential to grow over time.

4. There are various types of retirement plans for both individuals and employers.

5. Some employers offer their employees a retirement plan which can make it simple for employees to save money for the future out of every paycheck they get.

6. If you’re a non-working spouse or have a business of your own, there are other types of plans you can use.
Types of Retirement Plans Activity

Instructions:
Answer the following questions in the spaces provided.

1. What components do you need to consider for a retirement plan?

2. How does contributing to a retirement plan benefit you?

3. Give an example of a retirement plan.

4. How can your employer help with retirement plans?

5. What should you do about retirement plans if you're a non-working spouse or have a business of your own?
Types of Retirement Plans Activity (continued)

Instructions:
Answer the following questions in the spaces provided.

Word Bank
Double               Paycheck
For a vacation      Potential
For the future      Risk
Individuals         Tax refund
Non-working spouse Time to grow

1. A retirement plan is a way to set aside money _______________ and avoid spending it now.

2. Contributing to a retirement plan can help you save more, save more often, and start saving now. That gives your money more ______________.

3. Even small amounts of savings have the _______________ to grow over time.

4. There are various types of retirement plans for both _______________ and employers.

5. Some employers offer their employees a retirement plan which can make it simple for employees to save money for the future out of every _______________ they get.

6. If you’re a _______________ or have a business of your own, there are other types of plans you can use.
Types of Retirement Plans

Traditional Individual Retirement Account (IRA)
A Traditional IRA is an account that holds investments you’ve made (for example, CDs, mutual funds, or stocks) to help pay for your retirement. If you have earned income, you can contribute $5,000-$6,000 a year, potentially tax deductible, up to age 70½. The major benefit is that the government doesn’t tax the interest you earn until you withdraw it, normally when you retire. This can help your account compound faster to give you more money at retirement.

Traditional IRAs are good investments for money you don’t need right away and can afford to invest for a period of time. If you need it before you reach age 59½ (unless it’s to buy your first home or pay education expenses) you’ll pay both a penalty fee and taxes on your withdrawal.

A second type of IRA is called a Roth IRA. To understand the differences between Traditional and Roth and to set up an IRA, it’s important to work with a banker, a financial advisor, or a retirement specialist.

Defined Contribution
One common type of these company-sponsored employee retirement plans is called a 401(k) plan. According to the Internal Revenue Service (IRS), for 2008 the maximum 401(k) contribution is $15,500 if you’re younger than 50, $20,500 if you are 50 or older. While there are legal limits on how much you can contribute, you don’t have to pay income taxes on the money you contribute until you use the money when you’re retired.

If your company offers a retirement plan, study the specifics and talk with a retirement plan expert. Strongly consider investing as much as you can as soon as you can. Companies generally offer different options for you to invest the money in your 401(k). Some even offer to match your contributions. If yours does, take full advantage of it. Contribute enough to get the full match if you can. Also, take advantage of the new “catch up” provision starting at age 50 to maximize the amount of money you contribute. After all, you’re investing in your own future!

SEP
A Simplified Employee Pension Individual Retirement Plan (SEP) is designed for people who are self-employed. Funds may be invested the same way as an IRA. For 2008, a SEP allows you to contribute up to 25 percent of your business compensation up to a maximum of $46,000.

Defined Benefit
A defined benefit plan provides a specific income for retired employees, either as a lump sum or as a pension (an annual lifetime payment). The pension amount usually depends on the employee's age at retirement, final salary, and the number of years on the job.

Tip!
It’s never too early to start saving for retirement. Start saving as much as you can now at the best interest rate possible. Give your money time to grow! There may be different retirement plan options available to you. Be sure to consult with a retirement planning expert and tax advisor.
Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Retirement Basics lesson:

- Most of us would like to retire someday with the peace of mind that we can take care of ourselves financially.
- Having a financial strategy is critical because you want to have the needed resources for the length of your retirement.
- When it comes to creating a retirement strategy, there's no such thing as “one size fits all.”
Lesson 6: Making Retirement Work for You

In this lesson, participants will learn the value of starting early and creating a retirement strategy team. They’ll learn how to determine how much money they’ll need to retire.

Learning Objectives
After completing this lesson, participants will be able to:

- Build a retirement strategy team.
- Ask every member of the retirement strategy team targeted questions.
- List the five good action steps for any retirement strategy.
- Determine the amount of money they’ll need for retirement using the 4% rule.
- Close any gaps in their retirement plan.

Start the Discussion
To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- Who do you think would be part of a retirement strategy team? Why?
- What types of guidance do you need as you plan for retirement?
- When you think about retirement, what sorts of feelings or emotions come to mind?
- Does money figure into any of those emotions? Why or why not?
- How can you determine if you’re on track to retire with the amount of money you need?

The Basics

- Creating a retirement strategy is a good first step in thinking about saving for retirement.
- It’s a good idea to form a retirement strategy team that consists of your employer, your tax advisor, your business consultant, your banker and others.
- Lots of good retirement information is available for free—on the Web or at your local library.
- Use the 4% rule to determine how much money you’ll need to save to retire.
Build a Retirement Strategy Team Activity (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Divide the class into small groups and assign each group one of the questions below. When they are finished, discuss each question.

**Instructions:**
Have your participants read the statements and then fill in the answers for the assigned section.

1. **Creating a retirement strategy is a great first step, and there are a number of people who can help you.**

   Think of these individuals as your retirement strategy team. Take advantage of the information and advice they can offer you. These people could include (make a list):
   - Your employer
   - Tax advisor
   - Banker
   - Home mortgage consultant
   - Investment counselor
   - Insurance agent

2. **There is a lot of good information available about retirement planning at low or no-cost.**

   Where can you find this information?
   - Books
   - Magazines
   - Internet
   - Professionals—if you do pay someone to advise or assist you, be sure you understand how (and how much) you’ll be charged.

3. **What role can your financial service company play?**

   - Some financial services companies will answer basic financial questions for free, or create a basic financial plan for as little as a few hundred dollars.
   - You may have to pay for some planning services, but financial advice doesn’t have to be expensive.
   - And paying for that advice now can be a bargain if it helps you make smart financial choices that pay off in the long run.
   - But be sure to check the credentials of any financial advisor you use. Make sure they have a solid track record and reputation.
Build a Retirement Strategy Team Activity

Instructions:
Read the statements below and then fill in the answers for your assigned section.

1. Creating a retirement strategy is a great first step, and there are a number of people who can help you.

Think of these individuals as your retirement strategy team. Take advantage of the information and advice they can offer you. These people could include (make a list):

2. There is a lot of good information available about retirement planning at low or no-cost.

Where can you find this information?

3. What role can your financial service company play?
Topic 5 — Planning Your Future

Ask Your Team for Guidance Activity (Instructor Copy)

_Instructor note:_ Photocopy the activity handout on the following page. Divide the class into groups. Instruct them to list different questions they should ask each member of their retirement strategy team. Then reveal these questions and open the floor for discussion.

Be sure to ask questions of your retirement strategy team. If you work for a company, a great place to start is by talking to your employer or your union. If you’re self-employed, you can seek outside professional advice.

**Instructions:**

Have your participants write in at least two questions for each retirement strategy team member. The questions may or not be the same for some team members.

