THE TEXAS FAMILY GUIDE *to* PERSONAL MONEY MANAGEMENT

Produced by the
Texas State Securities Board

DATE DUE

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Texas State Securities Board

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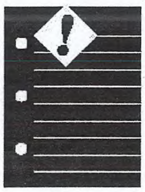
2009 Edition

ABOUT THE TEXAS FAMILY GUIDE TO PERSONAL MONEY MANAGEMENT . . .

This is a practical, proactive workbook containing ***Action Steps*** and ***Notebook Items*** to help you organize your records, apply sound money management principles to your finances and think through your plan for the future.

There are ***9 Action Steps*** in this guide — you will recognize them by this icon.

None of the Action Steps requires prior expertise or experience in financial matters. All that is required is your willingness to (1) set some goals, (2) collect and record the needed information, and (3) take one small step after another to accomplish your objectives. Once you have established your goals and developed records that reflect where you are now, this guide will help you plan for the future.



You will also find ***13 Notebook Items*** throughout this guide, identified by this icon.

These are lists and statements that will help make sense of your current finances and will become an indispensable tool for managing your money. By completing the Notebook Items and maintaining them in your Financial Notebook, you can organize your finances, track your goals and plan for the future.

Update your Financial Notebook annually or whenever a significant change occurs in your finances. Keep it in a safe, but handy place in your home. You may also want to store a copy of it in a fire-proof container or a safe deposit box.

The key to further success is to keep expanding your knowledge on personal money management issues. When you come across a topic in this guide that is particularly relevant or interesting to you, pursue it in greater depth. The resources listed in the Appendix of this guide will help you identify sources that can expand your knowledge through books, magazines and Web sites.

THE TEXAS FAMILY GUIDE TO PERSONAL MONEY MANAGEMENT

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CHAPTER I

YOUR FINANCIAL GOALS: WHERE DO YOU WANT TO BE?

Setting Your Family's Financial Goals

A goal is a statement of what you want your future to look like — a desired state of affairs. By completing the Action Steps in **The Texas Family Guide to Personal Money Management**, you will accomplish important tasks to help enhance your financial security and quality of life. Each task, or building block, represents a closer step to your ultimate financial goals.

You will be better prepared to achieve specific short-term lifestyle objectives, within the framework of your overall goals, such as:

- buying a new car
- paying off a student loan
- planning a vacation
- purchasing personal computer equipment.

At the same time, you will learn how to plan for and succeed in crucial, long-range goals, which require discipline and commitment, like:

- saving to buy a home
- starting an educational fund for your child
- regularly putting aside money for retirement.

The Texas Family Guide to Personal Money Management will help you develop attainable financial goals by describing the fundamentals of investing and giving you the tools to help you save, so your money can work for you.

ACTION STEP 1: Preparing Your Goals List

The first step is to turn to the Goals List on the next page and write down one goal. Then give it a dollar amount (if relevant) and a target date. Once you have one, go on. If you can, add at least three more goals; think about what would bring pleasure to your life now or brighten your future. Consider all areas of your life: housing, hobbies, travel, work, education, major purchases, cultural or social events, fitness and recreation.

Don't be concerned if your goals seem unrealistic right now. Your Goals List should be seen as a tool; it is not meant to be cast in concrete. Your goals are intended to give purpose and direction to the ongoing planning and management of your finances. As your personal or family situation changes, it is likely your goals will too.

Each time you attain one of your goals, write down the date on your Goals List. Then celebrate!

NOTEBOOK ITEM 1

Goals List

Date Entered	Goal	Dollar Amount	Target Date	Date Attained
		$		
		$		
		$		
		$		
		$		
		$		
		$		
		$		
		$		
		$		
		$		
		$		
		$		
		$		
		$		

CHAPTER II

WHERE ARE YOU NOW?

Organizing Your Records

We began the journey with your goals. Now it is time to take the fundamental step that can get you there: organizing your records. The whole purpose of good money management is to make sure that your money serves your goals — you cannot do this without good records.

Organizing your records is time-consuming, but it is one of the most rewarding building blocks of all. Here is where you explore every facet of your finances and organize the information. By providing you with an enlightening view of your current finances, you will be empowered to chart your financial future.

Whether your primary goal is to own your own home, put away enough money for your children's education or to plan a comfortable and independent retirement, **The Texas Family Guide to Personal Money Management** can help you get there.

ACTION STEP 2:
Starting a Family Financial Notebook

Here is how to start your Financial Notebook:

1. Buy a three-ring binder, 12 index dividers, and a package of lined, three-hole punched notebook paper.

2. Label a divider tab for each Notebook Item listed below. These are the notebook items that appear throughout the guide that you will be using to organize your financial and personal records.

Goals List	Bank and Brokerage Accounts
Personal Directory	Credit Cards/Loans
Professional Directory	Insurance Policies
Location of Documents	Retirement Records
Financial Statement	Spending and Saving Plan
Cash-Flow Statement	Acquisition/Sale of Assets

3. File your Goals List in your Financial Notebook (Notebook Item #1).

4. On separate sheets of notebook paper, complete the three Notebook Items described on the next page. Use a computer if you have one or use pencil to facilitate erasures. Your records need not be perfectly neat. Just get the information down.

Get Organized

When your records are organized and handy, life can be simplified on many fronts. If you should become incapacitated, someone would need ready access to your records to properly handle your affairs.

NOTEBOOK ITEM 2:
Personal Directory

Create a page entitled "Personal Directory" in your notebook and list the persons who should be notified in the event of an emergency, unexpected death or incapacitation. Include your spouse, parents, children, attorney, relatives and friends as well as the people named in your will, power of attorney and trust agreements.

NOTEBOOK ITEM 3:
Professional Directory

On this page, list every professional involved in your affairs who might be contacted in the case of an emergency situation. Include the names and telephone numbers of medical professionals, clergy, accountant, insurance agent, banker and financial advisor. List the name, address and telephone number of your employer and immediate supervisor.

NOTEBOOK ITEM 4:
Location of Documents

Next create a "Location of Documents" list that includes all your important financial and legal documents and where they are stored. Action Step 3 on Page 8 can help you organize your records.

NOTE: *Notebook Items 2, 3, and 4 should also be completed by persons for whom you have responsibilities in the event of their death or incapacitation — your parents, your siblings and your children.*

NOTEBOOK ITEM 4

Location of Documents

1. Safe Deposit Box Number ____________________
2. Location ____________________
3. Where keys are kept ____________________
4. Authorized Users (name and address) ____________________

____

____

____

5. Location of Personal Financial Notebook ____________________

Identify locations by symbol

SDB = Safe Deposit Box

FNB = Financial Notebook

HF = Home File

_____ Appraisals

Automotive Records

_____ Bill of Sale

_____ Birth Certificates

_____ Burial Instructions

_____ Credit Cards

Death Certificates

_____ Deed to Burial Plot

_____ Deed to Other Property

_____ Degrees (Education)

_____ Divorce Papers

_____ Durable Power of Attorney

_____ Health Care Power of Attorney

_____ Mortgage/Lease

_____ Naturalization Papers

_____ Pension Records

_____ Investment Documents

- _____ Bonds
- _____ CDs
- _____ IRAs
- _____ Stock Certificates
- _____ Mutual Fund Records
- _____ IOUs/Contracts

_____ Insurance Policies

- _____ Life
- _____ Liability
- _____ Health
- _____ Disability
- _____ Long-Term Care
- _____ Home
- _____ Auto
- _____ Other __________

_____ Legal/Loan Agreements

_____ Living Will

_____ Military Discharge Papers

_____ Marriage Certificate

_____ Passport

_____ Personal Property Inventory and Pictures

_____ Income Tax Records

_____ Property Tax Receipts

_____ Title Policies

_____ Trust Documents

_____ Will

_____ Other __________

____

____

____

ACTION STEP 3:
Locating Your Records

Your records should be stored in a safe, but accessible location.

Put hard-to-replace documents in a safe place, such as a safe deposit box at a bank or a fireproof box in your home.

Give your spouse, attorney, friend or relative — whoever would tend to your affairs in the event of your incapacitation or death — easy access to the documents he or she might need.

Safe Deposit Box	Fireproof Box at Home	Spouse/Attorney/ Friend/Relative*
Automobile Title	Canceled Checks	Burial Instructions
Family Birth Certificates	Recent Tax Records	Living Will
Family Death Certificates	Insurance Policies	Power of Attorney
Family Passports	Power of Attorney	Will (copy or original)
Personal Property Inventory	Will (extra copy)	Copy of Personal Professional Directories from your Financial Notebook
Property Deeds	Warranties	
Education Degrees	Copy of the Notebook Items in your Financial Notebook	
Legal Documents		
Marriage Documents		
Military Documents		
Stock/Bond Certificates		
Back Tax Records		

* *Copies of any documents placed with an attorney or another person for safekeeping should also be stored in your fireproof box at home or a safe deposit box.*

Calculating Your Family's Net Worth

Keeping accurate and organized records is a big part of personal financial planning and is a strong foundation for improving your money management skills. The next steps help you take a close look at where you stand financially, or your family's net worth.

If you were to sell everything you owned and paid off all your debts, how much cash would you have left? You will know the answer to this when you have prepared your own financial statement.

A family's financial statement is just like that of a business. It lists your assets (what you own) and liabilities (what you owe). The bottom line of this statement is your "net worth"— the value of all your assets minus your debts.

ACTION STEP 4:
Preparing Your Family Financial Statement

Statements are lists of vital information for planning your financial future. It takes a commitment of time to prepare them, but the effort pays off. Notebook Items 5 and 6 will help you identify and organize the information that should be included in this important Action Step.

NOTEBOOK ITEM 5:
Financial Statement

Here is how to complete Notebook Item 5, your family's financial statement.

Assets: List all your savings and investments. If you own a home, a real estate agent can provide you with a free market appraisal. If other people owe you money, the balance of the loan goes on your financial statement as an asset.

If you are married, divide the total value of each asset into the Self and Spouse columns according to the proportion owed by each of you. For example, if you and your spouse jointly own a savings account of $4,000, you would record $4,000 in the total column and $2,000 each in the Self and Spouse columns. Check with your financial institution to see if joint accounts are held as "tenancy with right of survivorship (JT)" or "tenancy in common (TC)."

Liabilities: List all your debts, including debts for which you have co-signed with your spouse, friend or relative (you are liable for them until they are paid). Do not forget to include unpaid taxes and personal loans.

Net Worth: Subtract total liabilities from assets and you have your net worth. Later in this guide, we will show you how to make your net worth rise!

NOTEBOOK ITEM 5

Financial Statement

Date ____________

ASSETS	Type of Ownership	Current Value: Total	Self	Spouse
Cash				
Checking accounts	______	$ ________	$ ________	$ ________
Savings accounts	______	________	________	________
Certificates of deposit	______	________	________	________
Money market accounts	______	________	________	________
Money market funds	______	________	________	________
________________	______	________	________	________
________________	______	________	________	________
Retirement Funds				
IRA/Keogh accounts	______	________	________	________
Pension/profit sharing	______	________	________	________
Deferred compensation	______	________	________	________
Annuities	______	________	________	________
________________	______	________	________	________
________________	______	________	________	________
Business Interests				
Contracts				
Other Investments				
Life insurance cash value	______	________	________	________
Bonds (government)	______	________	________	________
Bonds (corporate)	______	________	________	________
Mutual funds	______	________	________	________
Stocks	______	________	________	________
Other securities	______	________	________	________
________________	______	________	________	________
________________	______	________	________	________
Personal Use Assets				
Home	______	________	________	________
Other real estate	______	________	________	________
Automobiles	______	________	________	________
Other personal property	______	________	________	________
Household furnishings	______	________	________	________
Jewelry	______	________	________	________
________________	______	________	________	________
________________	______	________	________	________
TOTAL ASSETS		$ ________	$ ________	$ ________

Continues on next page

NOTEBOOK ITEM 5

Financial Statement (continued)

LIABILITIES	Type of Ownership	Total	Self	Spouse
Credit Card Balances				
________	______	$ ______	$ ______	$ ______
________	______	______	______	______
________	______	______	______	______
________	______	______	______	______
________	______	______	______	______
Personal Loans				
________	______	______	______	______
________	______	______	______	______
________	______	______	______	______
________	______	______	______	______
Business Loans				
________	______	______	______	______
________	______	______	______	______
Mortgages				
________	______	______	______	______
________	______	______	______	______
Taxes Owed				
________	______	______	______	______
________	______	______	______	______
Other				
________	______	______	______	______
________	______	______	______	______
________	______	______	______	______
________	______	______	______	______
________	______	______	______	______
________	______	______	______	______
TOTAL LIABILITIES		$ ______	$ ______	$ ______
Total Assets		$ ______	$ ______	$ ______
Minus Liability		$ ______	$ ______	$ ______
NET WORTH		$ ______	$ ______	$ ______

NOTEBOOK ITEM 6:
Preparing Your Cash Flow Statement

Just about all of us have experienced "living from paycheck to paycheck." Money comes in and goes back out. Often it goes out too quickly and you cannot imagine where it has all gone. Preparing an accurate cash flow statement will let you see in black and white what happens to your family income. When you know that, you have a much better chance to control the flow.

