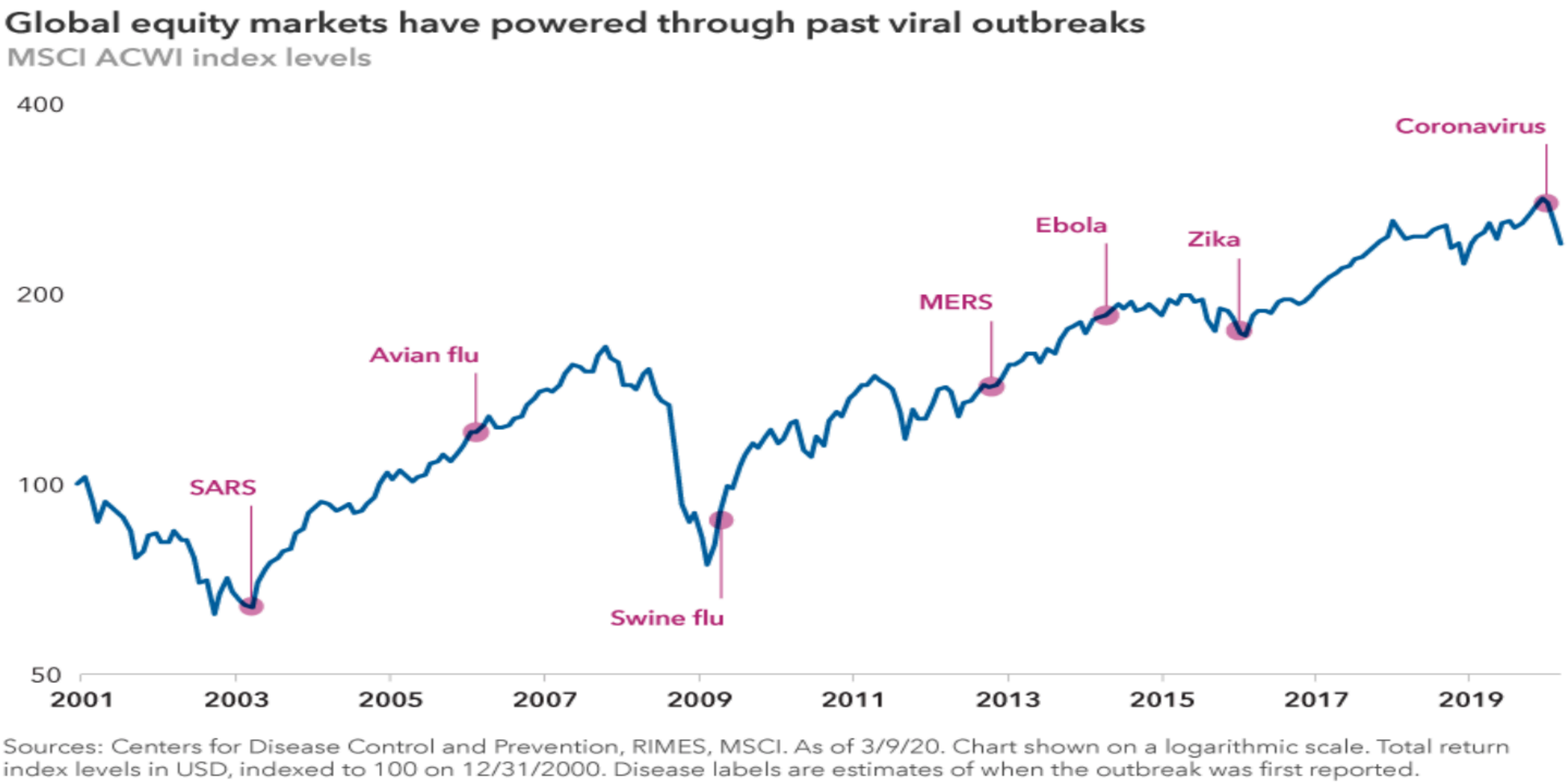
Fix Your Finances 2020 Quick Review

Class 9 Asset Allocation

Markets and The Coronavirus Pandemic



The Proper Mindset for Investing

- Market Declines are Normal
- Buy and Hold Strategy
- Time not Timing
- Keep the Proper Perspective
- Diversify Your Portfolio
- Automate Your FIN