### Asking Your Team for Guidance

<table>
<thead>
<tr>
<th>Team Member</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your Employer</td>
<td>• Does the company offer a retirement plan?</td>
</tr>
<tr>
<td></td>
<td>• Does the company contribute to or match employee contributions to the plan?</td>
</tr>
<tr>
<td></td>
<td>• Does the company offer an automatic payroll deduction option so I can spread my contribution throughout the year?</td>
</tr>
<tr>
<td></td>
<td>• What retirement benefits will I receive?</td>
</tr>
<tr>
<td>Your CPA or Tax Advisor</td>
<td>• Which retirement income sources should I spend first in order to minimize my taxes?</td>
</tr>
<tr>
<td></td>
<td>• At what age can I begin withdrawing money from a tax-deferred savings plan without incurring a penalty? (Currently, the answer is age 59½.)</td>
</tr>
<tr>
<td>Your Investment Counselor</td>
<td>• How much can I realistically expect to earn on my investments? (Remember: investing always involves risk and there are no guarantees. Some investments carry more risk, and more potential reward, than others.)</td>
</tr>
<tr>
<td></td>
<td>• How should I allocate my assets to manage my income in retirement while seeking continued growth for my savings?</td>
</tr>
</tbody>
</table>

**Tip!**

If your employer offers a retirement savings plan, contribute to it. If your employer contributes, keep in mind that their contributions can vary year to year, so check with your employer at the beginning of each year.
Ask Your Team for Guidance Activity

Be sure to ask questions of your retirement strategy team. If you work for a company, a great place to start is by talking to your employer or your union. If you're self-employed, you can seek outside professional advice.

Instructions:
Write in at least two questions for each retirement strategy team member. The questions may or not be the same for some team members.

Asking Your Team for Guidance

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<tr>
<td>Your Employer</td>
<td>Example: What retirement benefits will I receive?</td>
</tr>
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</tr>
<tr>
<td>Your Investment Counselor</td>
<td>Example: How should I allocate my assets to manage my income in retirement?</td>
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Tip!
If your employer offers a retirement savings plan, contribute to it. If your employer contributes, keep in mind that their contributions can vary year to year, so check with your employer at the beginning of each year.
## Getting Ready to Retire Activity (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Divide the class into groups. Instruct them to consider each step and describe why it is important for retirement. Then discuss their answer and share these points below with them.

**Instructions:**
Have your participants review each action step and write/describe why it is important for retirement.

### Getting Ready to Retire

<table>
<thead>
<tr>
<th>Action Step</th>
<th>Why Should You Follow This Step?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce your debt</td>
<td>• Many experts recommend that you pay off major debts, such as home mortgages, college loans and other significant cash-flow drains, as quickly as you can.</td>
</tr>
<tr>
<td></td>
<td>• By paying off your debts, you can greatly reduce the amount of money you’ll need each month during retirement.</td>
</tr>
<tr>
<td>Build your savings</td>
<td>• Set up regular, automatic deposits to savings from your paycheck, checking account or both. By making it convenient, you'll save regularly and won't spend the money instead.</td>
</tr>
<tr>
<td></td>
<td>• The sooner you start saving for retirement, the more time your money has the potential to grow and the harder your money works for you.</td>
</tr>
<tr>
<td></td>
<td>• Even if you can only set aside a little each month, starting early could help you to take advantage of the potential of compounding. And even if you didn't start early, it pays to start now. Contributing regularly is key.</td>
</tr>
<tr>
<td>Contribute to a plan</td>
<td>• Contributing to a retirement plan can help you to save more, save more often, and start saving now to give your money more time to grow.</td>
</tr>
<tr>
<td></td>
<td>• Consult with your employer and a retirement planning expert to discuss what retirement plan options are available to you.</td>
</tr>
<tr>
<td></td>
<td>• If you're over 50 years of age, 401(k) plans and IRAs offer the option of investing additional catch up contributions.</td>
</tr>
<tr>
<td>Manage your investments</td>
<td>• As your target retirement date draws closer, you may want to reduce the percentage of stocks and increase the percentage of bonds in your portfolio. That's because the prices of stocks can go up and down quickly over the short term, while bonds are more stable and produce a steady source of income.</td>
</tr>
<tr>
<td></td>
<td>• Also, ask your investment advisor about investments specifically designed for retirement.</td>
</tr>
<tr>
<td>Check with Social Security</td>
<td>• Review your annual Social Security statement to learn about your benefits and options. Make sure your personal information is up-to-date and your wage records are accurate.</td>
</tr>
</tbody>
</table>
Getting Ready to Retire Activity

Instructions:
Review each action step and write/describe why it is important for retirement.

### Getting Ready to Retire

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<td>Build your savings</td>
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</tr>
<tr>
<td>Contribute to a plan</td>
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<tr>
<td>Check with Social Security</td>
<td>Fill in the blank.</td>
</tr>
</tbody>
</table>
Determine the Money You’ll Need Activity (Instructor Copy)

_Instructor note:_ Photocopy the activity handout on the following page. Instruct your participants to fill out the fields according to the instructions.

_Instructions:_ Have your participants fill out the blank fields with their desired annual income, their expected social security benefits, expected annual pension, and the annual income they’ll need from investments. Then, have them do the basic math to determine how much money they’ll need to save for retirement.

<table>
<thead>
<tr>
<th>The 4% Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desired retirement income: $80,000</td>
</tr>
<tr>
<td>Social security: $20,000</td>
</tr>
<tr>
<td>Pension: + $10,000</td>
</tr>
<tr>
<td>Investment income needed: $50,000</td>
</tr>
<tr>
<td>4% withdrawal rate x 25</td>
</tr>
<tr>
<td>Total investment assets needed: $1,250,000</td>
</tr>
</tbody>
</table>

_Everyone’s retirement picture and goals are a little different. But hopefully this 4% rule gives you a good general guideline. To decide how much money you’ll need to retire, you’ll need to consider your own retirement spending needs and your own sources of income._
Determine the Money You’ll Need Activity

Instructions:
Fill out the blank fields with your desired annual income, your expected social security benefits, your expected annual pension, and the annual income you’ll need from your investments. Then, do the basic math to determine how much money you’ll need to save for retirement.

The 4% Rule

Desired retirement income:

Social security:

Pension:

Investment income needed:

4% withdrawal rate \times 25

Total investment assets needed:

Everyone's retirement picture and goals are a little different. But hopefully this 4% rule gives you a good general guideline. To decide how much money you’ll need to retire, you’ll need to consider your own retirement spending needs and your own sources of income.
Instructor note:
Photocopy the activity handout on the following page. Ask your participants to brainstorm several ideas that can help them close the gaps between the amount they've saved and they amount they need for retirement. Then lead a discussion using the key points from this handout listed below.

If you’re trying to close the gap between the amount you’ve saved for retirement and the amount that you want and need here are some strategies that may definitely help:

### Strategies for Closing the Retirement Gap

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cut back your spending</td>
<td>• Consider lowering your monthly overhead by downsizing your home and/or moving to a more affordable area.</td>
</tr>
<tr>
<td></td>
<td>• Re-evaluate your insurance policies. If you increase your deductible from $250 to $500, you might be able to cut your premiums by 10% to 20%.</td>
</tr>
<tr>
<td></td>
<td>• Look for other adjustments you can make some to reduce your expenses and minimize taxes.</td>
</tr>
<tr>
<td>Save more, starting now</td>
<td>• Even if you’re getting started late, save as much as you can now.</td>
</tr>
<tr>
<td>Delay your retirement date</td>
<td>• You can choose to work longer, delaying the date when you’ll depend on your portfolio income. A few additional years of full-time or even a part-time income can make a big difference in achieving your retirement plan.</td>
</tr>
<tr>
<td></td>
<td>• If you own your own business, think about revising your business exit strategy in a way that generates more assets or income to support your retirement lifestyle.</td>
</tr>
<tr>
<td>Pay your taxes quarterly</td>
<td>• Rather than having your taxes automatically withheld from your retirement distributions, arrange to pay estimated taxes quarterly so you have access to the funds in the interim.</td>
</tr>
<tr>
<td></td>
<td>• Consult your tax advisor for assistance with determining your quarterly payments.</td>
</tr>
<tr>
<td>Distribute $ strategically</td>
<td>• Consider withdrawing funds first from Social Security, then from taxable investment accounts, and last from your retirement accounts, such as IRAs and other tax-deferred accounts.</td>
</tr>
<tr>
<td></td>
<td>• Your goal is to cover your monthly expenses, minimize your income taxes, and keep as much money as possible working tax-deferred for your future. Consult your tax advisor to determine the right decisions for your situation.</td>
</tr>
</tbody>
</table>
Closing the Retirement Money Gap