You can get a better grasp of your situation by using a calendar year (much of the information you need will be available on your previous year's tax return). However, if it is impractical for you to use an entire year, start with the past six months or by using the most recent three-month period for which you have complete records (do not forget to include credit card statements). Before you begin, take the time to gather all your records, tax returns, checkbook register (and checking account statements if you do not always note ATM and debit card withdrawals in your register) and credit card statements.

Next turn to Notebook Item 6 on pages 14 and 15 and write down the period for which you are reporting income and expenses.

Income: List all sources of income, including gifts, refunds, interest on savings, etc. For wages, it is best to list "gross" income, or the total amount you receive before employer deductions. This way you can also keep track of the deductions under Expenses.

Expenses: List all state and federal income taxes paid, FICA and Medicare taxes and any other employer withholdings, as well as any contributions to your savings accounts and investments. Then go on to list where all the rest of your money went.

Total Expenses: (including savings and cash reserves) should match Total Income. If you cannot account for all your expenses, or you have more than 10 percent of your income in the category of "miscellaneous," you should commit to jotting down everything you spend for at least one month. (Carry a note pad in your wallet and keep receipts.) The more you learn about your cash flow, the easier it will be to control it.

NOTEBOOK ITEM 6

Cash-Flow Statement

INCOME	**Total**	**Self**	**Spouse**
Salary/wages	$ ______	$ ______	$ ______
Interest/dividends	______	______	______
Social Security	______	______	______
Retirement plans	______	______	______
Reimbursements/Refunds	______	______	______
Other: ________________	______	______	______
______________________	______	______	______
______________________	______	______	______
TOTAL INCOME	$ ______	$ ______	$ ______

EXPENSES			
Savings	$ ______	$ ______	$ ______
Income taxes	______	______	______
Social Security/Medicare taxes	______	______	______
Property taxes	______	______	______
Insurance _____________	______	______	______
______________________	______	______	______
______________________	______	______	______
Mortgage/rent	______	______	______
Utilities (heat, electricity,	______	______	______
water, garbage, phone)	______	______	______
Debts payments________	______	______	______
______________________	______	______	______
______________________	______	______	______
Transportation	______	______	______
______________________	______	______	______
______________________	______	______	______
Food/supermarket items	______	______	______
Restaurant	______	______	______
Recreation	______	______	______

Continued on next page

NOTEBOOK ITEM 6

Cash-Flow Statement (continued)

	Total	Self	Spouse
Holiday expenses	_______	_______	_______
Gifts	_______	_______	_______
Education/classes	_______	_______	_______
Clothing	_______	_______	_______
Donations	_______	_______	_______
Medical	_______	_______	_______
Dental	_______	_______	_______
Other: ________________	_______	_______	_______
______________________	_______	_______	_______
______________________	_______	_______	_______
Miscellaneous	_______	_______	_______
TOTAL EXPENSES	$ _______	$ _______	$ _______

CHAPTER III

YOUR LONG-RANGE PLANNING STARTS HERE

Meeting Your Saving and Spending Needs

We have all faced emergencies or unplanned expenses without the money to pay for them. In those cases, we are required to borrow money or dip into funds that were earmarked for other purposes. A vital step in planning for long-range security is to establish a Reserve Fund.

A Reserve Fund is a cash account, such as a savings or money market account, that is used only for emergencies. A recommended rule of thumb in setting aside a reserve fund is to have enough to pay from two to three months of your basic living expenses. This amount normally provides an adequate cushion to cover events such as:

- temporary unemployment
- costly repairs or replacement of a necessity
- prolonged illness or death of a family member
- medical and dental expenses not covered by insurance
- property and/or income taxes.

ACTION STEP 5: Setting a Goal for your Reserve Fund

This Action Step will only take a minute to calculate, but is no less important than the others. Your Reserve Fund will help to protect your cash flow and your long-range savings plan. Once you have set the goal for your Reserve Fund, add it to your Goals List and write down a tentative target date. You will be surprised at what you can accomplish when you have prepared your Spending Plan.

Reserve Fund Worksheet

1. How much would it take to cover 3 months worth of basic expenses? $ ____________
2. How much money do you want in your Reserve Fund? $ ____________
3. How much do you have now in reserve? (Check your Financial Statement) $ ____________
4. YOUR RESERVE FUND GOAL (Subtract step 3 from step 2) $ ____________

ACTION STEP 6: Preparing Your Spending Plan

Your Cash-Flow Statement reflects where your money has gone in the past. Your Spending Plan will show the way to financial goals that you set for your family in the immediate future.

You should set aside a couple of hours to develop your Spending Plan. Begin by reviewing your Cash-Flow Statement and identifying the expenses that must continue. Then, consider the entries on your Goals List that need funding. If you do not have an adequate Reserve Fund already, be sure to include it. Even if you have very little income, you can save something each month for your Reserve Fund. It is an essential building block to a secure financial future.

Next, turn to Notebook Item 7 (pages 19 and 20) and start preparing your 12-month Spending Plan. Include all the income you expect and decide how you will spend it.

Expect to make several draft Spending Plans before arriving at one that accommodates your goals and fits your income. Once you have a workable plan, go with it. However, do not be surprised if the Spending Plan you make this month appears unworkable several months from now — it is perfectly all right to revise your spending plan as needed. If your expenses run over one month, you will need to decide where to cut to make ends meet.

What is most important is to never abandon your spending plan. If it is not working, identify the problems. Modify your plan so that it meets your goals without having to dip into savings or borrow money.

When completed, your Spending Plan — Notebook Item 7 — should be included in your Financial Notebook.

NOTEBOOK ITEM 7 — Spending Plan

YEAR ________

I. INCOME	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Annual Total
Total Income													$
II. DISTRIBUTIONS													
A. Savings													
B. Expenses													
													$

Continued on next page

NOTEBOOK ITEM 7 — Spending Plan

YEAR________

B. Expenses (cont'd.)	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Annual Total
Total Distributions													$

Bank accounts are essential to good money management. They hold your money until you distribute it to meet your obligations and goals.

Many families need more than one bank account to separate funds and redistribute them efficiently. This would include a checking account for monthly bill-paying, a checking or savings account to accumulate money for non-monthly expenses, such as insurance and taxes, and a separate account for your Reserve Fund. Your Reserve Fund could be an interest bearing account at a financial institution or a money market fund with a brokerage firm.

When selecting a financial institution, choices include commercial banks, savings and loan associations, mutual savings banks, credit unions and, for some services, brokerage firms. Recent changes in law have allowed these various financial institutions to offer similar services, yet specific features and fees can vary widely. Compare at least three financial institutions that will meet your needs.

Be sure all of your funds are federally insured— look for the symbol FDIC to be prominently displayed. If you are not sure your money is protected by insurance, ask.

FDIC (Federal Deposit Insurance Corporation) insures accounts in banks and savings and loan institutions for up to $250,000, but the limit is scheduled to revert to $100,000 on Jan. 1, 2010.

NCUA (National Credit Union Association) insures accounts in federally chartered credit unions for up to $250,000, but the limit is also scheduled to revert to $100,000 on Jan. 1, 2010.

Institutions displaying **SIPC**, Security Investor Protection Corporation, can arrange to transfer customers' accounts at failed brokerages to other SIPC members, or repay customers their cash or securities held in brokerage accounts up to $500,000, of which no more than $100,000 can be in cash. ***However, SIPC does not protect against losses in customers' securities portfolios due to market fluctuations.***

NOTEBOOK ITEM 8
Bank and Brokerage Accounts

Make a list of your bank and brokerage accounts for your Financial Notebook. Every year, thousands of dollars are turned over to the state because heirs did not know of existing bank accounts.

Tips on Safe Banking

If you have more than the FDIC insurance limit at one financial institution, make sure all of it is insured. Your limit may be over the insurance coverage if you have different types of accounts, such as an individual account, custodial account, trust account and an IRA.

If your funds at one financial institution exceed the insurance limit, move the excess to another insured financial institution immediately.

Use more than one financial institution. In case one should falter, accounts can be frozen and interest rates lowered. You might keep bill-paying accounts at one bank and your reserve fund at another institution.

Be wary of particularly high interest rates. Financially troubled institutions sometimes offer higher interest rates to attract depositors. Check out their financial stability.

Bank Cards

A bank card, such as Visa or Mastercard, is issued by a financial institution and honored worldwide by a broad range of businesses: department stores, airlines, hotels, restaurants, grocery and drug stores.

Many people pile up unnecessary debt each year because they use credit cards instead of cash. However, there are sound reasons to have a major credit card.

Consider this:

- A bank card can be safer to carry than cash
- A bank card can cover emergency expenses
- It is impossible to rent a car without a bank card
- A bank card gives you a personal credit history.

If you do not already have a bank card, comparison shop at various financial institutions for one that offers:

- low or no annual fee
- low interest rate on the unpaid balance
- a "grace period" in which no interest will be charged if the monthly bill is paid in full.

If you cannot qualify for a bank card under the regular application process, find a financial institution that offers a "secured" bank card. The secured method requires you keep a certain amount of money in a savings account until you have used the bank card for a specified period of time and paid the charges on time. Secured credit cards are a practical way to establish a line of credit or improve on one that is less than what you need.

If you are not sure about your credit history, you can contact the three major credit bureaus – Equifax, Experian and TransUnion – and request a free copy of your credit report. You can also obtain your credit reports once a year for free at AnnualCreditReport.com.

NOTEBOOK ITEM 9:

Credit Cards

Put together a comprehensive list of all your credit cards in your Financial Notebook. Record the issuer, account number and telephone number in case the card is lost or stolen. The list will help you keep track of your credit history and enable you to respond quickly and efficiently if any are lost or stolen.

CREDIT CARD TIPS

While credit cards may be essential in your cash flow system, they do expose you to fraud and scams. Never give your credit card number over the telephone unless you initiated the call and need it to make a purchase. Do not allow salespeople to write down your credit card number on your check or other documents. They have no legal right to require it. If you are paying high interest rates on your credit cards, call the issuer and try to re-negotiate your rate. They would rather have you paying a lower interest rate than lose you as a customer.

Credit card insurance is a waste of money. If your credit cards are lost or stolen and you notify the creditors before any charges are made, you will not be liable for unauthorized charges. Otherwise, you could be liable for charges up to $50 per card. Check your renter's or homeowner's insurance policy; most policies cover credit card losses up to $500.

What About Insurance?

The average American family spends 16 percent of its household income on insurance. However, according to the National Insurance Consumer Organization, at least 10 percent of all premium dollars are wasted on needless coverage. Since some insurance is a necessity for most of us, you should pick and choose your policies carefully — you do not want to be under-insured and there is no benefit in being over-insured.

If the money you have available for insurance is limited, remember this: first insure for the large losses. You may want your car insurance to replace a broken windshield, but it is far more important to be carrying liability insurance if your dog bites a delivery person; sufficient replacement insurance on your home; or major medical coverage in case of a prolonged and costly illness. Married couples who both work may need life insurance on each other.

When considering any insurance policy, start by checking the rates of at least half-a-dozen carriers. If it is coverage your family truly needs, you will want to get it from a financially solid firm. History shows us that an insurance policy is only as good as the company that backs it; i.e., one that can pay its claims. There are five nationally recognized rating services that can provide you information on insurance firms; here is who they are and how to contact them.