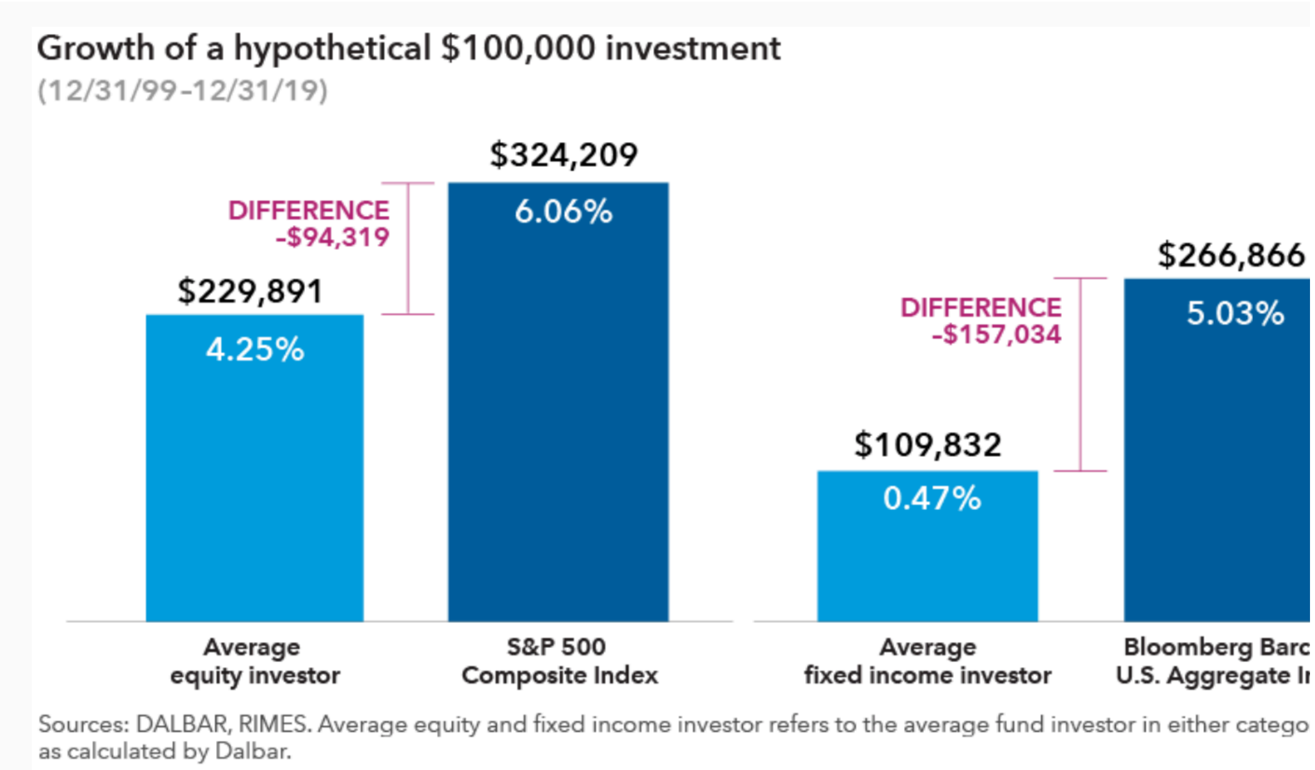
Market Declines are Normal

Declines are a normal part of the investment cycle

Standard & Poor's 500 Composite Index (1949–2020)

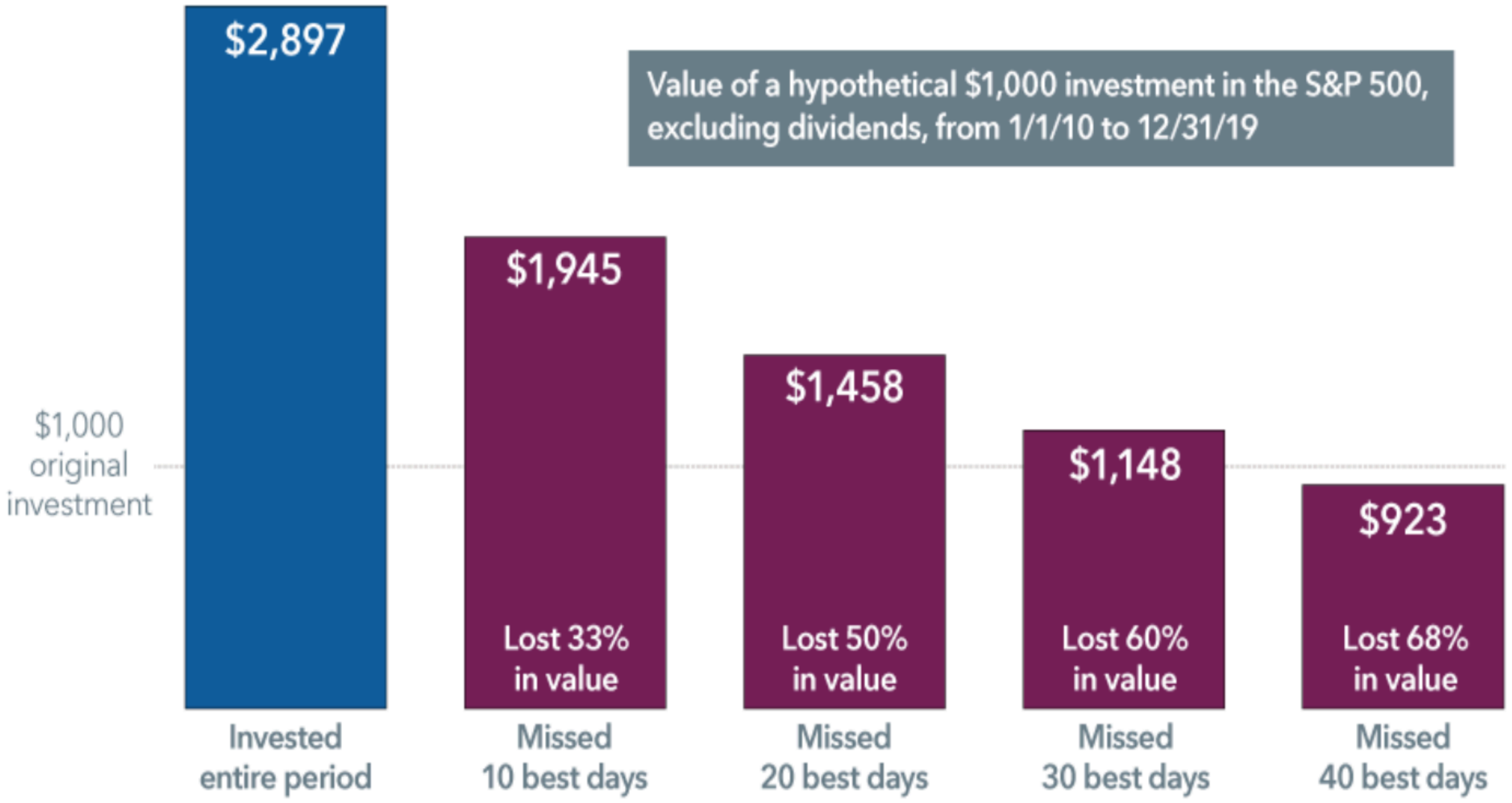
Size of decline	Average frequency	Average length	Last occurrence
–5% or more	About three times per year	43 days	February 2020
–10% or more	About once per year	112 days	February 2020
–15% or more	About once every three and a half years	262 days	February 2020
–20% or more	About once every six years	401 days	February 2020