If you're trying to close the gap between the amount you've saved for retirement and the amount that you want and need here are some strategies that may definitely help:

### Strategies for Closing the Retirement Gap

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| Cut back your spending             | • Consider lowering your monthly overhead by downsizing your home and/or moving to a more affordable area.  
  • Re-evaluate your insurance policies. If you increase your deductible from $250 to $500, you might be able to cut your premiums by 10% to 20%.  
  • Look for other adjustments you can make to reduce your expenses and minimize taxes. |
| Save more, starting now            | • Even if you're getting started late, save as much as you can now.                                                                           |
| Delay your retirement date         | • You can choose to work longer, delaying the date when you'll depend on your portfolio income. A few additional years of full-time or even a part-time income can make a big difference in achieving your retirement plan.  
  • If you own your own business, think about revising your business exit strategy in a way that generates more assets or income to support your retirement lifestyle. |
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| Distribute $ strategically         | • Consider withdrawing funds first from Social Security, then from taxable investment accounts, and last from your retirement accounts, such as IRAs and other tax-deferred accounts.  
  • Your goal is to cover your monthly expenses, minimize your income taxes, and keep as much money as possible working tax-deferred for your future. Consult your tax advisor to determine the right decisions for your situation. |
Scenario: Painting a Picture of Retirement Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the next page. Ask participants to choose the best possible option, and then, for each option, instruct them to write a few sentences about why it was right or wrong for the situation. After participants finish, lead a group discussion about their choices, using the consequences and feedback provided below.

Instructions:
Have participants read Gwen's story and select the best possible option. Then for each option, have them write a few sentences about why the option was right or wrong for Gwen's situation.

Gwen's Story
Gwen owns a two-story building that houses her business, an art gallery and frame shop, on the ground floor, with an apartment above. She lives in a condominium in the suburbs. Gwen's daughter, son-in-law, and one-year old twins have just moved to the city. Gwen is 62 and would like to retire to help care for her grandchildren but doesn't have enough money saved. Her assistant would like to take over the shop. What should Gwen do?

1. Remodel the building now so she can sell it for a higher price. Invest the money from the sale.
   Consequences: Gwen took money from her savings and investments to pay for the remodel. That meant she had less money earning interest or profits. When the building didn't sell, she had to cut the price. After she sold it, she didn't have my regular source of income. Now she's working half-time for someone else!
   Feedback: Gwen's goal was to save, not spend. If the building had sold quickly for a very high price, maybe this idea could have worked—but there were no guarantees. Meanwhile, Gwen kept her major expense but gave up her major source of income (the business). She needed to look at the big picture.

2. Sell her condo and move into the apartment above the store. Transition the gallery to her assistant.
   Consequences: This worked out great for Gwen. Her housing expenses are 1/3 of what they used to be. And by moving to the city, she was able to sell her car, too. That's a huge savings in both dollars and commute time. Now she can save and invest much more and hopefully retire soon. I'm continuing to work for now but can gradually work less as I train my assistant to take over. Even after I retire, I can still make money by selling my paintings."
   Feedback: This is the correct choice. Cutting expenses, saving and investing more, delaying her retirement date, and continuing to earn income are all great strategies for closing the retirement money gap. She's been able to sell her car and save and invest more.

3. Move all of her savings into stocks with high potential for growth. Sell as soon as their values rise 30%.
   Consequences: Not the right choice. It wasn't smart to put all of her hard-earned savings at major risk. A few of the stocks went up, but the others went way down. It would have been smarter to cut her expenses and save more but keep her investments diversified.
   Feedback: Sorry, this advice put Gwen in a risky spot. There are no guarantees that investments will go up in value, and she could lose some or even all of her savings. To create a successful retirement strategy, she needs to consider her whole picture—income, expenses, savings, and investments.
Scenario: Painting a Picture of Retirement Activity

Instructions:
Read Gwen's story. Based on their situation, choose the best possible option. Then, for each option, write a few sentences about why the option was right or wrong for Gwen's situation.

Gwen's Story
Gwen owns a two-story building that houses her business, an art gallery and frame shop, on the ground floor, with an apartment above. She lives in a condominium in the suburbs. Gwen's daughter, son-in-law, and one-year old twins have just moved to the city. Gwen is 62 and would like to retire to help care for her grandchildren but doesn't have enough money saved. Her assistant would like to take over the shop.

What should Gwen do?

1. Remodel the building now so she can sell it for a higher price. Invest the money from the sale. Should she choose this option? Why or why not?

2. Sell her condo and move into the apartment above the store. Transition the gallery to her assistant. Should she choose this option? Why or why not?

3. Move all of her savings into stocks with high potential for growth. Sell as soon as their values rise 30%. Should she choose this option? Why or why not?
Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Making Retirement Work For You lesson:

- Creating a retirement strategy is a good first step in thinking about saving for retirement.
- It’s a good idea to form a retirement strategy team that consists of your employer, your tax advisor, your business consultant, your banker and others.
- Lots of good retirement information is available for free—on the Web or at your local library.
- Use the 4% rule to determine how much money you’ll need to save to retire.
Lesson 7: Wealth Building

In this lesson, participants will learn that wealth is a set of resources they can use to create and take advantage of life’s opportunities.

**Learning Objectives**

After completing this lesson, participants will be able to:

- Define the wealth-building pyramid to help build wealth.
- Use the three pillars of wealth building to determine their wealth disbursement.

**Start the Discussion**

To start a discussion with your participants, ask some open-ended questions.

- What’s the difference between wealth and having a lot of money?
- What are some things you’ve tried to do to build wealth?
- Give an example of a person who has built wealth (not through inheritance, etc.). What traits does this person have?
- How important is building wealth to you? Why?

**The Basics**

- “Having money” and “building wealth” are really two different things.
- Wealth is a set of resources you can use to create and take advantage of life’s opportunities.
- Wealth building is a process of defined steps that requires discipline.
What is Wealth-Building? (Instructor Copy)

Instructor note:
Begin a discussion about wealth. Open the floor for discussion by asking questions, such as:

- How do you define wealth?
- How can you build wealth?
- What kind of people do you consider “wealthy?”

Then focus on the key points listed below as you continue the discussion.

Key Points:

- “Having money” and “building wealth” are really two different things.
- When you have wealth—savings, assets and investments—you have more than just income.
- Wealth is a set of resources you can use to create and take advantage of life’s opportunities.
- Wealth-building usually doesn’t happen overnight, in a year, or in three years. Building wealth is a series of steps that you take over time. It’s an ongoing process that requires discipline.
- If you apply that discipline, wealth-building becomes a life pattern. And as you move through each stage of life, you grow in your ability to build wealth and to pass that wealth from generation to generation.
The Wealth-Building Pyramid Activity (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Instruct your participants to label the diagram as you walk through each stage of wealth building and take notes in the space provided.

- **Cash Flow (Foundation)**
  Before you can build wealth you must consistently generate enough income to handle month-to-month expenses and have enough savings set aside to cover at least two months, and if possible three to six months of living expenses, in case of a financial emergency.