Checking Out Insurance Companies

AM Best	908-439-2200 x5742	www.ambest.com/consumers
Standard & Poor's	212-438-2400	www.standardandpoors.com
Fitch Ratings	800-893-4824	www.fitchratings.com
Moody's Investor Service	212-553-0377	www.moodys.com
TheStreet.Com	800-289-9222	www.thestreetratings.com

Insurance Necessities

If your employer provides ***health insurance*** benefits, you are likely to get better value because your employer's rates are calculated as a group. Even if you have to pay for this coverage, it will be less expensive than finding coverage yourself.

If your employer does not provide health insurance and you are looking for health insurance on your own, it is important to carefully evaluate your family's health-related needs before choosing a plan. Traditional health insurance provides two basic types of protection: the basic plan, which reimburses you for doctor's bills, medication, outpatient surgical procedures and other expenses up to a limit. You can also purchase a major medical policy, which covers hospitalization and major medical procedures.

If your family is young and healthy, you may look for a higher deductible in order to reduce your premiums. However, if your child has asthma, insurance to cover frequent physician office visits and prescription medications may be your priority. If your spouse, on the other hand, has a heart condition, hospitalization coverage may be your most important health insurance need.

If you are looking at traditional health insurance, here are some important provisions you should consider before enrolling.

Maximum benefit — Most policies have a cap on cumulative benefits. You should have at least $1 million in lifetime benefits, or no cap at all.

Co-insurance or co-payment — Your policy should pay from 70 to 80 percent of "reasonable" costs. You would be expected to pay the remaining charges out of pocket.

Deductible — This is an initial dollar amount you must pay before the insurance begins to pay. The deductible usually starts over at the beginning of each calendar year.

Stop-loss — Your policy should limit the amount that you must co-pay per year. For example, a "stop-loss" of $2,000 means that after you have paid $2,000, the insurance policy will pay 100 percent of the expenses up to the lifetime limit.

Guaranteed renewable — This is a vital provision because the older you get the harder it is to buy health insurance.

Exclusions — Many policies exclude certain products and services. If there are services you are sure you need, ask about a rider to add these benefits.

Pre-existing Conditions — The plan may impose a "waiting period" for conditions you had prior to buying the policy, such as cancer or ulcers.

HMOs, PPOs and PSNs

If your family is young and healthy, you can save substantially by looking into managed care plans or *health maintenance organizations (HMOs)* in your area. HMOs frequently offer more benefits than traditional health insurance plans. Membership provides you unlimited physician visits and often includes pharmacy costs and preventive care screenings. However, you must use the HMO's physicians and be pre-approved for specialist care and hospital admittance.

Preferred Provider Organizations (PPOs) are networks of doctors and hospitals set up by employers and insurance companies to provide care at a lower cost than traditional health insurance. *Provider-Sponsored Networks (PSNs)* are physicians that own their own health care entity and provide care to members directly without an intermediary like an insurance provider or health care company. PSNs are often created in response to physician complaints about the controls imposed on them in managed care settings.

Automobile Insurance

State law may require that you have liability insurance on your vehicles to ensure the ability to pay judgments filed against you, but you also need insurance in the event you cause injury or damage to another person. Try to carry the higher of $300,000 total coverage per accident or two times the value of all your assets.

In addition to the amount of liability insurance you carry, you can tailor your policy to meet your family's specific needs with optional insurance for collisions, vandalism and theft, medical injury payments, and uninsured motorist coverage. Other factors that will determine how much you pay for coverage are: where you live, the make and model of your car, your driving record, your age, and the ages of any dependents who drive the vehicle. Auto premiums, like other insurance, vary considerably from company to company. If you shop around, you can save money.

Homeowner's (or Renter's) Insurance

Insuring our homes and property from a broad range of calamities is a necessary insurance expense for most of us. Whether you own or rent, live in a house, condo or coop — home insurance policies have a lot in common.

Home insurance is intended to cover your home and its contents regardless of where the property is when the loss occurs. These policies usually also include "loss of use" coverage, providing additional living expenses for policy holders should their property become uninhabitable. Loss of use insurance is usually capped at a percentage of the personal property coverage for renters and homeowners.

Homeowner's insurance covers the cost of totally replacing your house after a disaster, up to the policy limit. (Be sure your policy covers at least 80 percent of the total replacement cost — excluding land — or you may not have adequate coverage.) Your homeowner's insurance should include any other structures on your property as well as the contents of your home. If you have expensive items in your home, like computer equipment, antiques or jewelry, you may need separate coverage for them.

Homeowner's insurance also protects you against liability suits if family members or dependents cause harm to another person or damage to property, as well as the medical expenses of an outsider injured on your property. Check the coverage you have currently. Experts recommend that your liability limit be at least twice your net worth.

Help With Your Family's Insurance Needs

The **Insurance Information Institute** is a non-profit information organization supported by the property-casualty insurance industry. **http://www.iii.org**

Disability Insurance

Disability insurance is intended to help replace a portion of your wages should you become disabled and unable to perform your job or any other job. Employers often provide some disability coverage, but it may only cover 50 percent or less of your regular wages and be limited to a 30 to 90 day period.

If you were injured "on the job" you could be covered by workers compensation, which is intended to cover medical bills and provide income support. Also, if you are a veteran, or a civil servant, there may be other benefits you should be familiar with before purchasing outside insurance.

If you are shopping for private disability insurance, look for a policy that replaces up to 70 percent of your total income. Be aware that disability insurance is extremely costly. The best way to save on rates is to go for the longest waiting period before benefits begin to be paid. Most plans start paying after 30 days; if you can stretch it out to 90 days, for instance, you could cut your premiums by as much as 25 percent. If your Reserve Fund is intact, this is a legitimate reason to tap into it.

Long Term Disabilities

While you may have several sources of income protection, they are not likely to cover you in the case of a long-term disability that prevents you from working. Check your Financial Statement and Cash-Flow Statement to see how much additional income you would need should the worst happen. Then be sure to shop around for disability insurance. Pay particular attention to three features:

Maximum Benefit — Disability insurance can replace up to 70 percent of lost wages. Be sure your benefit level is adequate to pay your essential living expenses.

Definition of Disability — Policies are written for (a) "own occupation," meaning the disability must prevent you from working in your particular job or related fields, and (b) "any occupation,"which means the disability prevents you from engaging in any kind of gainful employment.

Waiting Period — All policies require a certain number of days of disability before benefits are paid. The longer this period of time, the lower the cost of your policy.

Social Security Disability benefits are intended for qualified workers who experience a medical condition that will prevent them from working for at least one year or who die as a result of the injury or illness. A person must be disabled for at least six months before applying for benefits, and will be paid retroactively for the entire period of eligibility beyond the six months. For instance, if you apply for benefits in July after meeting the six-month waiting period, but it takes three months for your application to be approved, you will be paid back to the July application date. You can check to see what your disability benefit payments would be on your Social Security Statement referenced on pages 49 and 50.

CAUTION: Remember that if you are disabled long and seriously enough to qualify for Social Security disability benefits, and your insurance company paid you disability benefits for any weeks that are covered retroactively by Social Security, the insurance company will require you to pay back benefit amounts that are duplicated by Social Security.

Life Insurance

If other people are dependent on you and will be in financial crisis if you die, you should have life insurance coverage. If you do not have dependents, you probably do not need it.

If you are in the market for life insurance, first check whether you or your spouse has life insurance coverage provided by your employer(s). Review the amount and terms of the policy and whether the policy is in effect only while in that job. Ask the human resources representative where you work about supplementing the existing policy and having the additional costs deducted from your paycheck.

There are many types of life insurance and you should determine what kind you need and how much of it — before you meet with a sales agent. Term life is the most basic and least expensive type of policy because it has no cash value other than what it pays your beneficiary when you die. In a term life policy, the death benefit and the policy limit are the same — a $100,000 policy pays a $100,000 death benefit. The policy is intended to provide families a lump sum benefit to invest as a replacement for a wage-earner's salary. Term life policies are renewable each year.

Other types of policies — Whole Life, Variable Life, Universal Life, and Universal Variable Life — provide both a death benefit and a cash value account. The premiums for these policies are higher than term life because they fund a savings account in addition to buying insurance coverage. Consumer guides recommend that you buy term life insurance, which is cheaper, and invest the money you save.

NOTEBOOK ITEM 10
Insurance Policies

Create a listing in your Financial Notebook itemizing all insurance companies with whom you do business and the type of insurance you have with them. Note the identification number for each policy and the company or agent's name and telephone number. Include any insurance coverage that you receive through your employer(s).

Getting the Best Deal on Insurance

Comparison Shop. Insurance is a competitive business, so shop around for rates. Also look for a "low-load"policy, which means agents' commissions are substantially less, thereby lowering the overall cost of the policy for you.

Raise Your Deductibles. You can reduce the insurance premiums you pay by increasing your deductibles, the amount you have to pay out before benefits become available to you. The difference between a deductible of $250 and a deductible of $1,000 on your homeowner's insurance can save you about 20 percent a year on premiums.

Get Group Coverage Whenever Possible. Group rates can be as much as 50 percent lower than what individuals pay for insurance. Check out professional, fraternal and civic groups, as well as membership organizations.

Think Twice about Filing Minor Claims. Even after satisfying the deductible, try to file only major claims that you can't afford to pay for out-of-pocket; filing minor claims could end up costing you more in premium increases. (The exception is an auto accident involving another driver; for liability purposes, you should always report these incidents.)

Check Out Premiums in Advance. When planning a major purchase, like a new home or a car, which will require insurance coverage, check out — in advance — the factors that go into the rates you'll pay.

ACTION STEP 7: Learning How To Save

Saving is the way to make money work for you — rather than the other way around! If you have habits that waste money, employ strategies that will help to plug the leaks in your cash flow. If any of these tips apply to you, include the solutions in your Goals List and begin practicing them immediately.

Tips for Improving Your Cash Flow

- Leave credit cards at home.
- Charge only what you can afford to pay off in full each month.
- Pay off credit card balances each month to avoid paying interest.
- Before paying off an installment loan, determine a good future use for that money. For example, after paying off your car note, begin paying the same amount to your Reserve Fund or another priority.
- Comparison shop for all major purchases.
- Take all your allowable tax deductions — you'll be bringing home more in each paycheck.
- Learn to say "no" when anyone asks to borrow money from you. If you do lend money, put the loan on a contract with an interest rate comparable to what you'd be earning in the bank.
- Pay yourself "first" every month. For instance:
    - Have your interest and dividends automatically reinvested rather than sent to you.
    - Make your savings or investment amount the first bill you pay.
    - Use employer deductions, like a 401(k) plan, to save money "off the top" of your salary.
    - Take advantage of employer-sponsored retirement plans (they're forced savings plans for you and can reduce what you pay in taxes).

Getting Help When You Need It

Knowing when and how to get help when you need it is vital to good money management. Financial counseling deals with specific problems, such as debt management, financial problems associated with divorce or widowhood or assistance in budgeting your income. Free or low-cost financial counseling services are available through local community sources.

Texas Cooperative Extension offers family economics education, workshops and money management materials. For more information, contact Texas Cooperative Extension, Texas A&M University, College Station, Texas 77843 (979-845-3850) or at http://texasextension.tamu.edu

The Consumer Credit Counseling Service provides assistance on budgeting and helps people with too many debts make special arrangements with creditors. Check the Yellow Pages or Directory Assistance in your area.

Financial institutions, real estate firms, insurance firms and tax services may help people with specific problems free of charge. However, one must understand that this "free advice" could be slanted toward their products and services.

Financial planning deals with your total financial picture. You have been engaged in financial planning throughout this guide. The Notebook Items, especially the statements, prepare you to do your own planning or to work with a professional financial adviser. A financial planner can:

- assess your financial history, such as tax returns, investments, retirement plan, wills and insurance policies to evaluate your financial situation;

- help you identify your financial needs and ways to strengthen your financial situation, such as building up a cash reserve, improving your investment returns or upgrading your insurance;

- formulate a written financial plan based on your goals and financial circumstances; help you implement your financial plan, including referring you to specialists, such as lawyers or accountants; and,

- review your financial plan periodically and suggest changes as needed.