The demonstrated advantages of a “Buy-and-Hold Strategy”



- The average stock investor lagged the market over the long haul by nearly 1.8% per year, while the average bond investor lost virtually all of their positive returns, trailing the bond market by an average of more than 4.6% per year. Compounded over time, the impact on portfolios can be almost catastrophic.

Time Not Timing”

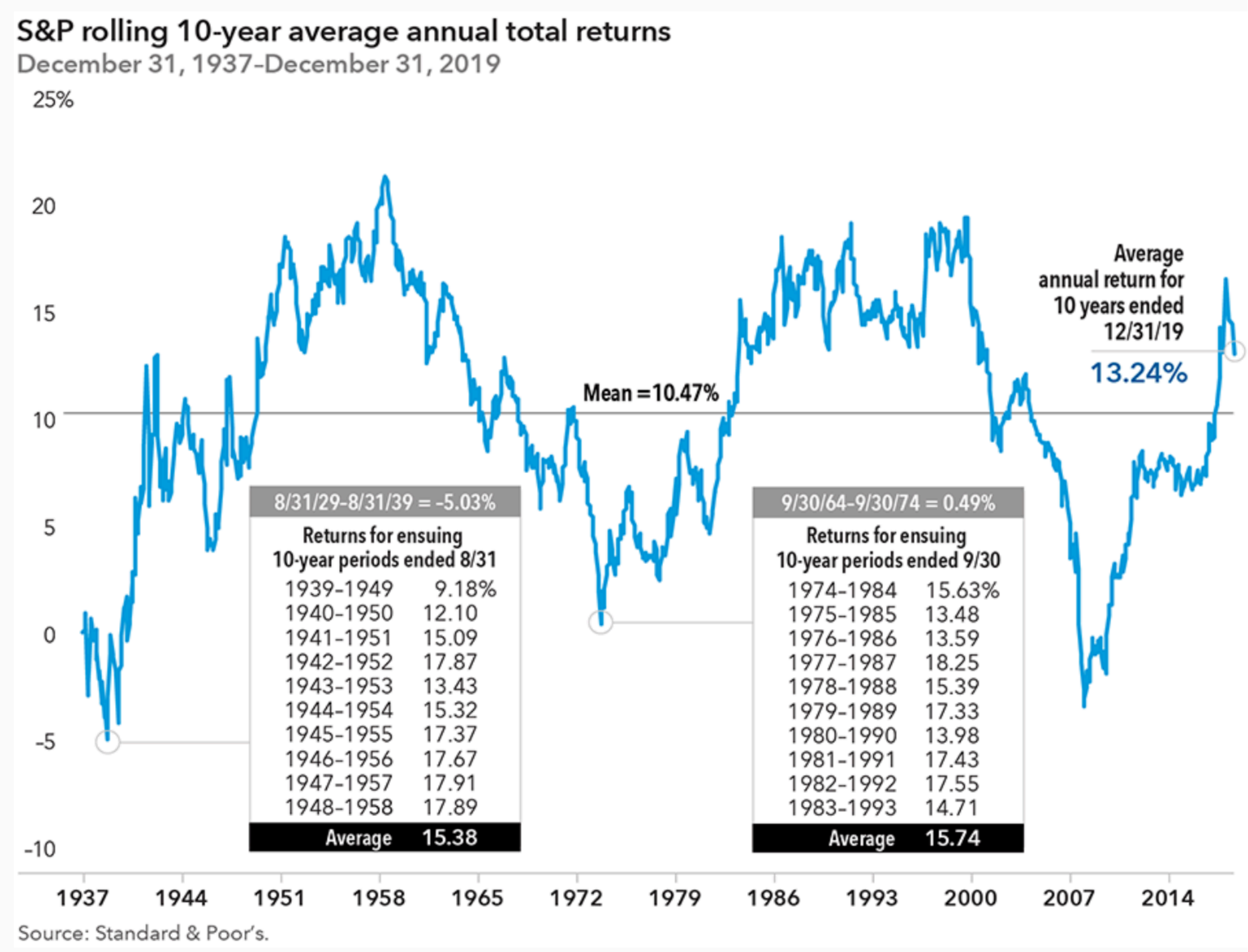


Sources: RIMES, Standard & Poor's. As of 12/31/19. Values in USD.

- When observing the five worst market declines since 1929, returns in the first year after each market decline ranged from 36.16% to 137.6% and averaged 70.95%. Over a longer term, the average value of an investment more than doubled over the five years after each market low.

Proper perspective can help you remain calm

- **Long-term investors have been rewarded.** Even including downturns, the S&P 500's mean return over all rolling 10-year periods from 1937–2019 was 10.47%.