- **Assets**
  Then you can begin to invest in assets—investments, such as real estate or stocks. These investments will hopefully appreciate in value over time and allow you to retire at some point in the future with a comfortable lifestyle.

- **Estate**
  Your estate is the wealth you’ll pass on to your family. If you’re a business owner, this could include your business.

- **Legacy**
  These are your legacy goals, or your philanthropic goals—the many positive ways you might share your wealth by giving back to your community.

**Tip!**
Remember that your wealth-building pyramid needs a solid foundation—a foundation you provide by being a good money manager, establishing credit, and managing your credit wisely.
The Wealth-Building Pyramid Activity

Instructions:
Label the diagram and take notes in the space provided as you listen to the discussion.

Cash Flow (Foundation)

Assets

Estate

Legacy

Remember that your wealth-building pyramid needs a solid foundation—a foundation you provide by being a good money manager, establishing credit, and managing your credit wisely.
The Three Pillars of Wealth-Building (Instructor Copy)

Instructor note:
Photocopy the activity handout on the following page. Instruct your participants to label the diagram and take notes as you lead the discussion.

The Three Pillars of Wealth-Building

<table>
<thead>
<tr>
<th>First Pillar</th>
<th>Second Pillar</th>
<th>Third Pillar</th>
</tr>
</thead>
<tbody>
<tr>
<td>The first pillar of wealth building is “Real Property Assets” (your personal residence and investment real estate) because in general, real estate appreciates in value. And once you own a home, you gain the potential to tap into your home equity, which means you may be able to borrow money using your home as security. Home equity gives people financial flexibility and options.</td>
<td>The second pillar is investments—for example, a retirement account where you have stocks and bonds.</td>
<td>And the third pillar, for many people, is entrepreneurship—owning a business of your own.</td>
</tr>
</tbody>
</table>

Tip!
For most people, ⅔ of family wealth is in the family home. Home equity can be a source of capital for all your wealth-building goals, and a home can be a significant legacy for the next generation.
The Three Pillars of Wealth-Building

Instructions:
Label the diagram and take notes as you listen to the discussion.

For most people, 2/3 of family wealth is in the family home. Home equity can be a source of capital for all your wealth-building goals, and a home can be a significant legacy for the next generation.
Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Wealth Building lesson:

• “Having money” and “building wealth” are really two different things.
• Wealth is a set of resources you can use to create and take advantage of life’s opportunities.
• Wealth building is a process of defined steps that requires discipline.
Lesson 8: Preserving Your Wealth

This lesson will teach participants how to protect the wealth they’ve accumulated. They will learn valuable information about insurance and three plans that can help them secure their financial future.

Learning Objectives
After completing this lesson, participants will be able to:

- Protect their assets.
- Explain the value of insurance and define key insurance vocabulary terms.
- Understand the importance and cost of health care as they move into retirement.
- Define investing plan, financial plan and estate plan.

Start the Discussion
To start a discussion with your participants, ask some open-ended questions.

- What types of things can help protect your financial future?

The Basics

- Once you’ve built a portfolio of investments and other assets, you’ll want a strategy to preserve your wealth.
- You need to protect your investments against unexpected emergencies or other factors that could impact your financial future.
- Insurance can help you protect your financial future.
- Three plans—an investment plan, a financial plan, and an estate plan—can help provide you greater financial security and a legacy for the next generation.
### Protect Your Assets (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Lead a discussion to help your participants understand how they can protect their assets during retirement. Encourage them to write down notes and questions during the discussion.

#### Protecting Your Assets

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Advice</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prepare for medical emergencies</strong></td>
<td>Be sure you have adequate insurance and a plan for managing your assets if you or a family member becomes seriously ill or disabled.</td>
</tr>
<tr>
<td><strong>Consider longevity</strong></td>
<td>Increase your savings so you can live comfortably in your eighties, nineties, or even beyond.</td>
</tr>
<tr>
<td><strong>Manage your portfolio</strong></td>
<td>Diversification and asset allocation can help reduce the impacts of high inflation and market declines on your investment accounts.</td>
</tr>
<tr>
<td><strong>Have alternative plans</strong></td>
<td>Consider best- and worst-case economic scenarios and determine how your financial plans may change if some of your assets lose value.</td>
</tr>
<tr>
<td><strong>Keep personal assets separate</strong></td>
<td>If you or your family owns a small business, consider ways to structure your business to protect your personal assets.</td>
</tr>
</tbody>
</table>
## Protect Your Assets

**Instructions:**
Write down notes and questions as you participate in this discussion.

### Protecting Your Assets

<table>
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</table>
The Value of Insurance (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following pages and lead a discussion about how insurance is a critical resource for financial protection.

The value of insurance is to protect you from major expenses that you otherwise couldn’t afford. For example, insurance could help you repair a car that was damaged in an accident, pay hospital bills, or repair your home after a fire.

### Key Concepts of Insurance

<table>
<thead>
<tr>
<th>Concept</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic insurance terminology</td>
<td>• Insurance policy is the document that spells out exactly what is covered and what is not.</td>
</tr>
<tr>
<td></td>
<td>• Benefits are the items covered by your insurance.</td>
</tr>
<tr>
<td></td>
<td>• Premium is the amount you pay for the insurance.</td>
</tr>
<tr>
<td></td>
<td>• A claim is what you submit to your insurance company when you have costs or bills.</td>
</tr>
<tr>
<td></td>
<td>• The deductible is the amount of a claim that you must pay before the insurance company will cover the rest.</td>
</tr>
<tr>
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<td>• A co-pay is the amount you pay toward each medical bill.</td>
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<td>How deductible impacts premium</td>
<td>• Typically, the higher the deductible amount, the less expensive the insurance premium.</td>
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<td>• Get a policy with the highest deductible that you’d be able to comfortably afford if you had to. This will minimize the cost of your policy.</td>
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<td>Your credit score</td>
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</tr>
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<td>“Save” on health insurance?</td>
<td>• If you’re young and in good health, you may be tempted to “save money” by not buying health insurance.</td>
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<td>• A general rule of smart money management is to never insure something you can afford to pay for yourself.</td>
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<td>• You may be able to handle the expense of minor health problems, but one serious illness has the potential to financially wipe out you—and your family.</td>
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<td>• Keep in mind that the younger and healthier you are when buying a health insurance policy, the less expensive it’s likely to be.</td>
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### Consider long term care

- Consider whether long term care insurance (LTC) is right for you.
- This is coverage that, under specified conditions, provides skilled nursing, intermediate care, or custodial care for a patient (generally over age 65) in a nursing facility or his or her residence following an injury.
- In some cases, adult children purchase this coverage for their parents.
- When shopping for LTC, read the fine print. Work with an advisor who understands LTC. Coverage and costs may vary widely depending on your age, health, and other factors.
- Also, consider that in future years you may want to adjust your living situation to suit your changing needs. Do you anticipate living with family members or on your own? Some senior communities now offer healthcare and assisted living as part of a complete package of services. Explore some of these options in advance so that you have a realistic understanding of the potential benefits and costs.

### Benefits of life insurance

- Regardless of your family circumstances or your age, you should consider life insurance.
- While its primary purpose is to ease the financial burden of an untimely death, it can be an effective tool for both asset protection and wealth accumulation.
- Some types of life insurance can be used as a source of retirement income or to fund a child’s education.
- Many financial planners consider life insurance to be an important part of sound financial planning. Click on The Library icon for an article about life insurance and consult a professional to learn more.

### Before you buy

- Before you buy insurance, always check the “financial strength rating” of the insurance company.
- This is a measure of their financial soundness and how capable they are of handling the claims of their customers. The highest rating is AAA, followed by AA. Avoid companies without at least an A rating.
- You can research these ratings on the Web. There are several companies that rate insurers, including AM Best, Moody’s and Standard & Poors. The most reputable insurers receive consistently high ratings from all of these companies.