How to Hire a Financial Planning Professional

Choose your financial planner as carefully as you would an attorney or physician — that person will be giving you advice that will affect your future financial well-being. You want someone with whom you can build a relationship of trust over a long period of time. Since nearly anyone can call herself a financial planner, it is important to choose an advisor who is qualified through training and experience and who puts your family's financial well-being ahead of personal gain.

To avoid conflict of interest, use a "fee-only" financial planner for advice and someone else to purchase your investments, or invest directly yourself. This way the planner will not be in the position of recommending financial products and services from which he or she may profit in commissions or sales contests.

The most important questions to ask of any financial planner are:

> What are your credentials?
>
> What services do you provide?
>
> How much will it cost?
>
> How are you paid — fees, commissions or a combination of both?

You should also become familiar with the educational credentials of financial advisors as well as the professional organizations that represent them. For instance, designations that can be earned include Certified Financial Planner (CFP) and the Chartered Financial Consultant (ChFC).

The CFP mark identifies an individual who has completed the educational examination and other professional requirements of the Certified Financial Planners Board of Standards and has agreed to adhere to their Code of Ethics. The program of study includes a broad range of financial topics.

The ChFC mark identifies those who have completed the certification requirements of the American College in Bryn Mawr, Pennsylvania. It is generally earned by insurance professionals who provide financial planning services.

"Fee-Only" is a certification mark that designates a financial planner who is paid strictly through fees for providing financial planning advice, rather than from commissions for selling investment products.

Other designations, such as Certified Public Accountant (CPA), Registered Investment Adviser (RIA) and registered representative (REG REP), are related to persons involved in investment activities, but do not denote specific expertise in the area of financial planning.

There are several professional organizations for the financial planning industry, including: the Financial Planning Association (FPA) and the National Association of Personal Financial Advisors (NAPFA), which can be located in the Appendix of this guide.

The supplements on pages 37-41 were provided for this guide by the National Association of Personal Financial Advisors (NAPFA), the professional organization of Fee-Only financial planners. Study the questions — they will help you make an informed selection.

Financial Planner Interview Questionnaire*

Background and Education

The backgrounds of financial planners can vary as much as the services offered. The planner's education and experience should demonstrate a solid foundation in financial planning and a commitment to keeping current.

1. What is your educational background? ______
   College degree and area of study ______
   Graduate degrees and area of study ______
   What is your financial planning education and designations? ______
      Certified Financial Planner (CFP) Fee-Only ______
      Chartered Financial Consultant (ChFC) ______
      Registry of Financial Planning Practitioners ______
      Other ______
2. How long have you been offering financial planning services?
   Less than two years ______
   Two to five years ______
   More than five years ______
3. What continuing education in financial planning do you pursue?
   1 to 14 hours of professional education each year ______
   15 to 30 hours of professional education each year ______
   At least 30 hours of professional education each year ______
4. Are you a member of any professional financial planning association?
   Institute of Certified Financial Planners (ICFP) ______
   National Association of Personal Financial Advisors (NAPFA) ______
   Financial Planning Association (FPA) ______
   Other ______
5. Will you provide me with references from clients?
6. Have you ever been cited by a professional or regulatory governing body for disciplinary reasons? ______

* *Reprinted with permission from the National Association of Personal Financial Advisors.*

Services

Financial planners provide a range of services. It is important to match client needs with services provided.

1. Does your financial planning service include:
   A review of my goals
   Advice on:
   - Cash management and budgeting
   - Tax planning
   - Investment review and planning
   - Estate planning
   - Insurance needs in the area of life, disability, health, and property/casualty
   - Retirement planning
   - Other ______________________________

2. Do you provide a written analysis of my financial situation and recommend-dations?

   Is the analysis tailored to my personal needs and goals?

3. Does your financial planning service include recommendations for specific investments or investment products?

   Do you offer assistance with implementation?

4. Do you offer continuous, ongoing advice regarding my financial affairs, including advice on non-investment financial issues?

5. Do you take possession of, or have access, to my assets?

Compensation

Financial planning costs include what a consumer pays in fees and commissions. Comparison between financial advisors requires full information about potential total costs. It is important to have this information before entering into any agreement.

1. How is your firm compensated?

_____ Fee Only

_____ Commission Only

_____ Fees and Commissions

_____ "Fee Offset" (Fees are reduced by commissions for products sold)

How is your compensation calculated?

_____ Fee only (as calculated below):

_____ Based on an hourly rate of $ _________

_____ Flat fee or fee range of $________

_____ Percentage (%) of __________

_____ Are fees capped?

_____ Commission Only (from securities, insurance, etc. that clients buy from a firm with which you are associated)

_____ Fee and Commission (sometimes referred to as "fee based")

_____ Fee Offset (a flat fee is charged against which commissions are offset.)

And, if the commissions exceed the fee, is the balance credited to me?

_____ Yes _____ No

[Note: The Securities and Exchange Commission requires that the above information be disclosed.]

Compensation — cont'd.

2. If you earn commissions, approximately what percentage of your firm's commission income comes from:

Insurance products	_____%
Annuities	_____%
Mutual Funds	_____%
Limited Partnerships	_____%
Stocks and bonds	_____%
Coins, tangibles, collectibles	_____%
Other (explain)	_____%
	= 100 %

3. Does any member of your firm act as a general partner, participate in, or receive compensation from investments you may recommend to clients?

Regulatory Compliance

The law requires individuals or firms holding over $25 million in assets under management to register with the SEC and individuals or firms holding less than $25 million in assets under management to register with the state regulatory agency.

1. Are you or your firm registered as an investment adviser with the U.S. Securities and Exchange Commission? If no, please indicate which SEC allowable reason for non-registration applies.
   ______ Less than $25 million in assets
   ______ Do not provide generic or specific advice on securities
   ______ Do not provide financial advice for a fee, but only as a registered representative or broker/dealer

2. Is your firm registered with the Texas State Securities Board (TSSB)? If no, please explain.

Please provide a copy of your registration with the SEC (ADV Part II), as required by the SEC under the Investment Advisers Act of 1940.

Financial Planner Disclosure Form*

For the period _____ to _____

Investment and Insurance Products	Amount to Invest	Estimated Commission Rate	Estimated Income to Planning Firm and Affiliates†
__________	$ ________	________%	$ ________
__________	$ ________	________%	$ ________
__________	$ ________	________%	$ ________
__________	$ ________	________%	$ ________
__________	$ ________	________%	$ ________
Total	$ ________	________%	$ ________

†Total amount of commission, rebate or fee typically earned by planner, firm employee and affiliate in the first year.

Services: (money management, investment supervision, retainer arrangements or implementation fees)

______________________________	$ ________
______________________________	$ ________
______________________________	$ ________
Total	$ ________

Other Compensation to Planning Firm and Affiliates:
(Check all that apply and explain to client.)

	No	Yes		No	Yes
12b-1 fees			Eligibility for sales prizes		
Trailing commissions			Soft-dollar benefits		
Surrender charges			Performance Compensation		
Back-end fees					
Contingency fees					

Note to client: *Estimated commissions and fees do not include commissions and fees that might be payable to non-affiliated third parties as a result of the purchase of financial products and services. These commissions and fees may be substantial. The client is strongly advised to seek full disclosure of fees and commissions when purchasing financial products or services.*

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CHAPTER IV

REACHING YOUR GOALS

Buying a Home

Buying your first home likely will be one of the most significant investments you make in your lifetime — and saving for it will be an equally important commitment.

Unlike rent checks, mortgage payments bring certain financial advantages. Not the least of which is the ability to write-off the portion of your mortgage that is applied to interest on your debt, which should bring down your overall tax bill. And nothing adds to a good credit rating like timely payments on your home mortgage. Additionally, the amount of principal you pay each month on your mortgage loan goes toward establishing equity, or ownership, of your home. The first several years of mortgage payments cover mostly interest on your purchase, but as time goes on and your home equity mounts, you have an important financial asset.

Most of us will buy or sell property more than once in our lives. However, purchasing your first home can be a fearful and intimidating experience. What is important for you is to be armed with the best information about how to approach home ownership. If you think you will be in the market to buy a home in the next three to five years, here are things you should think about and include in your planning.

Saving for a Down Payment: The amount of money you need for a down payment depends on three factors: the requirements of the bank or lender; the type of mortgage you apply for; and your general financial condition.

Additionally, you will need to factor in settlement, or closing costs and possible mortgage “points,”which are cash outlays in addition to the down payment. When you shop for a loan, you may have a choice between a higher interest rate with fewer points, or a lower rate with more points. Ask the lender what the cost of both options will be over the term of the loan. (A “point” is the equivalent of one percent of the mortgage amount.)

Conventional mortgage loans usually mean a down payment of five to 20 percent. There are special mortgages allowing less, but you will need to know what that means in higher interest rates and higher monthly mortgage payments. Being in a position to put down more than 10 percent on your home could help bring down the interest rate you will be charged. However, even if you can put more down, you may not want to put all your liquid assets in the down payment.

Checking Your Credit History: You should check your own credit rating before potential lenders do. Go to at least one national credit bureau and get a copy of your credit history (and your spouse’s). If there are errors or problems in your credit history, make sure you have given yourself time to correct them. If credit problems are in your recent past, be honest with your real estate agent and your lender — up front, so they can help you identify your best alternatives.

How To Contact the 3 Major Credit Bureaus

The three major credit reporting bureaus make credit reports available for free once a year through www.annualcreditreport.com or call 1-877-322-8828.

Experian: 1-888-397-3742 or www.experian.com

Equifax: 1-800-685-1111 or www.equifax.com

TransUnion: 1-800-888-4213 or www.transunion.com

Paying Down Debt: One of the reasons you should start planning early when you are thinking about buying a home is to give yourself a chance to pay down your existing debt, which can be as important as having enough for a down payment. If a bank or mortgage company sees that you are just barely getting by each month because of existing debt, you can be rejected. If, on the other hand, you can show a lender that you have paid down your debt by 50 percent over the past two years, you will be viewed as a better credit risk.

Calculating Affordability: If you found the right house, in the right neighborhood, at the right price tomorrow, how much could you afford — on an ongoing basis — in monthly mortgage payments? Do not forget to include the projected costs of utilities, taxes and insurance, as well as repairs and unexpected problems, which your landlord used to be responsible for fixing.

Prioritize Your Needs: Most young couples do not plan to stay forever in the first home they own, but buying a home can be a wise decision even if you "grow out of it" five years later. You will have established equity in this home that will "roll over," thereby decreasing what you need in cash to buy your next home. If you made all your mortgage payments on time, you will also be seen as a good credit risk.

Discuss your family priorities. For instance, if you do not have children, or do not plan to for a while, being in the best school district or close to parks may not be a major factor. Being close to your job(s) could be a benefit, but may not be essential if the neighborhood premium is too high. In other words, take the time to explore the neighborhoods that interest you and discuss the positives and negatives that accompany buying in those areas.

Prioritize the most important factors to you for the time you expect to live in this house. In fact, list the three factors most important to each family member, put the lists together and you can probably come up with the right middle ground for all concerned.

Getting Mortgage Pre-Approval: When you are ready to seriously start looking for a new home, talk with your lender about getting pre-approved for your mortgage. If interest rates are moving up at the time, this can lock you into a lower interest rate than one you would get 30 days from now. Sellers will look more favorably on a potential buyer who has been pre-approved by a lender — it means the deal will not fall through because of financing. Ask your lender how long the pre-approval and the interest rate is good.

Finding the right real estate agent: Finding the right sales agent or broker for your needs is a critically important piece of the home-ownership puzzle. Remember that real estate agents represent the seller of a home, unless specifically hired to represent the buyer.

Consider a Buyer-Broker Agreement

If you are unfamiliar with the real estate market and information about available mortgage options, consider having a real estate professional represent you as the buyer. A buyer-broker agent is paid from the sales commission of the agent who represents the seller of the house you purchase; you should not have to pay for this service.

A knowledgeable agent, working for you as a buyer, can tell you when a house is over-priced, under-priced or priced "on the dime." They have mortgage lenders, settlement companies and home inspectors they deal with regularly; they know who to call for all the tasks involved in buying a home. A reputable buyer-broker will also be familiar with your mortgage options and will help you calculate mortgage payments and closing costs before you become committed.