Automate your "FIN"

- A classic saying in personal finance is "pay yourself first." Before your paycheck hits your bank account, you should set up a plan to put some of that money into a retirement savings. You can't spend it if you've already saved it.
- One of the best ways to save automatically is to enroll in your employer's tax-advantaged retirement plan, such as a 401(k) or 403(b) plan. Depending on the rules and limits of your retirement plan, you may be able to save a percentage of your salary and your employer will match your contributions, up to a certain percentage.
- If your company does not offer a tax-advantaged retirement plan, you can still save money for retirement on your own in an IRA.Make your savings automatic by setting up recurring deposits from your checking account.

What Is Asset Allocation

Asset allocation involves dividing your investments among different assets, such as stocks, bonds, and cash. The asset allocation decision is a personal one. The allocation that works best for you changes at different times in your life, depending on how long you have to invest and your ability to tolerate risk.

Creating Your Asset Allocation Model

- Time Horizon
- Risk
- Diversification
- Investment Choices
- Rebalancing

Creating Your Asset Allocation Model

- Time Horizon is the number of months, years, or decades you need to invest to achieve your financial goal. Investors with a longer time horizon may feel comfortable taking on riskier or more volatile investments. Those with a shorter time horizon may prefer to take on less risk.

Risk Tolerance-Risk Capacity

- Risk tolerance is your ability and willingness to lose some or all of your original investment in exchange for potentially greater returns.
- Risk capacity, unlike tolerance, is the amount of risk that the investor "must" take in order to reach their financial goals. The rate of return necessary to reach these goals can be estimated by examining time frames and income requirements.

Diversification-Umbrellas and Sunglasses

Have you ever noticed that street vendors often sell seemingly unrelated products - such as umbrellas and sunglasses? Initially, that may seem odd. By selling both items - in other words, by diversifying the product line - the vendor can reduce the risk of losing money on any given day.

Investors are warned to never put all their eggs (investments) in one basket (security or market) which is the central thesis on which the concept of diversification lies. It is a management strategy that blends different investments in a single portfolio. The idea behind diversification is that a variety of investments will yield a higher return. It also suggests that investors will face lower risk by investing in different vehicles.

Investment Choices

Aggressive — This type of portfolio is appropriate for investors with high risk tolerance and/or long investment horizon. This portfolio has a higher percentage of stocks relative to bonds.

$

Moderate — This type of portfolio is appropriate for investors with medium risk-tolerance and/or medium investment time horizon. This portfolio has a lower percentage of stocks relative to bonds.