*Important Note:* You will need to consult your legal or financial advisor for more specific information.
The Value of Insurance

Key points:
The value of insurance is to protect you from major expenses that you otherwise couldn’t afford. For example, insurance could help you repair a car that was damaged in an accident, pay hospital bills, or repair your home after a fire.

Key Concepts of Insurance

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<tr>
<th>Concept</th>
<th>Description</th>
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<tr>
<td>Basic insurance terminology</td>
<td>• Insurance policy is the document that spells out exactly what is covered and what is not.</td>
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<td>• Benefits are the items covered by your insurance.</td>
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<td></td>
<td>• Premium is the amount you pay for the insurance.</td>
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<tr>
<td></td>
<td>• A claim is what you submit to your insurance company when you have costs or bills.</td>
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<td>• The deductible is the amount of a claim that you must pay before the insurance company will cover the rest.</td>
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### The Value of Insurance (continued)

#### Key Concepts of Insurance (continued)

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*Important Note: You will need to consult your legal or financial advisor for more specific information.*
The Growing Cost of Health Care

Instructor note:
Lead a discussion about health care costs for seniors using this chart and the key points below.

As these two charts show, health care costs account for almost one third of the money spent by people between the ages of 65 and 74. After age 75, health care expenses account for more than half of all spending.

Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Health Insurance

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
Three Plans for Your Future Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the following page. Divide the class into groups and have them fill in the chart with descriptions and definitions of each of the three plans. Then, walk them through each plan using the key points below.

There are three additional tools that we strongly suggest you develop for yourself:
1. Investing plan
2. Financial plan
3. Estate plan

Once you’re familiar with these basics, it’s a good idea to work with investing, financial, and estate planning professionals to learn more and to get help in creating plans that work for you.

Instructions:
Have your participants define and describe each of these three plans.

<table>
<thead>
<tr>
<th>Plan</th>
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</thead>
<tbody>
<tr>
<td>Investing plan</td>
<td>• An investing plan addresses your investment strategy: your goals, your risk tolerance, the kinds of investments you want to make, and how you plan to balance your portfolio—the group of investments you own.</td>
</tr>
</tbody>
</table>
| Financial plan  | • Financial planning means creating a long-term vision and clear goals for the financial future you want.  
• It means taking a look at how the major pieces of your financial world—your job or business, your spending plan, the major assets you own, and the debts you owe—all add up into one complete picture. Real estate, insurance, and investments are part of it, too.  
• Creating a financial plan helps you see what you’re trying to achieve and how all of the parts fit together relative to your goals.                                                                                   |
| Estate plan     | • An estate plan specifies how you want your property to be managed and distributed should you become totally disabled and after you die. Wills and trusts are part of an estate plan.  
• Creating an estate plan can also help you define your legacy—the gifts you’d like to make during your life and afterward to make a positive impact on your community.  
• If you don’t create an estate plan, the money you leave behind will be subject to fees and may be subject to taxes of up to 60% or more! The state will control the distribution of your estate rather than your heirs.  
• Business owners, in particular, should be very conscious of the need to create an estate plan, because frequently much of your wealth in tied up in the business.                                      |
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2. Financial plan
3. Estate plan

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<tr>
<td>Financial plan</td>
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<tr>
<td>Estate plan</td>
<td></td>
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</tbody>
</table>
Lesson Summary

Instructor note:

Summarize this lesson by reviewing these key points with your participants.

Key points from the Preserving Your Wealth lesson:

- Once you’ve built a portfolio of investments and other assets, you’ll want a strategy to preserve your wealth.
- You need to protect your investments against unexpected emergencies or other factors that could impact your financial future.
- Insurance can help you protect your financial future.
- Three plans—an investment plan, a financial plan, and an estate plan—can help provide you greater financial security and a legacy for the next generation.
**Topic 5 — Planning Your Future**

**Topic Summary**

*Instructor note:*
*Summarize this topic by reviewing these key points with your participants.*

**Key points from the Planning Your Future Topic**

- Think about your short- and long-term goals. Write them down, and update them when your circumstances change.
- Investing is a critical tool for helping your savings to grow over time.
- Investing involves risk, but you can help manage that risk by owning a variety of investments and following common sense investing guidelines.
- If you want to retire someday, create a retirement strategy now—and get started with saving and investing as early as you can.
- Create a retirement strategy team—including your tax advisor, banker or employer.
- Keep in mind that “having money” and “building wealth” are two different things. Wealth is a combination of savings, assets, and investments. It’s a set of resources you can use to take advantage of life’s opportunities. And wealth building is a series of steps you take over time.
- Protect your financial future and your family by having adequate insurance, an investing plan, a financial plan, and an estate plan.
- Take action now to plan your future, build wealth, achieve your financial goals, and design your own legacy for the next generation.

**Additional Activities**

*These activities are designed to extend the new concepts presented in the Buying a Home Topic. Use these or similar activities to give participants an opportunity to apply what they have just learned to real-life scenarios.*

1. Write down your current long and short term goals. Compare how these have changed since last year or the last five years.
2. Set up a preliminary meeting with your banker to discuss creating your retirement team.
3. Go online and experiment with different compound interest calculators. Then, set up a savings plan that will help you save for your retirement. Talk with your banker or financial planner about options.
4. Create a sample portfolio for yourself—determine the amount of risk—and then create a pie chart that includes stocks, bonds and cash.
5. Research different investment firms to see if they can offer you any retirement investing options.
Library Articles & Additional Topic Resources
Use these library articles as a discussion resource or a takeaway for your participants. Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
Personal Goal Setting

Chances are, you’re working hard to “get ahead”… but where are you headed? What kinds of things would you like to do, have, and accomplish over the next few months or years?

You probably have goals in various areas of your life, such as career, finance, education, or fitness. Some of these may be short-term goals such as getting a promotion at work, buying new clothes, or going on a vacation trip. Others may be long-term goals—whether it’s buying a home, starting a business, or paying for college education.

Goals can guide you financially
Setting financial goals can help guide your approach to saving, investing, and managing your money in general. To determine your financial goals, Imagine your future:

- Where do you want to live? In what kind of home? In what sort of neighborhood?
- Will you have children (or more children)? How many?
- What career will you have?
- What will your lifestyle be like—both while you’re employed and in retirement?
- In what manner would you like to provide a legacy for the next generation and give back to your community?

Write down your goals
To reach your goals, it can be very helpful to write them down on paper as opposed to just thinking about them. Writing your goals can help you determine exactly what you want to accomplish, and by when. It’ll help you see what’s really important to you and where to focus your time and effort. That’s why writing down your goals is a great first step for moving your ideas from dreams to reality.

Use the worksheet below to describe your long-term, short-term, and immediate goals in different categories. Over time, as your personal circumstances change, your goals may change as well. Update your goals on a regular basis and during times of major change.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at wellsfargo.com or any Wells Fargo store.
**Personal Goal Setting Worksheet**

As you determine your goals, consider what action steps you’ll need to take; what obstacles you may face and how you’ll address them; what resources you’ll need; and who can help you. Update your goals on a regular basis and during times of major change.

<table>
<thead>
<tr>
<th>Goals</th>
<th>Start Date</th>
<th>Goal Date</th>
<th>Career</th>
<th>Finance</th>
<th>Education</th>
<th>Health &amp; Fitness</th>
<th>Community</th>
<th>Personal Development</th>
<th>Leisure</th>
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<td>Immediate (next 6 months–1 year)</td>
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<td>Long-Term (next 6–10 years+)</td>
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Avoid Common Investing Mistakes

Here are some common sense guidelines to help you invest successfully and avoid common mistakes.