Saving for Your Child's College Education

With college tuitions being what they are today, it's hard to imagine anyone having the cash to pay for it outright. Whether you think a two-year junior college or a four-year private university will be appropriate for your child, you can be sure that the costs of that college education will increase steadily.

The fact is, there are many ways to pay for college: saving and investing, borrowing and financial aid programs. A plan that combines these strategies can put a college education within reach of almost anyone.

Financing a College Education

You might believe you won't be able to save the entire cost of a college education, let alone more than one. Because of the availability of educational loans, you may not need to have all four years' worth of expenses in the bank. However, it is a good idea to begin paying down debt now for the future and to begin a savings plan contingent on how many college-bound children you have.

You should begin planning by getting a ball-park figure of what four years of education at several likely colleges would cost. The costs of a college education are influenced by geographic location, housing requirements, whether the school is private or public, and whether it is a two- or four-year college.

Building a savings and investment plan for college should employ a mix of growth investments (stocks and mutual funds) with income investments (CDs and savings bonds). If time is on your side, a monthly savings and investment program can build steadily over the years. It may also be possible to accumulate funds in a tax advantaged account such as a Coverdell Education Savings Account (an Educational IRA) or in a 529 education savings plan.

For a list of state-sponsored college savings plans allowed under section 529 of the tax code, contact the College Savings Plan Network, affiliated with the National Association of State Treasurers, at www.collegesavings.org or 1-859-244-8175.

Financial Aid

There are four sources of financial aid: the federal government, state governments, private organizations and colleges and universities themselves. There are three forms of financial aid: grants, loans, and jobs.

The biggest mistake many parents make is to wait too long to think about financial aid for their child's college education. If you plan to apply to the college for financial aid, many now want two years of tax returns, which means they will be looking at your earnings as far back as January of the year your child was in the tenth grade.

Regardless of where you go for financial aid, eligibility will be determined based on your family's need. Your Expected Family Contribution, or EFC, is the total amount you and your family will be expected to pay toward college costs from total income and assets. Different sources use different calculations for determining your EFC. Be sure to check it out in advance.

College Loan Options

Government-sponsored educational loans are available to students based on family income. The U.S. Department of Education Web site describes the loan options available to students and parents: http://www.ed.gov.

If you have money saved for college, but not enough for the entire semester, check with the school; many will allow you to pay monthly installments, which can ease the pressure of a lump sum payment at the start of each semester. The college should also be able to give you information about work-study programs they participate in where students can work 10 to 15 hours a week to "earn" their work award. Also check with the banks in your local community; they usually offer consumer installment loans that can be used for educational purposes.

Lastly, check with your human resource representative at your job; some employer-administered retirement plans allow employees to make loans from their individual retirement plan. However, if you plan to tap into your retirement fund remember: (1) you will probably be penalized for withdrawing the money — a 10 percent tax penalty if you are under the age of 59-1/2; (2) You will owe income tax on the money you withdraw if it was pre-tax income; (3) The money taken out of your retirement fund will increase your income, potentially hurting your child's eligibility for financial aid; and, (4) You could jeopardize your own retirement plans by depleting your fund. If you are considering borrowing on your life insurance policy, be sure you know in advance how it will affect your death benefit and the interest earned by the money that remains in the policy. Ask about any tax consequences, too.

Estimating Financial Aid

Your Expected Family Contribution (EFC) is the total amount your family will be expected to pay toward college costs from income and assets. **College Board Online** provides a free service to estimate your EFC and to project financial aid needs. http://www.collegeboard.com

Resources for Teachers Saving for Retirement

Many teachers and other public school employees are enrolled in a mandatory government-backed pension plan (in Texas, the Teacher Retirement System). But educators can supplement their pension benefits by investing in a 403(b) retirement plan – a tax-deferred retirement plan like a 401(k), only for educators, non-profit employees, and certain ministers.

A 403(b) plan is a defined contribution plan, which means the participant makes contributions and investment decisions. Employees set aside money for retirement on a pre-tax basis through a salary reduction agreement with their employer. Contributions and earnings on investments grow tax deferred until the time of retirement, when withdrawals are taxed as ordinary income.

For a complete explanation of 403(b) plans and regulations, a good resource is the Web site http://www.403bwise.com ,which was developed by former teachers.

The Securities and Exchange Commission's resources for teachers can be accessed at http://www.sec.gov/investor/teachers.shtml

The Teacher Retirement System's information on eligible 403(b) investment products can be accessed at http://www.trs.state.tx.us/global.jsp?submenu=403b&page_id=/403b/403b_welcome

The Internal Revenue Service's updated information about 403(b) plans, including contribution limits and answers to other questions, is available at http://www.irs.gov/publications/p571/ch01.html#en_US_publink1000129354

Planning For Your Retirement

It is never too early to begin planning and saving for your retirement. To demonstrate the need for early retirement planning, refer to page 51, "How Time Affects The Value of Money." You will see the dramatic difference a minimal contribution of $5,000 a year will yield at retirement age, if you start early.

You probably will be entitled to Social Security retirement benefits if: (a) you are a worker, (b) you are married to an eligible worker, or c) you are divorced from an eligible worker after being married for at least 10 years.

As you begin to plan for retirement, you should visualize your retirement funds as a three-legged stool: one leg represents your Social Security retirement benefits, the second leg is your employer pension, and the third leg, your individual savings and investment earnings. If you have two, rather than three sources of retirement funding, then the other two legs will have to be stronger to support you.

ACTION ITEM 8
Checking Your Social Security Benefits

Your Social Security Statement is a concise personal record of the earnings on which you have paid Social Security taxes during your working years. It also contains a summary of the estimated benefits you may receive as a result of those earnings. The Social Security Statement is automatically mailed annually to workers aged 25 and older and is also available on request to workers of any age.

The benefit estimates in your statement can play a role in your financial planning by helping you see the Social Security benefits you may be eligible for so you can determine the savings, investments, and other pensions you need to build a secure future for yourself and your family.

As soon as you receive your statement, carefully review your earnings records and report any error or omissions immediately. Errors may not be correctable after three years.

To get a copy of your Social Security Statement or to report errors, call the Social Security Administration at 800-772-1213, visit them online at http://www.socialsecurity.gov, or drop by your local Social Security office.

NOTEBOOK ITEM 11
Social Security Benefit Estimates

When you receive your Social Security Statement, file it in your Financial Notebook under "Retirement."

How Time Affects The Value of Money

Postponing saving for retirement can be costly. In the following example, Investor A saves $5,000 a year for 10 years, then nothing for the next 25 years. Investor B invests nothing for the first 10 years, then saves $5,000 a year for the next 25 years. Both examples assume an annual investment return of 8%.

	Investor A			**Investor B**		
Year	Investment	Net Return	Balance	Investment	Net Return	Balance
1	$5,000	$400	$5,400	$0	$0	$0
2	5,000	832	11,232	0	0	0
3	5,000	1,299	17,531	0	0	0
4	5,000	1,802	24,333	0	0	0
5	5,000	2,347	31,680	0	0	0
6	5,000	2,934	39,614	0	0	0
7	5,000	3,569	48,183	0	0	0
8	5,000	4,255	57,438	0	0	0
9	5,000	4,995	67,433	0	0	0
10	5,000	5,795	78,227	0	0	0
11	0	6,258	84,485	5,000	400	5,400
12	0	6,759	91,244	5,000	832	11,232
13	0	7,300	98,543	5,000	1,299	17,531
14	0	7,883	106,427	5,000	1,802	24,333
15	0	8,514	114,941	5,000	2,347	31,680
16	0	9,195	124,136	5,000	2,934	39,614
17	0	9,931	134,067	5,000	3,569	48,183
18	0	10,725	144,793	5,000	4,255	57,438
19	0	11,583	156,376	5,000	4,995	67,433
20	0	12,511	168,886	5,000	5,795	78,227
21	0	13,511	182,397	5,000	6,658	89,886
22	0	14,592	196,989	5,000	7,591	102,477
23	0	15,759	212,748	5,000	8,598	116,075
24	0	17,020	229,768	5,000	9,686	130,761
25	0	18,381	248,149	5,000	10,861	146,621
26	0	19,852	268,001	5,000	12,130	163,751
27	0	21,440	289,441	5,000	13,501	182,251
28	0	23,155	312,597	5,000	14,980	202,231
29	0	25,008	337,604	5,000	16,579	223,810
30	0	27,008	364,613	5,000	18,305	247,115
31	0	29,169	393782	5,000	20,169	272,284
32	0	31,503	425,284	5,000	22,183	299,467
33	0	34,023	459,307	5,000	24,357	328,824
34	0	36,745	496,052	5,000	26,706	360,530
35	0	39,684	**535,736**	5,000	29,242	**394,772**

Note: Annual contribution is made at the beginning of the year. All interest is left in the account to allow interest to be earned on interest.

What about inflation?

The table above does not account for the powerful effect of inflation. In both examples, let's calculate what would happen to the balances of Investor A and Investor B if their money was left in an account earning zero interest. In both cases we assume the historical average annual inflation rate of 3%.

In 10 years, Investor A's balance of $535,736 would be worth $395,065. Investor B's balance of $394,772 would shrink to $291,114.

Setting A Retirement Goal

This next section will help you calculate a benchmark figure for setting an initial goal for your retirement fund. Bear in mind though that your retirement plan should be monitored regularly and adjusted whenever necessary throughout your working life.

1. **Estimated Retirement Expenses.** Referring to your Cash-Flow Statement, estimate your retirement expenses — most people find that they need about 70 percent of their pre-retirement income. (Use today's dollars.)

2. **Estimated Income from Your Retirement Fund.** Referring to your financial statement, add up your retirement investments. Then use one of the following methods to estimate the annual income potential.

   a. *Interest only.* Multiply your Retirement Fund assets by a reasonable interest rate. This method would leave the principal untouched; you would be withdrawing interest only.

	Example	Your Fund
Retirement Fund	$300,000	$ ______
Interest Rate (4%)	x .04	x ______
	______	______
Estimate Income from Retirement Fund	$12,000	$ ______

   b. *Interest and principal.* The table below shows how long $300,000 could last if it were earning 4% and being withdrawn at the stated rate each year. The table assumes annual inflation of 3%.

   How long $300,000 would last:

Annual Withdrawals	Time Period
$21,381	15 years
$16,416	20 years
$13,443	25 years
$11,464	30 years
$10,054	35 years

3. **Social Security Benefits.** Check your Social Security Statement and add in your approximate annual benefit amount.

4. **Employer Pension Income.** If you have an employer-sponsored pension plan, you should have projections of the percentage of your salary that your pension will cover, based on years of service. (Be sure to give yourself reasonable salary increases over the years.)

5. **Other Income.** Add together any other annual income you expect to receive.

6, 7. **Additional Income Needed.** On line 6, total lines 2 through 5. On line 7, subtract line 6 from line 1 to see if you will need more income in retirement. If you come out with a positive number on line 7, go on to line 8 and set your goal!

8. **Goal:** How much more will you need in your Retirement Fund to provide the additional income? An easy way to estimate the goal is to divide the annual income needed by an interest rate. For example: If you needed $3,000 more per year, if assuming 4 percent interest, you would set your goals at $75,000 ($3,000 divided by .04).

NOTEBOOK ITEM 12
Pension Benefits

Your employer or pension plan administrator should be able to provide you with the following information on pensions you and your spouse have: a Summary Plan, the Official Plan Document, and an Individual Benefit Statement. The last document will help you complete the Notebook Item on page 54. Complete a statement for each pension you and your spouse own.

Notebook Item 12:

Pension Benefits

Date of information: ______________________________

Name of worker: ______________________ Pension # __________

Pension plan administrator: ______________________________

Address: ______________________ Phone: __________

1. If worker left the employer today, how much could he or she receive?

   (a) A lump sum of $_________, or

   (b) Monthly payments of $_________ beginning (date) __________

2. Do Social Security benefits affect monthly payments? Yes___ No___

3. How much is the worker's benefit at retirement?

   Retirement age:________

   (a) Lump sum benefit: $__________

   (b) Monthly payment if spouse is named as beneficiary: $__________

   (c) Monthly payment if no spouse is named as beneficiary: $__________

4. If the worker dies before retirement, how much will his or her spouse receive?

   A lump sum $__________ or monthly payment $__________

5. If the worker dies after retirement, how much can his or her spouse receive immediately?
   A lump sum $__________ /or monthly payment $__________

6. Does the pension provide cost-of-living increases? Yes___ No___

INVESTING FOR YOUR FUTURE

The Role of the Texas State Securities Board

The investment marketplace provides a means for Texans to achieve important financial objectives — owning a home, providing college educations for their children, ensuring the funds for comfortable and independent retirement years.