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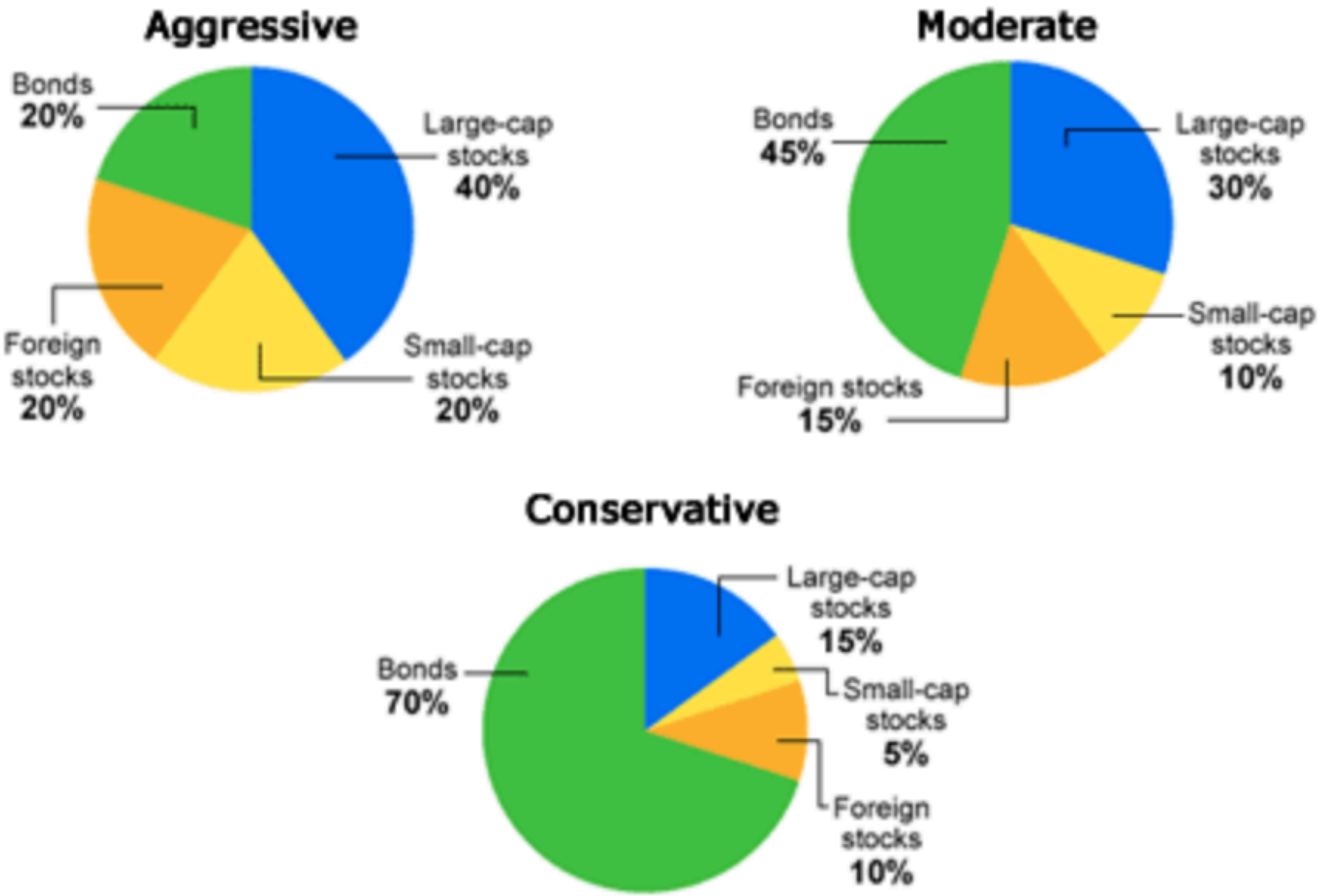
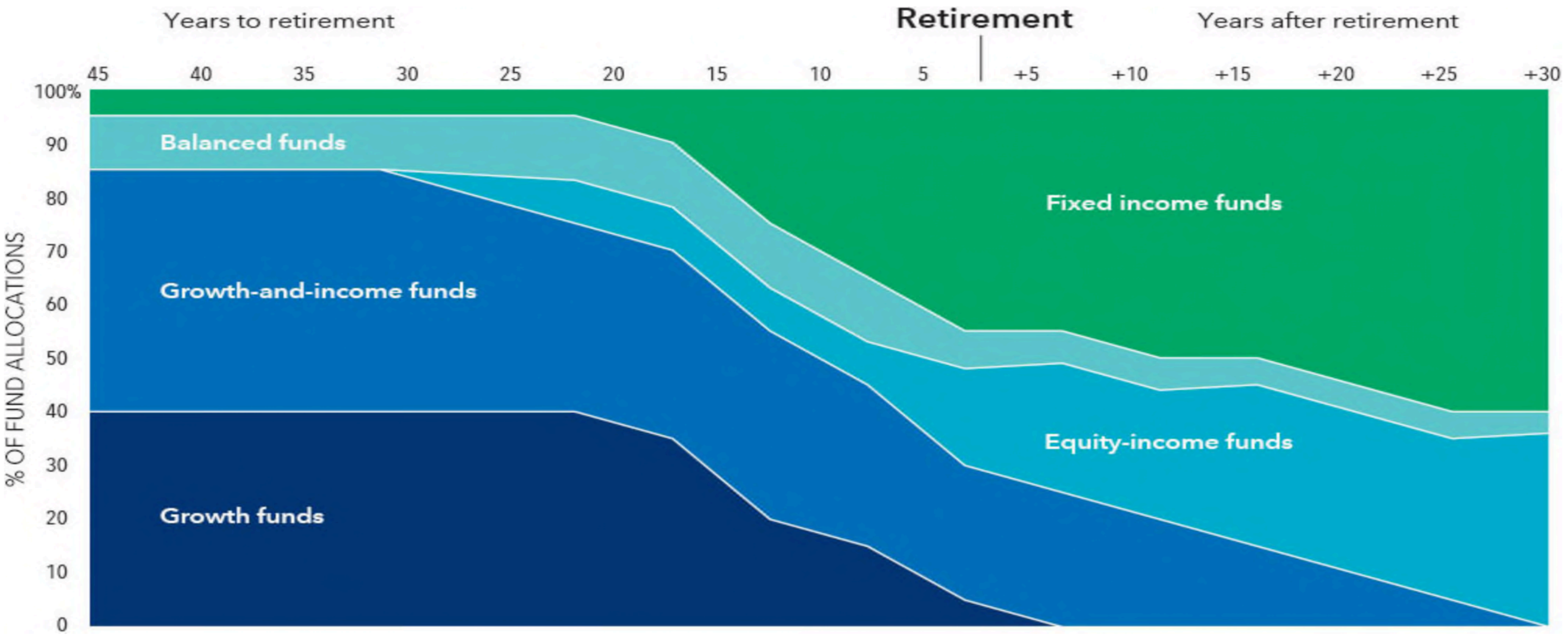
Conservative — This type of portfolio is appropriate for investors with low risk tolerance and/or short investment time horizon. This portfolio has the lowest percentage of stocks relative to bonds

Investment Choices



Graphics from CNN Asset Allocator

Auto- Pilot Asset Allocation ….Target Date Funds



Rebalancing

- Rebalancing is what investors do to bring their portfolio back to its original asset allocation mix. Rebalancing is needed because over time, some investments will grow faster than others. This may push your holdings out of alignment with your investment goals. By rebalancing, you will ensure that your portfolio does not overweight a particular asset category, and you’ll return your portfolio to a comfortable level of risk.
- For example, you might start with 60% of your portfolio invested in stocks, but see that rise to 80% due to market gains. To reestablish your original asset allocation mix, you’ll either need to sell some of your stocks or invest in other asset categories.