Decide if you're ready
Most financial advisors recommend that you have enough savings on-hand to cover two to six months of expenses before starting to invest. That way, you’ll be prepared to cover your expenses in case of an emergency, a sudden illness, or if you lose your job. Once you’ve built up enough savings—and your debts are low enough that you can comfortably pay them—you’re ready to consider investing.

Start investing as soon as you can
The earlier you start, the easier it will be to achieve your financial goals. Many investors lose out because they wait too long to get started or invest too little. If you don’t start early, it can be difficult to catch up.

Understand the basics
Before you actually invest any money, it’s important to understand the basics about different types of investments, such as stocks, bonds, and time accounts. One of the keys to success will be dividing your money among these types.

Consider your risk-tolerance
Investing involves taking some level of risk in exchange for potential reward. Consider your current financial situation and goals. Determine how much risk are you comfortable taking.

Diversify
Divide your money among different types of investments to reduce your risk. Have a balance of different types of investments in a variety of companies and industries.

Have a plan
Before you invest, create an overall plan of what you are trying to accomplish. Set financial goals and determine how much time you have to reach them. Taking your tolerance for risk into account, decide how much money you need to invest every month and the mix of investments you want to maintain.

Research before you invest
Research is critical to investing success. Always do research before investing. Most online brokerages offer research and financial news in addition to stock and mutual fund quotes. Base your decisions to invest on facts, not emotions. Be as objective as you can about the risks and potential rewards. View “hot tips” about investments with skepticism. Always do your research.
Avoid common investing mistakes (continued)

Buy low and sell high
Selling an investment for more than you paid is how you make a profit. The idea is simple, but it’s a challenge to do it consistently. The historical trend of a stock’s price may help indicate what might happen in the future, but there are no guarantees. When you research possible investments, experts recommend that you focus on the investment’s objective (in other words, whether the goal is to give investors income, growth, safety, or some combination of the three), risk profile, and how well it fits into your overall portfolio. Try to avoid buying a stock at its high point. Look for opportunities to buy stocks with good potential at low prices after a major market downturn.

Buy and hold
Some investors overreact to news items they read or “hot stock tips.” They start trading all the time, buying and selling investments very quickly in an attempt to make quick gains. These strategies rarely work and can put you in serious danger of losing your money. Stay objective and focus on the long term. Be an investor, not a gambler. Avoid the impulse to react to sudden changes in the market or to buy the latest hot stock.

Decide when to sell
One of the keys to successful investing is deciding when to sell investments that are doing poorly as well as those that have increased in value. Most professional investors set strict guidelines for themselves regarding the specific price, either high or low, at which they will sell. To cut your potential losses and maximize your gains, consider adopting the same approach. Review your portfolio on a regular basis to see which investments have significantly increased in value, which have dropped, and whether the time to sell is now. You may also want to consider the tax consequences of selling a particular asset at a particular time.

Pay attention to costs
Taxes, fees, inflation, and other costs can all affect your return on an investment. It’s wise to consult with an investment professional and your tax adviser regarding the best way to minimize these costs.

Keep track
Whether you trade online or invest though a professional, it’s important to keep track of your investments. A fast and convenient way is through online account access offered by many investment brokerage companies. This service allows you to view balance and transaction information, transfer money, contact customer service, and more. It’s usually provided for free.

Understand market and limit orders
Unlike most things you buy, the prices of most stocks change very frequently. This means you need to tell the broker, that is the person or company handling your transaction, the price you agree to pay. Market orders are filled at the price a stock is trading when the order is received. If the stock price is volatile that day, you might pay more than you planned to. With limit orders, you set the buy or sell price, but you run the risk of not getting your order executed. Review your broker’s trading guide before getting started to be sure you pick the order type that’s right for you.
Avoid common investing mistakes (continued)

**Be accurate**
If you trade online, make sure you type accurately. Check and double-check the order you type in. Have you entered the right stock symbol and number of shares? If you’re rushed or distracted, you could make a serious mistake.

**Stick with your plan**
Periodically review your investing plan so that you don’t lose sight of your goals. Adjust your portfolio as needed to maintain the mix of investments you want at your target level of risk.

The material provided above is for information only and is not intended to provide specific investment advice to any individual for any particular purpose. For advice related to your personal situation, you should consult an investment and tax professional.

The information contained herein is being provided as-is and without representation or warranty. The enclosed information is not intended as legal, tax or financial planning advice. Any discussion of tax or accounting matters herein (including any attachments) should not and may not be relied on by any recipient or reader. The recipient/reader should consult his/her tax adviser, legal consultant and/or accountant for a statement of tax and accounting rules applicable to his/her particular situation and for all other tax and accounting advice.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at wellsfargo.com or any Wells Fargo store.
Minimize Investment Taxes

The following are some specific federal tax considerations. It's important to note that tax rates change periodically. For the most current information, visit the Internal Revenue Service Web site at www.irs.gov. In addition, state taxes may apply. Visit your state government Web site to learn more.

Taxes are complicated. The more you know about taxes related to investment activity, the better able you will be to manage your tax costs. Money you can save in taxes is money you can keep invested for your future.

As with any other type of investment, tax liability may differ from individual to individual, depending on your own personal circumstances. The following are some specific tax considerations associated with investing in stocks, mutual funds, and bonds:

**Stocks**
When investing in stocks, you may be able to control your tax liability by:

- delaying or accelerating an anticipated sale.
- selecting stocks with certain characteristics (such as stocks that do or do not pay dividends).
- choosing to trade stocks through a tax-advantaged account, such as an IRA or 401(k) plan.

Taxable events can work both ways. They can trigger a tax liability — in which case you owe taxes — or they may enable you to claim a tax loss — in which case you may be able to deduct all or part of that loss in the coming year or even future years.

The following are the most typical taxable events:

- **Dividend distribution**
  Periodically, usually once a quarter, corporations may pay dividends to shareholders. Regardless of whether you receive a dividend or have it automatically invested back into the stock, the distribution is reported as income. Qualified dividends are currently subject to tax at a maximum rate of 15%. Non-qualified dividends are subject to ordinary tax rates.

- **Short-term capital gains**
  A short-term capital gain is the profit from the sale of shares you've owned for one year or less. Short-term gains are currently subject to ordinary income tax rates.

- **Long-term capital gains**
  A long-term capital gain is the profit when you sell shares you've owned for more than one year. Long-term gains are currently subject to a maximum federal tax rate of 15%.

If any of these events occur with an investment you own in a tax-advantaged account, your tax liability may be postponed.
Minimize investment taxes (continued)

Calculating gains and losses
When you sell shares, generally you incur either a gain or loss. Your gain or loss is the difference between the security's selling price and the security's cost basis. The cost basis is the purchase price plus any fees or commissions.

Gains occur when you sell shares for more than you originally paid, and are subject to capital gains taxation. Losses are incurred when your selling price is less than what you originally paid, and, in some circumstances, can be deducted from the current year or future year's capital gains liability.

Mutual Funds
Mutual funds have many advantages including professional money management and portfolio diversification. Keep in mind though, when you own mutual funds, your investment may be subject to taxable events. The following information regarding taxable events only refers to mutual funds that you own in taxable accounts, and not in tax-deferred accounts such as an IRA or 401(k) plan.

Taxable distributions
A mutual fund company generally does not pay taxes on your behalf, so it's important to monitor your account, and report all taxable distributions when you file your income taxes each year. A mutual fund company will send you a Form 1099-DIV that summarizes the taxable distributions it made to you during the year (if any).