Investment markets also provide entrepreneurs with access to capital and the ability to stimulate the economy and expand the job market. From modest beginnings, Texas has grown to be one of the major investment markets in the nation.

The state agency responsible for regulating the securities industry in Texas is the Texas State Securities Board (TSSB). The law that created the TSSB in 1957 consolidated securities laws dating back to 1913. In addition to bringing actions for fraud, the agency's regulatory responsibilities include providing for the registration of securities offered or sold in Texas and of firms and individuals who sell securities or render investment advice in the state.

In short, the mission of the TSSB is to protect Texas investors. Part of accomplishing that mission is to provide Texans with current, accurate and meaningful information about investment products and services and the people who sell them.

You can check out your stockbroker or financial advisor by calling the **Texas State Securities Board** at 1-888-663-0009 or online at http://www.ssb.state.tx.us or http://www.TexasInvestorEd.org

Which Investments Are Right For You?

Once you have clear direction where your family financial plan should take you, it may be time to develop a plan to get a greater return on your money by investing a portion of your savings. Selecting appropriate investments requires careful consideration. This guide addresses five important factors you need to evaluate with respect to your planned or existing investments.

Risk - What level of risk can you afford to take in selecting investments?

Diversification and Asset Allocation - Do you have a mix of investments and a degree of liquidity?

Quality of Investments - Have you checked out the companies you would like to invest with for stability?

Tax Implications - Have you checked which investments are most advantageous from a tax standpoint?

Your Investment Professional - Have you checked out your broker or financial advisor before entrusting him or her with your money? Do you know how to manage the person managing your money?

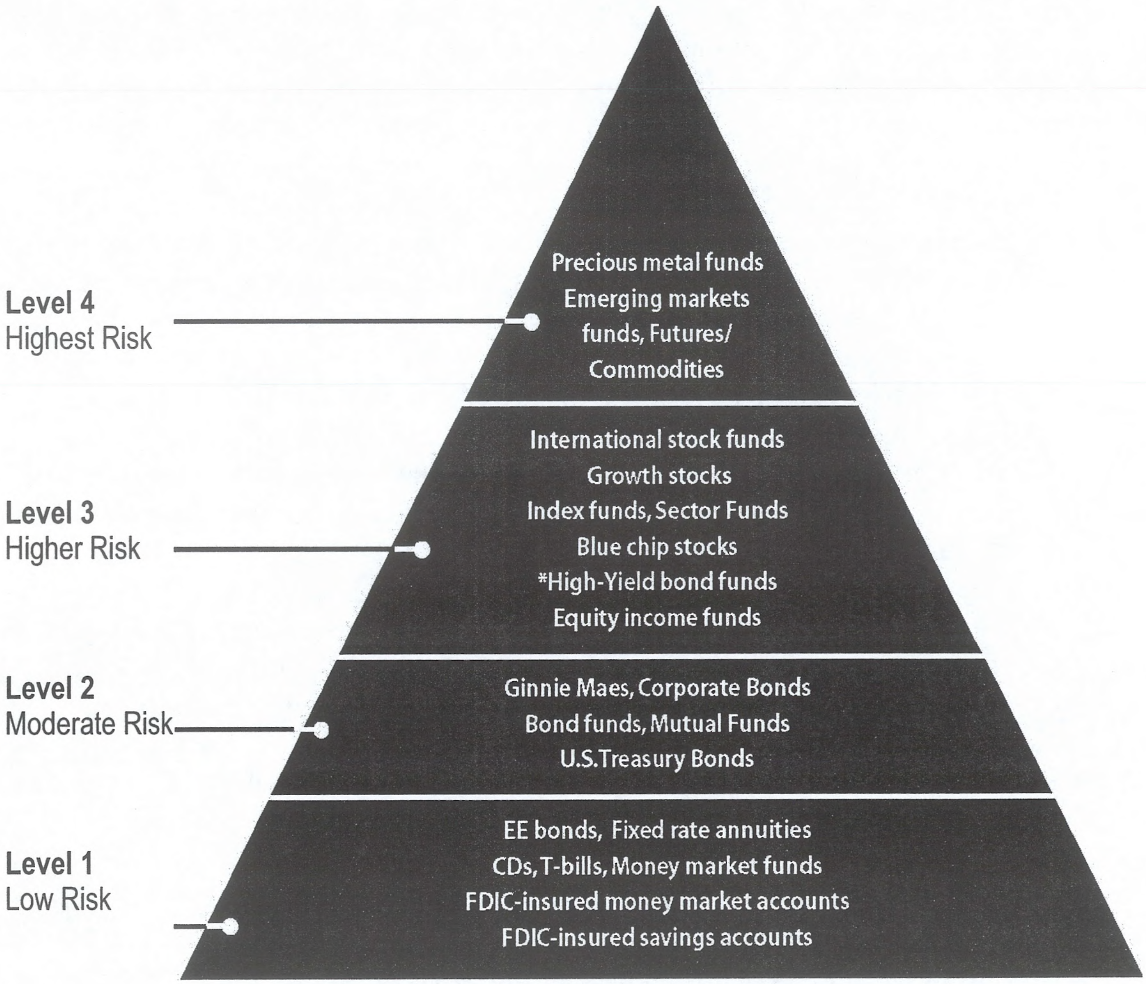
Let's take a closer look at each of these factors.

Risk

One of the most significant factors is determining the level of risk you are prepared — and can afford — to take with the money you plan to invest. In many cases, investments with higher return carry a higher risk, which can mean losing your entire principal — the cash you put into the investment. Lower risk investments may not yield as great returns, but have an added measure of security. Of course no investment can be guaranteed, but understanding the fundamentals of smart investing can be a big step toward meeting your financial goals.

The Risk Pyramid on the next page is often used to demonstrate a sampling of investments and the level of risk traditionally associated with them. Generally, the higher up the pyramid you go, the higher the returns over time. The four risk levels on the pyramid refer to the risk of loss of principal, which can occur if the value of the investment declines. Another kind of risk is loss of buying power, which can occur if the rate of inflation is higher than the rate of return on the investment. It is because of inflation that it is wise to understand how to invest above Level 1 of the pyramid.

RISK PYRAMID



* *High yield bond funds belong in the Level 3 risk category because their share price tends to be as volatile as stocks.*

The Risk Pyramid

Level 1 — Low Risk Investments

Cash Investments enable you to get your money back on short notice. These investments include deposit accounts, certificates of deposit, bonds and fixed-rate annuities. You deposit money with a financial institution, government agency or corporation, which promises to pay back your original deposit, or principal, plus interest.

Reserve Fund Vehicles, such as money market accounts, are considered cash investments. Your money is earning interest, but is liquid — easy to get back if necessary. They are also appropriate for holding money between investments and providing a layer of security for your retirement fund.

Money Market (Bank) Accounts are like high interest-bearing savings accounts. The money you deposit is invested in short-term securities (such as Treasury bills and corporate bonds). Money market accounts usually require a minimum deposit of at least $1,000 and are available at most financial institutions. Be sure that the account is FDIC-insured.

Money Market (Mutual) Funds are similar to money market accounts, except that they are mutual funds and therefore pay a dividend instead of interest. The dividend tends to be higher than the interest earned on money market accounts. You buy into a money market fund, or sell, at $1 per share; the price does not fluctuate. Money market funds are available through brokerage firms and mutual fund companies.

Treasury Bills (T-bills) are a type of U.S. government bond and therefore one of the safest types of cash investments. They have a "face value" of $10,000, which is the amount you receive on the date of maturity, although you have bought it at a discount. The interest is the difference between the discount price and the face value at maturity. If purchased directly from a Federal Reserve Bank, T-bills mature in three, six or twelve months. If purchased on the secondary market (through a broker), you can buy them with maturity dates from a few days to a year. T-bills are available without a fee from the Federal Reserve Bank or for a small fee from a brokerage firm.

The following investment vehicles are also low risk, but generally have restrictions or penalties if you withdraw funds before the maturity date.

Certificates of Deposit United States bank CDs are sold with maturity dates from three months to five years and usually pay more interest than money market funds. They're available at all types of financial institutions. Be sure your CDs are FDIC-insured.

U.S. Series EE Bonds, also called "savings bonds," pay a guaranteed interest rate if held for 12 years. After five years, the interest rate will be higher if prevailing interest rates have risen. Tax on interest can be deferred with savings bonds. They are available without a sales fee if purchased through an employer, at a Federal Reserve Bank or for a small fee from financial institutions. The minimum investment is $25.

Fixed-Rate Annuities. An annuity is a contract with an insurance company, so commission rates vary — be sure to check out what you will be charged in advance. The contract provides for a guaranteed lifetime income should the individual wish to "annuitize," or exchange the principal for a guaranteed income. Annuities are popular retirement investments because investments are tax deferred and the rate of return is usually better than CDs. There are restrictions, however: withdrawals before the age of 59-1/2 may trigger an IRS penalty; distributions must begin by age 70-1/2; and fixed rate annuities normally carry a declining surrender fee for the first five to 10 years. Buy annuities only from companies rated AAA, AA or A by the rating services.

Level 2 Moderate Risk Investments

Bonds promise to repay your principal plus interest if you keep them to maturity. When you buy a bond, you are loaning your money to the issuer. The safest bonds in this category are federally-insured bonds and those rated A or better by the rating services. Bonds rated BB or lower are considered "junk bonds" and carry a much greater risk with them.

U.S. Treasury Bonds and Notes are popular because of their safety and competitive interest rates. Bonds may be purchased for $1,000 and notes for $10,000. Bonds mature in 30 years, notes mature in five; however, they can both be bought for shorter maturities through a brokerage firm. These are available without a sales fee from a Federal Reserve Bank or for a small fee from financial institutions.

Municipal Bonds are exempt from federal income tax and guaranteed by the issuing municipality. The minimum investment is usually $1,000. They are available for purchase through brokerage firms.

Corporate Bonds are guaranteed by the issuing corporation. The minimum investment is usually $1,000. They are available through brokerage firms.

Bond Mutual Funds. All types of bonds are available in mutual funds. Once in mutual funds, however, they are no longer considered cash investments. Their value fluctuates according to business, market and economic conditions. Mutual funds comprised of "junk bonds," also known as high-yield bond funds, belong at Risk Level 3 because their value per share fluctuates like a stock.

Ginnie Maes are mortgage-backed securities issued by the Government National Mortgage Association (GNMA). There are also "Freddie Macs" and "Fannie Maes," but Ginnie Maes are the most popular because of their U.S. government guarantee. Ginnie Mae certificates represent a share in a pool of mortgages, earning interest plus a return of the principal. Payments however, can cease when the principal has been depleted. A risk of this investment is that when interest rates fall, people tend to refinance their mortgages, thus lowering the interest yielded by Ginnie Mae investments. Minimum investment is $25,000, but you can buy into a Ginnie Mae (mutual) fund. Ginnie Mae certificates are available through banks and brokerage firms.

Level 3 Higher Risk Investments

Stocks are the heart of a well-managed retirement fund, although not everyone invests in stocks for long-range security. But, people are learning that stocks are the best hedge against inflation over the long run.

Stocks are an ownership investment. When you buy a stock, you own a share of a company. Stocks can make money for you in two ways: dividends and capital gains. They can also lose money, which happens if the share price is below what you paid for it when you sell it. If you do not sell the stock, then your loss is only on paper. Stock values continually fluctuate and good stocks normally rise in value over time.

Stocks are purchased through brokerage firms, commercial banks and directly from corporations through dividend reinvestment programs (DRIPS). DRIPs provide several advantages. In addition to reinvesting your dividends, several hundred companies offer optional cash purchase plans that permit you to buy stock directly from the company. While most companies require that you buy the first share from a broker, some let you buy your original share directly from the company. Most DRIPs are free of brokerage commissions and other charges (called "no-load" stocks) and some even offer a five percent discount off the share price.