Recap

Retirement and College Savings Plans

Fix Your Finances 2020

Class 10 Retirement and College Plans

Build Your Financial House in the Right Order

Other Goals and Dreams

Retirement-College Savings

Understanding Investments

Pay Off Bad Debt- Home Ownership

Protect Your Income and Liabilities

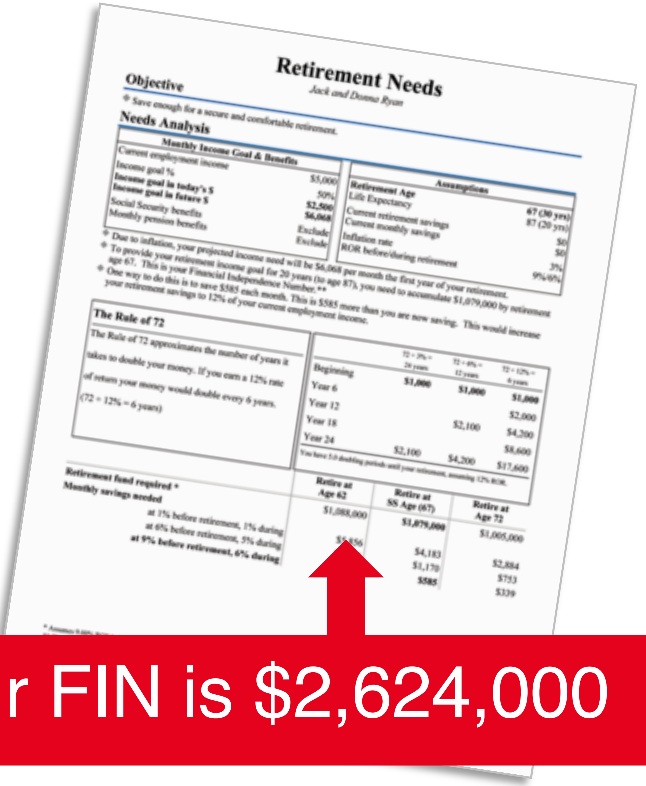
Budget - Emergency Fund

Funding Your FIN Number

Your **FIN** is the amount of money you'll need to accumulate, so that someday you can live off that money for the rest of your life and never have to go back to work.

Example: You want to retire in 30 years, with $100,000 a year in todays dollars

30 years from now, after 3% inflation… $243,000 spends like $100,000 does today.


Retirement Needs
Jack and Donna Ryan
Objective
Needs Analysis
Monthly Income Goal & Benefits
Assumptions
The Rule of 72

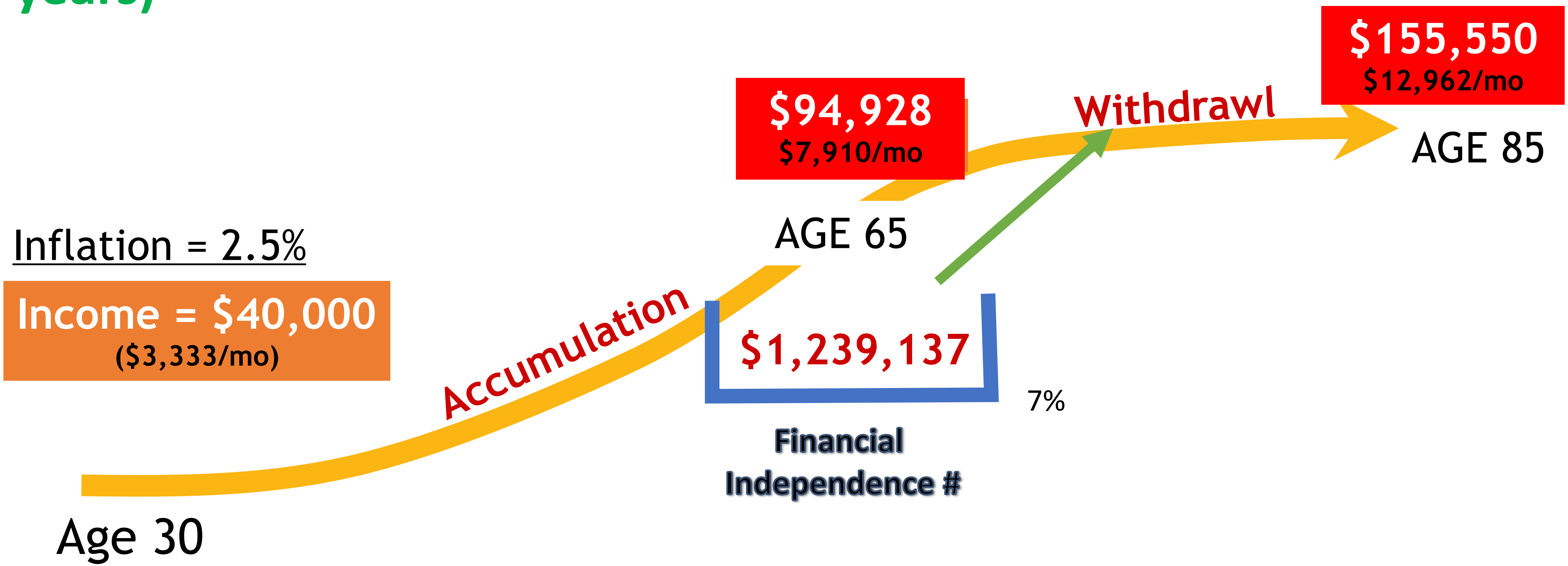
Your FIN is $2,624,000

To get there, invest $1,421 per month for 30 years at 9% = $2,624,400

Lets Find Out What Your FIN Number Is…..

This hypothetical example assumes 20 years of retirement income needed, at a 6% post-retirement rate of return and 3% inflation. Hypothetical investment rates assume a nominal 9% rate of return, compounded monthly, and are not indicative of any specific investment. Any actual investment may be subject to taxes and fees, which would lower performance. This example shows a constant rate of return, unlike actual investments which may fluctuate in value.