Taxable distributions include:

- Dividend distributions
  Fund portfolios may hold securities that pay dividends. A fund company passes these dividends, minus fund expenses, on to the fund's shareholders. A portion of these dividends may qualify for special tax treatment (maximum rate of 15%) but other portions may not qualify. You may elect to have dividends reinvested to purchase more shares of the fund at the time of the distribution, but reinvesting dividends does not change your tax liability.
  Note: Some funds, such as municipal bond funds, invest in municipal debt securities, which may provide income that is exempt from federal income tax and, in some cases, state income tax as well. Before you invest in a municipal bond fund, you should read the prospectus carefully to see if the tax benefits from the fund may be appropriate for your situation. Please keep in mind that you may be subject to state and local taxes.

- Capital gains distributions
  Mutual funds purchase and sell investments on behalf of the fund's shareholders. When the fund sells investments for a long-term gain, it may treat a portion of its dividend as a capital gain distribution, taxable to you at a maximum rate of 15%. As with dividends, you may generally elect to have capital gains distributions reinvested. And, as with dividends, capital gains distributions you receive from a fund will be taxable.
Minimize investment taxes (continued)

Capital gains from the sale of mutual fund shares
In addition to any capital gains distributions you may receive while you own a mutual fund, you may also sell shares of a fund for a capital gain or a capital loss. You will generally realize a capital gain if you sell your fund shares for more than you paid for them, taking sales charges into account. This capital gain is taxable.

Short-term and long-term capital gains are subject to different tax rates. Check the Web sites of the IRS and your state government to learn more.

To calculate your capital gains, you may choose from one of the following methods: First In First Out (FIFO); Specific Shares Method; Average Cost Per Share, Single Category Method; Average Cost Per Share, or Double Category Method. Ask your tax advisor for details.

Avoid Double Payment
If you automatically reinvest your dividends and capital gains distributions, you should keep all your statements for accurate records when it comes time to sell. That's because you have already paid taxes on your reinvested dividends, so you can subtract both your original contribution plus the total amount of reinvested money from the market value of your investment. This will reduce your capital gains tax liability. Investors who forget to do this may end up paying double taxes on their reinvested dividends, first in the year the dividend is paid and then again when they sell the mutual fund shares.

Bonds
Interest income
In general:
- The interest paid from bonds is taxed at your ordinary income tax rate.
- The interest from U.S. Treasury bonds, bills, and notes is exempt from state and local taxes.
- The interest from some Municipal Bonds is exempt from federal taxes and from state and local taxes for residents of the state where the bond was issued.

Capital gains
- Since bond prices fluctuate, you may sell your bond for more than you paid for it. If this is the case, any profit other than interest income is taxed as capital gain.
- The short-term capital gains rate is the same as your ordinary income tax rate. Profits from bond investments bought and sold within 12 months or less are taxable as short-term gains.
- The long-term capital gains rate—15% for most investors—is applied to bond investments bought and sold for a profit in a period greater than 12 months.
- If you own any kind of bond mutual fund, you may also receive capital gains distributions taxable at the long-term capital gains rate.

The information contained herein is being provided as-is and without representation or warranty. The enclosed information is not intended as legal, tax or financial planning advice. Any discussion of tax or accounting matters herein (including any attachments) should not and may not be relied on by any recipient or reader. The recipient/reader should consult his/her tax adviser, legal consultant and/or accountant for a statement of tax and accounting rules applicable to his/her particular situation and for all other tax and accounting advice.
Start Saving for Retirement

Like most people, you probably want to retire someday. That means having enough money in savings and investments to enjoy a comfortable lifestyle without having to work. You may think it’s too early to start, but financial experts agree that no one’s too young to save for retirement. In fact, the key to success is to start saving as early as you can.

Starting early allows you to accumulate more savings over a gradual period of time. In addition, the power of compound interest is increased the sooner you start to save. The longer you wait, the less your savings will grow.

For example, assume that you’re 22 and that you’d like to retire at 62. If you put $3,000 a year into your Individual Retirement Account (IRA) for 40 years, assuming an average annual return of 10 percent, you’d have over $1.4 million by the time you want to retire. But if you put off saving for 10 years and start when you’re 32, you’d have an amount over $500,000 at retirement. By waiting those 10 years to get started, you’d end up with almost a million dollars less! (Please note that this is an illustration only. There is no guarantee that any investment will return 10 percent over time. Your actual return will depend on a variety of factors including your actual investment, market conditions, and other factors.)

When you’re just starting out and have bills and loans to pay, you may find it tough to make saving for retirement a priority. Saving regularly, even if the amounts are small, can yield big balances down the road. Even if you earn an average salary, you can end up a millionaire if you start saving early.

The younger you are, the more time you have before retirement age. You may therefore be able to make some investments that have higher risk and higher potential reward compared to a person closer to retirement age who needs to be more conservative.

Some people never get started with retirement saving. Year after year, they spend their time and resources on their current needs. Then one day they realize that retirement age is approaching fast and they’re totally unprepared. Don’t let it happen to you!

Here are some tips for creating the retirement savings you want:

- **As soon as you start making money, start saving money!** Set-up an account to take out a certain percentage from each paycheck. It can be easy and painless to save when the money is “out of sight, out of mind.”

- **Check your budget to determine how much you can save.** Consider saving from 10 to 20 percent of what’s left of your monthly income after living expenses and debts are paid.

- **Make savings a habit!** Even if you’re still in school and only working part-time, and can start at just $50 a month, the amount you’re able to save is less important than making the commitment and sticking with it. Over time, you can always increase the amount you save, but you can’t make up for lost years of compound interest.
Start Saving for Retirement

Tips for creating the retirement savings you want (continued):

- If your employer offers a retirement plan such as a 401(k) plan, take advantage of it. Over 50 million American workers are eligible to contribute to their employers’ plans, but 12.5 million are not contributing. It’s a missed opportunity that will have a major impact on the amount of retirement savings they’ll have.

- Remember, the dollars you contribute to a 401(k) plan are tax-deferred. This means the money is not taxed at the time you contribute it. With each contribution you make, you’re saving for retirement some of the money you would have otherwise paid in taxes. If your employer matches some or all of your 401(k) contributions, take full advantage of it by funding any amount that is matched.

- Study the specifics of your company’s plan. If you have a question about your 401(k) plan, be sure to ask your employer. Try to talk with a retirement plan expert if you can.

- In addition to your company-sponsored plan, you may be eligible to open your own personal retirement account, for example a Roth IRA. With a Roth IRA, your contributions aren’t tax-deferred, but your withdrawals at retirement will be tax-free.

- Carefully consider tradeoffs when setting your financial priorities. For example, let’s say you’re trying to decide between paying off your loans on a faster schedule or putting the money into savings and investments. If you have low-interest student loans, you may earn more by giving priority to saving and investing. But if you have high-interest credit card debt, you may find it’s financially advantageous to pay your debt first and then focus on saving and investing. But remember, many people carry at least some debt for most of their lives. If you continue to put off saving until all your debts are paid, you may never start saving the money you need to retire.

- Consider splitting your portfolio of investments between more conservative (lower risk, lower potential return) and more aggressive (higher risk, higher potential return).

- Over the coming years, whether you manage your investments on your own or work with an investment professional, it’s important to be well-informed. Be proactive about gaining as much investing knowledge as you can from the Internet, books, magazines, and other sources.
Top 10 Ways to Prepare for Retirement

Source: U.S. Department of Labor

1. **Know your retirement needs.**
   Retirement is expensive. Experts estimate that you’ll need about 70% of your pre-retirement income—lower earners, 90% or more—to maintain your standard of living when you stop working.