Ownership Investments are assets that you buy and own as property. You can make money if the investment appreciates (goes up in price) and/or provides you income, such as rents or dividends.

Dividends are distributions of company profits you receive on ownership investments, such as stocks and mutual funds.

Capital Gains are profits you derive when you sell an ownership investment for more than the price you paid for it.

Utility Stocks tend to pay a relatively high dividend.

Blue-Chip Stocks are shares of well-established and financially sound companies that have demonstrated the ability to pay dividends in both good and bad times.

Growth Stocks have earnings that are expected to grow at an above-average rate relative to the market.

Mutual Fund is a pool of investments owned and professionally managed by an investment company. The investment company sells shares; the shares provide investment returns to fund owners in the form of dividends and capital gains.

Because mutual funds contain many investments, they tend to be safer than individual stocks and bonds. The price per share fluctuates with business, market and economic conditions. The minimum investment ranges from $250 to $3,000.

Mutual funds are available through brokerage firms for a fee ("load funds") or directly from mutual fund companies for lower fees or no fees ("low-load funds" or "no-load funds"). History shows that as a group, no-load funds perform as well as load funds.

Level 4 Highest Risk Investment

Aggressive mutual funds are included on Level 4 of the Risk Pyramid because the securities themselves belong in a higher risk category. These mutual funds are appropriate for investors who have a long time frame and can tolerate the price fluctuations. Other high risk investments include:

Emerging Market Funds focus on companies in developing countries; the funds are not only vulnerable to changing market conditions, but to fluctuations in the dollar and political conditions.

Commodities are investments in areas such as energy (oil, natural gas), metals (gold, silver), livestock and meat, and agricultural goods – and are typically done through futures trading and forward contracts. Commodities are considered risky investments because they can affected by impossible-to-predict events such as the weather, epidemics and man-made disasters.

Gold and Precious Metals Funds can be acquired for a portfolio by purchasing the physical asset or by buying futures contracts for a particular metal. Investors can also buy shares in publicly traded companies that deal in the exploration or production of precious metals.

Diversification and Asset Allocation

Diversification is important to managing investment risk. The easiest way to diversify your investment portfolio is to purchase mutual funds, because your money buys into a highly diversified pool of investment products. Another way is to spread your money among the three major asset classes: cash, bonds and stocks. This type of diversification is called "asset allocation."

Determining your asset allocation will help you select investments appropriate for the level of risk you are prepared to take. The following table is a middle-of-the-road approach; it includes only the lower three levels of the Risk Pyramid.

Asset Allocation

	Time Frame		
RISK LEVEL	***0-5 years**	**6-10 years**	**10 years +**
3. High	50% stocks 40% bonds 10% cash	70% stocks 20% bonds 10% cash	90% stocks 10% bonds
2. Moderate	40% stocks 40% bonds 20% cash	60% stocks 30% bonds 10% cash	80% stocks 20% bonds
1. Low	30% stocks 40% bonds 30% cash	50% stocks 40% bonds 10% cash	70% stocks 30% bonds

**At a minimum, keep enough in cash investments to cover the withdrawals you expect to make over the next four years.*

Quality of Investments

If you are going to invest in stocks, corporate bonds, mutual funds or annuities, you have got to do your homework on quality. You want to be sure that the company issuing the investment is financially stable and profitable. There are numerous investment resources available in book stores and libraries.

Bonds:	Standard & Poor's and Moody's Ratings are also available from brokers
Annuities:	Standard & Poor's and Moody's
Stocks:	Value Line Investment Survey Standard & Poor's Stock Guide
Mutual Funds:	Morningstar

Tax Considerations

Taxes can take a big bite out of your investment returns . . . unless your investments are tax sheltered. Investment returns that are tax sheltered, such as an IRA, annuity or a 401(k) plan, are not required to be reported to the IRS and withdrawals are taxed as ordinary income.

Outside a tax shelter, however, all dividends and gains or losses from the sale of assets must be reported on your tax return. Therefore, you must keep accurate records of all your investment purchases, including purchases made with reinvested dividends. Also, when you sell shares, you are required to report the date and price at which those shares were purchased and/or sold. This information is on your investment statements, so be sure to review them carefully when you receive them.

Additionally, your statements enable you to check the accuracy of the information your broker is sending to the IRS. The accounting is performed on IRS form 1099, which you will receive annually. If you spot an error in your 1099, ask your broker to correct it immediately.

Keep a separate record of all investment purchases, including real estate, partnerships, precious metals, antiques, and so on, in your Financial Notebook.

Tax Shelters

The major reason to use tax shelters is to reduce your tax bill. There are two types of tax shelters: tax-deferred accounts and investments (series EE bonds) and tax-exempt investments.

Tax-Deferred Accounts shelter investments from taxation until money is withdrawn, at which time the taxable portion of the withdrawal will be taxed as ordinary income. Tax-deferred accounts come with IRS restrictions; that is why it is important to check on changes in tax laws each year before filing your return. The following types of tax-deferred accounts provide two types of tax deferral. First, your contributions lower your taxable income for the year. (In the case of IRAs, however, the earner must meet certain income qualifications if he or she also participates in a pension plan.) Second, the investment earnings usually are sheltered from taxation until you withdraw the money.

1. **Voluntary retirement plans offered through employers.** Ask your employer for information.

2. **Individual Retirement Accounts (IRAs).** Both traditional and Roth IRAs are self-funded retirement plans that provide tax benefits. IRS Publication 590 (http://www.irs.gov/publications/p590/index.html) is the source for the most current information on traditional and Roth IRAs. The 2009 contribution limit per wage earner is $5,000, but the amount varies depending on income, household status and participation in other retirement plans.

3. **Keogh Plans and Simplified Employee Pension (SEP) Plans.** These accounts are for self-employed people. They have higher maximum contribution limits than IRAs do. Ask the IRS for information.

4. **Series EE Bonds and Annuities** are tax-deferred investments. Tax-exempt bonds include municipal bonds and other bonds issued by local, state or federal governments. While the interest from tax-exempt bonds is tax free, any capital gains realized from selling them is taxable.

Check changes in the tax law on the Internet — http://www.irs.gov

Know Your Investment Professional

Investment professionals can be highly influential. While most stockbrokers and investment advisers are honest and ethical, some do fall prey to "conflicts of interest." Furthermore, honest errors as well as scams do occur. Checking out your investment professional before you have dealings with him or her is your best bet for avoiding broker problems and problem brokers. Your next best defense is to be sure you are managing the person who is managing your money.

1. The Texas State Securities Board (TSSB) will check out your broker's professional history and provide you with any information you need to make an educated decision. When you contact the TSSB, ask these questions:

   Is the person licensed to sell investments or render investment advice in Texas?

   Is the firm licensed to sell investments or render investment advice in Texas?

   Is there a history of regulatory violations, disciplinary actions, or investor complaints involving this individual or firm?

2. Ask if your broker is a registered investment adviser (RIA) or a registered representative (RR). The distinction is important. The RIA has a fiduciary responsibility to you, the client, and is regulated by the Texas State Securities Board. The RR has a fiduciary responsibility to the brokerage firm and is regulated by state law, as well as the Financial Industry Regulatory Authority, a self-regulatory body.

3. Always find out in advance about commissions. This may be awkward, but is a must. The information will help you avoid being "steered" or persuaded to invest in products that provide the broker with a hidden profit motive.

4. Review any investment professional's Form ADV (for RIAs) or U-4 (for RRs). This document provides educational background and work experience and discloses any legal or financial problems that have been reported to the person's regulatory agency. If the broker doesn't promptly provide you a copy of the form, take your business elsewhere.

5. Never pay for an investment transaction with a check made out to a broker. The check should always be made out to the brokerage firm or to the investment company issuing the securities.

6. Avoid a conflict of interest by using fee-only financial planners or investment advisers. When advice is what you're after, get it from a person who will not benefit from the products he or she recommends. (See page 35 on how to hire a financial planner.)

7. Never give your investment professional discretionary powers to execute orders for you. If you do, you lose control of the account. The broker would be able to buy and sell your investments and generate numerous commissions.

Managing Your Investment Professionals

One of the biggest mistakes investors make is giving up control of their investments. There are practical steps you can take to stay in charge of the people who manage your money. If there is ever information that you do not understand or agree with, contact your broker immediately and get a satisfactory clarification.

Make sure your risk tolerance and your investment strategy match. When you begin a relationship with a broker or financial adviser, you should be asked a series of questions about your income and assets, your career and retirement plans, and the level of risk you are willing and able to take in investing. This is your financial profile — your investments should correspond to the information you give your financial professional.

Keep complete and accurate records. Your financial profile should be accurately reflected on your new account form. Check the form for accuracy and completeness and get a copy for your records. If your investment strategy changes over time, be sure that your records accurately portray your revised objectives. In fact, review and keep all of your investment records. If you ever have a dispute with your broker, you will need a complete set of records documenting your side of the story. If you do business with your broker over the telephone, follow-up in writing with your instructions; keep track of the dates, times and topics of conversation.

Your account statements are key to controlling your investments. They should be checked carefully and as soon as you receive them. Be sure each statement contains only those transactions you have authorized. Review the section that reflects fees or charges debited to the account. If your statement does not include this information, call your broker and ask for it.

Be aware of the kinds of misconduct that you should be on your guard against:

Unsuitable Investments. Brokers must follow the "know your customer" rule, requiring that they recommend investments that "match" your financial profile.

Unauthorized Trading. Your broker is required to get your permission prior to trading in your account. Unauthorized trading is illegal.

Misrepresentations or Omissions of Material Facts. Your broker is obligated to be truthful — and complete — in presenting investment opportunities to you.

Churning/Excessive Trading. Most investment professionals earn commissions when they buy and sell investments for their clients. If your broker trades excessively in your account, you could have a valid claim against your broker for "churning."

Theft of Funds. One of the most devastating situations a small investor can encounter is actual theft by a financial professional.

If you have a problem, contact the broker and explain it to him or her. If you do not have resolution in a reasonable, specified period of time, contact the broker's branch office manager. If you do not receive a satisfactory resolution at this stage, contact the compliance division of the brokerage firm. Document everything in writing and send copies of any correspondence to the Texas State Securities Board. (P.O. Box 13167, Austin, Texas 78711-3167. Telephone: 1-888-663-0009)

Don't wait to act! If you believe a problem exists, make sure it is resolved. State laws limit the amount of time you have to take action against a broker.

Check out the TSSB Web Site at http://www.ssb.state.tx.us or http://www.TexasInvestorEd.org

Resolving Broker Disputes

Virtually all brokerage houses now require their customers to agree to arbitration instead of going to court. *This requirement is contained in the agreement you sign when opening a new account.* For assistance with the arbitration process, contact these organizations.

American Arbitration Association
Customer Service Center
1-800-778-7879
http://www.adr.org

Financial Industry Regulatory Authority
Arbitration and Mediation Forum
1-212-858-4200
http://www.finra.org/arbitrationmediation/index.htm

State Bar of Texas Lawyer Referral Service
http://www.texasbar.com
1-800-252-9690 or 1-877-9TEXBAR

Public Investors Arbitration Bar Association
http://www.piaba.org
1-405-360-8776 or 1-888-621-7484

IF DISASTER STRIKES

Death of Your Spouse

Of course, all the planning in the world cannot prevent misfortune and disaster from entering our lives. However, part of the rationale behind helping you organize your records is to ease the burden that would be placed on you or your spouse in the face of a catastrophe.

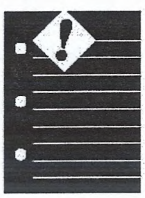
Losing a spouse is one of the worse experiences in life, particularly if the death is unexpected and premature. Do you fully understand your spouse's financial resources?

Do you have an adequate Reserve Fund should the family wage-earner become disabled and unable to work?

Have you thought through who would manage your family's finances if you were to become incapacitated for any length of time? If you are a single parent, have you given someone the durable power of attorney to handle your affairs?

ACTION STEP 9
Estate Planning Checklist

Complete the Estate Planning Checklist. For every "no" answer, add as many tasks to your Goals List as it takes to respond positively to the checklist item.