You set your FIN#(You earned it now enjoy your Golden years)



Spending Phase (Tax efficient)

$1,239,137

$94,928
$7,910/mo

9 % In 20 yrs = $1,854,000

7 % In 20 yrs = $757,757

5 % In 20 yrs = $64,808

For Illustrative Purposes Only!!!...No Inflation Factored into above Numbers

Retirement Plan Options Canada

Canadian Retirement Savings Plan (RRSP)

Benefit:

- Tax deferral until retirement.
- Gives you and your spouse the potential to contribute up to $26,500* of earned income in the previous year minus pension adjustments (up to annual limits set by Canada Revenue Agency) off the top of your gross income, which reduces your taxable income.

*2019 RRSP Contribution Limits, Source Canada Revenue Agency. 2020 RRSP Contribution limit = $27,230. Primerica representatives do not offer tax advice. Consult your tax advisor with any questions.

Tax Free Savings Account (TFSA)

Benefit:

- Earnings on your TFSA are **tax deferred** forever.
- Contributions will grow on a tax- deferred basis. More of your money is allowed to grow and compound than if taxes were taken out of your account each year.
- Postpone payment of taxes on any earnings forever.
- Annual TFSA limit $6,000*.

*2019 TFSA contribution limit. Source: Canada Revenue Agency

Defer taxes as long as possible.

- Allows you to collect OAS (old age security) Maybe even the suppliment.
- Collect CPP (Canada Pension Plan).
- Allows you to pay less tax during retirement than when you were working and saving for retirement.

Enjoy your well deserved Golden years….

- Utilize Tax efficient strategies:
- RRSP’s can be rolled to RRIF (Registered retirement income funds)
- Pensions can often be rolled to LRIF (Locked in retirement income funds)
- Open-Cash accounts can utilize T series Mutual funds which allow a 5% or 8% tax free withdrawal for up to 13 years.

Comparing Tax Treatments

Product Features	RRSP	TFSA
Annual Contribution Limit	$26,500* of earned income in previous year minus pension adjustments (up to annual limits set by Canada Revenue Agency)	$6,000 per year; indexed to the nearest $500 in subsequent years
Tax Deductible Contribution	Yes	No
Contribution Carry Forward	Yes	Yes
Taxable Consequences	Withholding tax applies at time of withdrawal and added to income on tax return	No tax on growth and no tax on withdrawals
Maximum Age for Contribution	Yes (71 years old)	No
Re-contribution of Withdrawals	No (except for Home Buyer's Plan and Life Long Learning Plan)	Yes (in subsequent calendar year)

*2019 RRSP Contribution Limits, Source Canada Revenue Agency. 2020 RRSP Contribution limit = $27,230. Primerica representatives do not offer tax advice. Consult your tax advisor with any questions.

Retirement Plan Options USA

Company Sponsored Retirement Plans USA

- Traditional and Roth 401(k)
- 403(b)
- 457(b)

Contribution Limits

- **401(k) contribution limits** will increase from $19,000 in 2019 to $19,500 in 2020.
- The 401(k) catch-up contribution limit for workers 50 and older rises from $6,000 to $6,500 — so, in total, those 50 and up can contribute up to $26,000 to their 401(k)s.
- **403(b) contribution limits** will grow from $19,000 to $19,500, as well.
- The 403(b) catch-up contribution limit for people 50 and older rises from $6,000 to $6,500 — so, just like with 401(k)s, those 50 and up can contribute up to $26,000 to their 403(b) plans.
- Most **457(b) plans** will have increased contribution limits as well, according to the IRS announcement. They will rise from $19,000 to $19,500 in 2020.
- Catch-up contributions for most 457(b) plans will rise from $6,000 to $6,500 for people 50 and older. For more details on 457(b) plan contributions

Switching Jobs- Options For Your Retirement Plans

- A rollover is a tax-free distribution of cash or other assets from one retirement plan to another retirement plan. The distribution to the second retirement plan is called a “rollover contribution
- A lump sum distribution. This allows you to cash out your account in full with a single payment. You will owe taxes and may have to pay tax penalties if you take money out before the age of 59½.
- A rollover to another retirement plan. You can ask your former employer to transfer your account balance directly to your new employer’s plan if it accepts such transfers.
- A rollover to an IRA. You can ask your former employer to transfer your account balance to an individual retirement account (IRA) where it can continue to grow over time, giving you more income to live on in retirement.
- No changes. You may be able to leave your account balance in your former retirement plan.

Advantages to Rolling Over Your Plan

1. More Investment Choices
2. Better Communication
3. Lower Fees and Costs
4. The Roth Option
5. Cash Incentives
6. Fewer Rules
7. Estate Planning Advantages

Self Employed Plans

- SEP IRA- Sole Proprietor
- SIMPLE IRA

Self Employed Plans

- SEP IRA. Allows an employer, typically a small business or self-employed individual, to make retirement plan contributions into a traditional IRA established in the employee's name.
- SIMPLE IRA. Is available to small businesses that do not have any other retirement savings plan. The SIMPLE – which stands for Savings Incentive Match Plan for Employees – IRA allows employer and employee contributions, similar to a 401(k) plan, but with simpler, less costly administration, and lower contribution limits.

USA Individual Retirement Accounts (IRAs)

- Traditional IRA
- Roth IRA

IRA Limits

- But what about contribution limits for Individual Retirement Accounts (IRAs)? Unfortunately, the announced increases from the IRS don’t apply to IRAs. The **annual contribution limits for Traditional IRAs** and **Roth IRAs** remain at $6,000 for 2020. If you’re 50 or over, your catch-up contribution is still $1,000, and it isn’t subject to an annual cost-of-living-adjustment.