2. **Find out about Social Security.**
   Social Security pays the average retiree about 40% of pre-retirement earnings. Call the Social Security Administration at 1-800-772-1213 for a free Social Security Statement and find out more about your benefits at www.socialsecurity.gov.

3. **Learn about your employer’s pension or profit sharing plan.**
   If your employer offers a plan, check to see what your benefit is worth. Most employers will provide an individual benefit statement. Before you change jobs, find out what will happen to your pension. Learn what benefits you may have from previous employment. Find out if you will be entitled to benefits from your spouse’s plan. Contact the U.S. Department of Labor for a free booklet about protecting your pension.

4. **Contribute to a tax-sheltered plan.**
   If your employer offers a tax-sheltered retirement savings plan, such as a 401(k), sign up and contribute all you can subject to the limitations of the plan. Your taxes will be lower, your company may kick in more, and automatic deductions make it easy. Over time, compound interest and tax deferrals make a big difference in the amount you will accumulate.

5. **Ask your employer to start a plan.**
   If your employer doesn’t offer a retirement plan, suggest that it start one. Simplified plans can be set up by certain employers. For information on simplified employee pensions, order Internal Revenue Service Publication 590 by calling 1-800-829-3676. Or you can view a copy on the IRS Web site.

6. **Put money into an IRA.**
   You can put up to $5,000 a year into an Individual Retirement Account (IRA), up to $6,000 if you are 50 or older, and gain tax advantages. When you open an IRA, you have two options—a traditional IRA or the newer Roth IRA. The tax treatment of your contributions and withdrawals will depend on which option you select. Also, you should know that the after-tax value of your withdrawal will depend on inflation and the type of IRA you choose.

7. **Don’t touch your savings.**
   Don’t dip into your retirement savings. You’ll lose principal and interest, and you may lose tax benefits. If you change jobs, roll over your savings directly into an IRA or your new employer’s retirement plan.

8. **Start now, set goals, and stick to them.**
   Start early. The sooner you start saving, the more time your money has to grow. Put time on your side. Make retirement savings a high priority. Devise a plan, stick to it, and set goals for yourself. Remember, it’s never too early or too late to start saving. So start now, whatever your age!
Top 10 Ways to Prepare for Retirement (continued)

9. **Consider basic investment principles.**
   How you save can be as important as how much you save. Inflation and the type of investments you make play important roles in how much you’ll have saved at retirement. Know how your pension or savings plan is invested. Financial security and knowledge go hand in hand.

10. **Ask questions.**
    These tips point you in the right direction. But you’ll need more information. Talk to your employer, your bank, your union, or a financial advisor. Ask questions and make sure the answers make sense to you. Get practical advice and act now.

The material provided above is for information only and is not intended to provide specific investment advice to any individual for any particular purpose. For advice related to your personal situation, you should consult an investment and tax professional.

The financial examples provided above are not based on the actual returns of a particular investment or portfolio of investments and are for illustration purposes only. Your actual returns will depend on your specific investments and their performance during the period of time you hold them.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at [wellsfargo.com](http://wellsfargo.com) or any Wells Fargo store.
Health Insurance: Manage The Costs of Medical Care

Nothing is more precious than your health. But unfortunately, with the rising cost of medical services, affordable health care is out of reach for many Americans. Health insurance offsets costs associated with routine care, illnesses and injuries, making medical services more affordable.

A recent poll administered by the National Federation of Independent Business (NFIB) indicated that nearly half (47 percent) of the employers surveyed offered health insurance as part of their employee benefits plan.1 While the primary source of health insurance in the United States is through employer-sponsored plans, if you are unemployed or self employed, you may need to seek private health insurance. Obtaining health insurance on your own can be difficult—especially if you have a pre-existing condition. An insurance agent who specializes in private insurance can help you find an affordable plan.

Paying for Medical Services
Without health care coverage, you risk ruining your credit history, depleting your savings and defaulting on your mortgage, rent, car payment or utilities because you’ve exhausted your paycheck paying for prescriptions and necessary medical care.

Cost, convenience, coverage—all of these factors come into play when choosing health insurance. Specific coverages vary from plan to plan; however, most health care plans will reimburse you for a portion of the costs associated with:

- Preventive care, such as immunizations.
- Routine office visits like annual physical exams.
- Prescription drugs.
- Hospitalization.
- Physical therapy.
- Tests to diagnose or rule out certain illnesses.
- Lab work, such as blood and urine tests.

The ABCs of Health Care
Does health insurance terminology sound like a big confusing bowl of alphabet soup? Here are some of the most common types of plans:

Consumer-driven plans (HSA/HRA)
Consumer-driven health care plans, such as health savings accounts (HSAs) and health retirement accounts (HRAs), provide tax benefits and give you the ability to earn interest on money you have set aside for qualified medical expenses.

This type of plan may be for you if you are willing to pay higher deductibles in exchange for paying lower premiums. You also have more control of where you receive your care. For example you would decide which specialist to see or where to get an x-ray, rather than letting a doctor decide for you.
Health Insurance: Manage The Costs of Medical Care (continued)

The ABCs of Health Care (continued)

Health maintenance organization (HMO)
An HMO minimizes your out-of-pocket health care expenses provided you use pre-approved network physicians, health care professionals and facilities. To take advantage of the cost savings an HMO provides, you must choose a primary care physician. However, at your primary care doctor’s discretion, you may be referred to a specialist who is also a member of your network. If you opt to see a non-network physician, your co-pay will likely be larger. Generally, your deductible is less if you are a member of an HMO.

This may be the plan for you if you are willing to sacrifice some flexibility and convenience to save money on doctor visits and deductibles.

Preferred provider organization (PPO)
The cost per visit and annual deductibles are usually higher with a PPO plan than with an HMO. PPOs generally charge slightly higher fees than HMOs would to use a non-network provider or facility; however, you do not need a referral from your primary doctor to see a specialist.

This may be the plan for you if having the freedom to choose who you want to see for medical care matters more to you than paying higher premiums.

Point of service (POS)
With the combined features of an HMO and a PPO, in this type of plan, you agree to see a primary care physician for medical care and referrals in exchange for receiving services at reduced fees. However, you also have the freedom to go to a physician outside your network for a higher fee.

This may be the plan for you if you are OK paying higher health care fees if you decide to see someone outside of your network.

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Health Insurance Terminology
Here are some commonly used terms you may encounter when exploring health insurance.

**Benefit**
This is the amount of money an insurance company will pay toward a covered health care service.

**Claim**
Much like a utility bill, this is a document submitted by you or on your behalf to your health insurance provider requesting payment for services received, such as an x-ray or annual check up with your doctor.

**Co-payment (co-pay)**
The part of your bill for which you are responsible, often due at the time you are receiving medical service.

**Deductible**
The maximum amount you'll need to pay out of pocket every year toward your medical care before your insurance company will begin to pay for services.

**Dependent**
Someone besides the policy holder who is supported by the policy holder financially, such as a child—or the spouse or partner—who is entitled to health care coverage under the plan.

**Formulary**
A pre-approved list of prescribed drugs that are offered by an insurance company at lower prices.

**HIPAA**
An acronym for the Health Insurance Portability and Accountability Act, which was established in 1996 to help protect patients' rights to privacy—particularly when medical information is shared between insurers, health care providers or facilities.

**HMO**
Also known as a health maintenance organization, this group contracts with a network of physicians, health care professionals and facilities to provide medical care to members within a certain geographic area for pre-negotiated rates.

**Policy**
Your health care insurance contract with the insurance company.

**Primary care physician**
The doctor you agree to see for all of your medical services and referrals.

**Network**
Physicians, health care professionals and facilities with which your HMO has negotiated special reduced rates.