NOTEBOOK ITEM 13
Widowhood Analysis

AARP has developed a Widowhood Analysis on page 72. It will give you an idea of the resources you would need to have if your spouse suddenly passed away.

Estate Planning Checklist

1. **Have you given someone a durable power of attorney?** **Yes ___ No ___**

   If you should suffer a stroke or other disability, a durable power of attorney enables someone else to manage your finances.

2. **Have you made a living will and/or health care power of attorney?** **Yes ___ No ___**

   A living will expresses your wishes regarding life support and health care decisions. It can be incorporated into a health care power of attorney, a document exactly like a durable power of attorney but applying only to health care decisions.

3. **Have you completed the Location of Documents form on page 7?** **Yes ___ No ___**

4. **Are beneficiary designations on your life insurance policies, annuities, IRAs and retirement plans correct?** **Yes ___ No ___**

   Beneficiary designations are sometimes forgotten when a beneficiary dies or a new marriage occurs. When no beneficiary has been designated, the asset goes to your estate to be distributed according to your will or state law.

5. **Do you have an up-to-date will?** **Yes ___ No ___**

   Your will should be reviewed by a lawyer every two to four years or whenever a significant change occurs in your life. Remember that if you move to a different state or your marital status changes, your will may no longer be valid.

6. **Check your property titles, particularly your home and financial accounts. Do they reflect your intentions and are they consistent with your will?** **Yes ___ No ___**

7. **Do you need to set up a trust?** **Yes ___ No ___**

   A trust is a tool for avoiding probate and transferring property to your heirs. A "trustee" manages the property according to your instructions. Some Forms of Trusts on page 73 will help.

8. **Are you familiar with probate in Texas?** **Yes ___ No ___**

   Familiarity with your state's probate procedure will help you decide whether or not you should avoid it.

NOTEBOOK ITEM 13

Widowhood Analysis

Date__________

1. If you were suddenly widowed, how much would your annual income be? Add up your:

a. Survivor's benefits:
Pension income (see Benefits, page 54) $__________
Social Security (see page 49) __________

b. Personal earnings __________

c. Income from other sources, excluding assets __________

d. Subtotal $__________

2. How much income could you get from your assets?

a. Add up your savings and investments, excluding your Reserve Fund (refer to your Financial Statement, page 11) $__________

b. Life insurance proceeds (check your policy for the death benefit) +__________

c. Total assets: $__________

d. Enter an interest rate that your money could earn (e.g., .07) x__________

e. Subtotal — multiply 2c by 2d: $__________

Example: A lump sum of $50,000 earning seven percent could provide $3,500 per year (50,000 x .07), leaving the principal untouched.

3. **TOTAL ANNUAL INCOME** — add lines 1d and 2e: $__________

4. **TOTAL ANNUAL EXPENSES.** Referring to your Cash-Flow Statement, estimate your expenses for one year. Do not be surprised if your projected expenses exceed your current expenses. You may need education, counseling, a new wardrobe to begin a job, or travel money to be with family on holidays. $__________

5. **ADDITIONAL INCOME NEEDED** — subtract line 3 from line 4: $__________

SOME TYPES OF TRUSTS

Irrevocable Trusts may be set up during your lifetime or provided for in your will. Either way, you give up all control of your funds in order to receive tax advantages. The trustee passes the funds on to your beneficiary(s) as directed by the trust agreement. Variations include:

> **support trusts** provide income for your dependents;
>
> **by-pass trusts** provide income to your spouse while holding the assets for children;
>
> **Q-tip trusts** maximize the marital deduction while designating heirs to succeed your spouse;
>
> **insurance trusts** keep insurance proceeds out of your estate; and
>
> **charitable trusts** transfer assets to charities and enable you to claim an immediate tax deduction.

Revocable Trusts enable you to retain control of the assets; therefore, you continue to pay taxes on the trust income. Often called a **living trust**, this document can serve many purposes, including:

- provide management of assets in the event of your incapacitation
- protect your separate assets in case of divorce
- protect your separate assets from your spouse's creditors
- pass your home to your children after your death, while giving your spouse rights to live in it
- provide ease and avoid attorney and probate costs in passing property to your heirs.

Recovery From Natural Disasters

One of the reasons we pay property and casualty insurance premiums is to protect our home and possessions during a catastrophe. Major disasters — flood, fire, tornado or hurricane — should be covered by your homeowner's insurance. Keeping a duplicate set of records in a location other than your home will prove to be invaluable if you have to go through such an occurrence.

Contact your insurance agent or company promptly. Follow-up immediately with a written claim to protect your rights under the Texas prompt-payment law. If you do not have a copy of your policy, have your agent provide you with one.

Check your homeowner's policy. Reacquaint yourself with the terms and conditions of your homeowner's policy so you know what actions you're expected to take in order to substantiate claims on your property, what records are most important and if there are specific requirements, like taking photographs, before cleaning up debris. Check to see if your policy covers temporary living expenses if you have to move.

Make only emergency repairs to protect your property until an adjuster inspects the damage. Save all receipts.

Be there when the adjuster arrives. Make your address visible and try to be present when the adjuster inspects the damage. If you're forced to move, leave identifiable signage with your name, temporary address and phone number, and the name of your insurance company.

Use Caution

Returning to your home for the first time after a major disaster is both difficult and dangerous. But, there are ways to approach a disaster area that can help you protect your family from further losses. Immediately after checking your home for possible structural damage, and assuming you may enter it, take care of these items first.

> If you smell **gas** or hear a hissing sound, open a window and leave the house quickly. Turn off the gas at the outside main valve, if you can. If not, have the gas company do it as soon as possible. (Once gas has been turned off, a professional must turn it back on.)
>
> If you see sparks, broken, frayed **electrical wires**, or you smell hot insulation, turn off the electricity at the main fuse box or circuit breaker. Stay

away from **fallen or damaged electrical wires** — they could still be live.

If you suspect **sewage lines** are damaged, avoid using the toilets. If **water pipes** are damaged, do not use the tap water. Call your local water company for further instructions. Meanwhile, make safe water by melting ice cubes.

If any of your **electrical appliances** are wet, turn off the main power switch. Unplug the appliance and let it dry out before reconnecting it.

Check first for **structural damage**, especially the roof and chimney.

Clean up **flammable** liquids first.

Throw out all foods, medicines and cosmetics that have come in contact with floodwaters, including canned foods. Clean and disinfect anything that got wet —the mud left behind by floodwaters can contain sewage and chemicals.

Flooded basements should be pumped out gradually to avoid damage — about one-third of the water per day. The walls may collapse and the floor can buckle if the basement is pumped out while the surrounding ground is still waterlogged.

The **Federal Emergency Management Agency (FEMA)** Web site has valuable up-to-date information for victims of natural disasters. **http://www.fema.gov**

WHERE DO YOU GO FROM HERE?

Managing one's finances is a lifetime journey. If you have completed the work in **The Texas Family Guide to Personal Financial Management**, your journey is in full swing. Remember that sound financial management practices require keeping on top of changes that occur in the framework of your finances and making the necessary adjustments to your long range goals and short term objectives.

Keep reaching out for information. Make it a habit to look through the financial pages of your newspaper and watch for television and radio programs that deal with financial topics. There are many resources to help you hone your financial management skills and they do not have to cost a lot of money. For instance:

- Check with your local library about the books and periodicals found in the Resource Section of this guide.

- Subscribe to a financial magazine, such as Kiplinger's Personal Finance, SmartMoney, or the American Association of Individual Investors Journal.

- Take classes and attend financial management seminars through your local community college, libraries and other organizations.

- Contact the National Association of Investors Corporation (NAIC) at http://www.better-investing.org or by calling 877-275-6242. They can tell you if there is an investment club near you, or help you start one.

Use the Internet as a source of information, but be cautious about taking advice from companies marketing commercial investment products or services rather than providing information.

The key to staying in charge of your finances is to keep your financial notebook and goals list up-to-date. Knowing where you are now and where you want to go will enable you to plan your journey and stay on course.

Good luck!

ADDITIONAL RESOURCES

Reading List: Personal Finance

Tobias, Andrew. The Only Investment Guide You'll Ever Need. Harvest Books, 2005.

Quinn, Jane Bryant, Smart and Simple Financial Strategies for Busy People. Simon & Schuster, 2006.

Opdyke, Jeff. The Wall Street Journal's Complete Personal Finance Guidebook. Three Rivers Press, 2006.

Kobliner, Beth. Get a Financial Life: Personal Finance in Your Twenties and Thirties. Fireside, 2009.

Steur, Anthony. Questions and Answers on Life Insurance: The Life Insurance Toolbook. IUniverse Star, 2007.

Pulliam-Weston, Liz. Your Credit Score, Your Money & What's at Stake: How to Improve the 3-Digit Number that Shapes Your Financial Future. FT Press, 2009.

Government Resources

Federal Deposit Insurance Corp.
http://www.fdic.gov Site for the government insurer of bank and thrift deposits.

Internal Revenue Service
http://www.irs.gov Official publications and forms from the IRS.

Pension Benefit Guaranty Corp.
http://www.pbgc.gov Information on the government-sponsored insurer of defined-benefit retirement plans.

Social Security Administration
http://www.socialsecurity.gov Explanations and information on Social Security programs and benefits.

U.S. Department of Labor/Employee Benefits Security Administration
http://www.dol.gov/ebsa Information on employee benefit and pension plans, including 401(k) retirement plans.

Regulators

Texas State Securities Board
http://www.ssb.state.tx.us The investor protection agency for the State of Texas.
1-888-663-0009

U.S. Securities and Exchange Commission
http://www.sec.gov Source for online filings of corporate information and mutual fund reports and filings.
1-202-942-8088

Commodity Futures Trading Commission
http://www.cftc.gov The CFTC regulates commodities futures and options markets.
1-202-418-5000

Self-Regulatory Organization

Financial Industry Regulatory Authority
http://www.finra.org The financial industry's self-regulatory body.
1-800-289-9999

Financial Education

American Institute of Certified Public Accountants
http://www.360financialliteracy.org
1-888-777-7077

Federal Reserve Board
http://www.federalreserveeducation.org
1-212-720-6134

Financial Planning Association
http://www.fpanet.org
1-800-282-7526

Insurance Information Institute
http://www.iii.org
1-212-346-5500

Investor Protection Trust
http://www.investorprotection.org
1-202-775-2113

National Association of Personal Financial Advisors
"Fee-only" financial planners.
http://www.napfa.org
1-800-366-2732

National Endowment for Financial Education
http://www.nefe.org
http://www.smartaboutmoney.org
1-303-741-6333

National Foundation for Credit Counseling
http://www.nfcc.org
1-301-589-5600

Texas Cooperative Extension
http://texasextension.tamu.edu
1-979-845-7907

U.S. Department of Labor Women's Bureau
http://www.wiseupwomen.org
1-800-827-5335

U.S. Financial Literacy and Education Commission
http://www.mymoney.gov
1-888-696-6639

Women's Institute for Financial Education
http://www.wife.org
1-760-736-1660

Women's Institute for Secure Retirement
http://www.wiserwomen.org
1-202-393-5452

Index of Terms

Index - Continued

NOTES

The Texas Family Guide to Personal Money Management was originally a collaborative project between the Texas State Securities Board and the American Association of Retired Persons. In 2006, AARP turned over their rights to this publication to make it solely a Texas State Securities Board publication.

The Texas Family Guide to Personal Money Management can help you gain skill and confidence in managing your finances. It will show you how to establish the "building blocks" of a strong financial identity for your family. Like the essential components of a well-built house, this guide is the foundation that can help you to take control of your finances, setting realistic and achievable goals for your family's future.

Taking control of your personal finances and planning for the future is not a simple task. Be realistic about what you can accomplish. Break down your goals into small tasks and patiently work at your own pace. Regardless of how small an accomplishment for the day or week might be, pat yourself on the back. Celebrate your effort, knowing that you have come one step closer to a well-organized and well-developed financial plan for the future.

The Texas Family Guide to Personal Money Management is provided to consumers free of charge by the Texas State Securities Board (TSSB). The TSSB is the state agency responsible for regulating the securities industry and protecting consumers from investment fraud.

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