Which IRA Do You Prefer?

You have a few choices when it comes to IRAs. Which one works best for your situation?

- Traditional IRA, Deductible
- Roth IRA, Non-deductible — but not taxed at withdrawal

Traditional IRA, Deductible

Benefit:

- Tax savings now and tax deferral until retirement.
- Saves you money by giving you and your spouse the potential to contribute **$6,500** each (if you meet certain requirements) off the top of your gross income, which reduces your taxable income. You postpone payment of taxes on any earnings until they are withdrawn at a date in the future, commonly retirement.

Income limitations may restrict the amount that you may contribute to a Deductible IRA or a Roth IRA with contribution limits for 2016. Additionally, the amount you may contribute to a Roth IRA is reduced by contributions to other IRAs. Withdrawals before 59½ may be subject to ordinary income and a 10% tax penalty. Primerica representatives do not offer tax advice. Consult your tax advisor with any questions.

Roth IRA

Benefit:

- Contributions are **not deductible** but you receive **tax deferral** on earnings and tax-free withdrawals later.
- Contributions are made with “after-tax” money.
- When you withdraw the money from a Roth IRA, none of it will be taxed.*

*As long as the account has been open at least five years and you are age 59½ when you begin withdrawing the proceeds.
Consult your tax advisor with any questions.

College Plans Canada

College Savings Accounts: U.S. vs. Canada

- While Americans can save for their children's education in a tax-advantaged investment plan, Canadian children can have grants awarded to them at birth. Through the Canadian Education Savings Grant (CESG), parents can start saving for their children's education literally at day one. Even better, the Canadian government will pitch in for part of the tab.
- How the CESG Works
- Parents can open up a Registered Education Savings Plan (RESP) at a bank, credit union, or other financial institution. Anyone can contribute, whether it's mom, dad, or a favorite aunt or uncle. Since a RESP is an investment account, it could have fees attached. Parents should be careful to choose one that's right for their children.
- The government then matches the money up to a certain percentage and deposits it into your child's RESP. The extra funds the government deposits are called the Canadian Education and Savings Grant. For 2019, the base match was 20% on the first $2,500 of contributions for all families. The maximum grant was $500 for high-income families. Families making between $47,630 and $95,259 were eligible for an additional 10% grant on the first $500. Those with adjusted family incomes below $47,630 could get an extra award of 20% on the first $500. Each child can earn up to $7,200 in lifetime grants.
- Parents won't initially pay taxes on the money, so they have a double incentive to save for their child's education. They avoid paying taxes and get bonus money for the child's education in the process. There are many other tax breaks for Canadian families.
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- Student RESP Paychecks
- Once the beneficiary is enrolled in an approved postsecondary institution, they will receive payments called educational assistance payments (EAPs) from their RESP. Unfortunately, students who receive funds from a RESP will pay income tax on those payments. However, the taxes they pay will likely be a lot less than what parents would have paid on the same money because students usually aren't raking in a lot of cash.
- The Catch
- The child must pursue an approved postsecondary education training program, such as college or trade school, within 36 years of opening the account to get full benefits. If the child does not pursue an education, your contributions will be returned. However, the government will take back the grant money. You may also be able to transfer the balance to another child.
- You will not have to pay income tax on the contributions you invested. However, any investment earnings that are withdrawn from the RESP and not used for education-related expenses are subject to income tax and a 20% penalty tax. These payments are called accumulated income payments (AIP).

Affording a RESP and 529 Plan

- Even a few dollars per week adds up quickly. For instance, investing $9.62 per week will add up to $500 in a year. If you met the income requirements, this amount is matched at $200. In one year, you would have saved $700, before interest, for your child.
- If you started doing this at year one of your child's life, your contribution would be $8,500 before earning any interest. You could receive, if grant levels remain the same, $3,400 from the government. Your son or daughter would end up with a base amount of $11,900 for education. Depending on your investments, that could grow to a substantial sum with compounding.
- There are also grant programs, where you can get more money for your RESP from the government if you meet the income requirements. For example, your child could be eligible to receive a $500 Canada Learning Bond. If you continue to meet the requirements, you can receive another $100 per year to fund your child's RESP until they hit age 15. No personal contributions are required, and you can receive a maximum of $2,000 from Canada Learning Bonds.
- How Does the American 529 Plan Compare?
- The American 529 plan is similar to a RESP in that it is an investment vehicle for parents to contribute to their child's education. Contributions made to 529 plans are made with after-tax dollars, and the earnings accumulated in the plan grow tax-free at the federal level.
- The biggest advantage of this structure is that you end up paying no taxes on your withdrawals if they go to qualified education expenses. However, you make contributions with after-tax dollars. That means high-income parents pay a higher tax rate on their contributions than the student receiving the money would have paid. On the other hand, the majority of states do offer state tax deductions for parents' contributions.

College Plans USA

College Savings Plans- USA

- 529
- Coverdell Education Savings Account
- UTMA/UGMA

Thank You for Attending- We can Help You.

- If you need help with anything that we covered tonight or if you have questions be sure and reach out to the person that invited, you through the private link. Text or email and they will follow up with you.
- Do you have a friend or family member that would benefit from this information? Forward your private link that you received and encourage them to register for next week.
- Lastly Do you need a work from home solution to earn extra Income? Ask the person who invited you to send you a link to “Join Our Team Webinar”