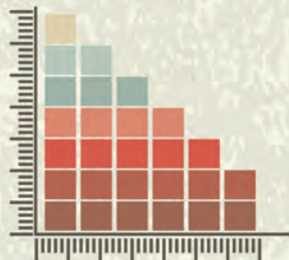

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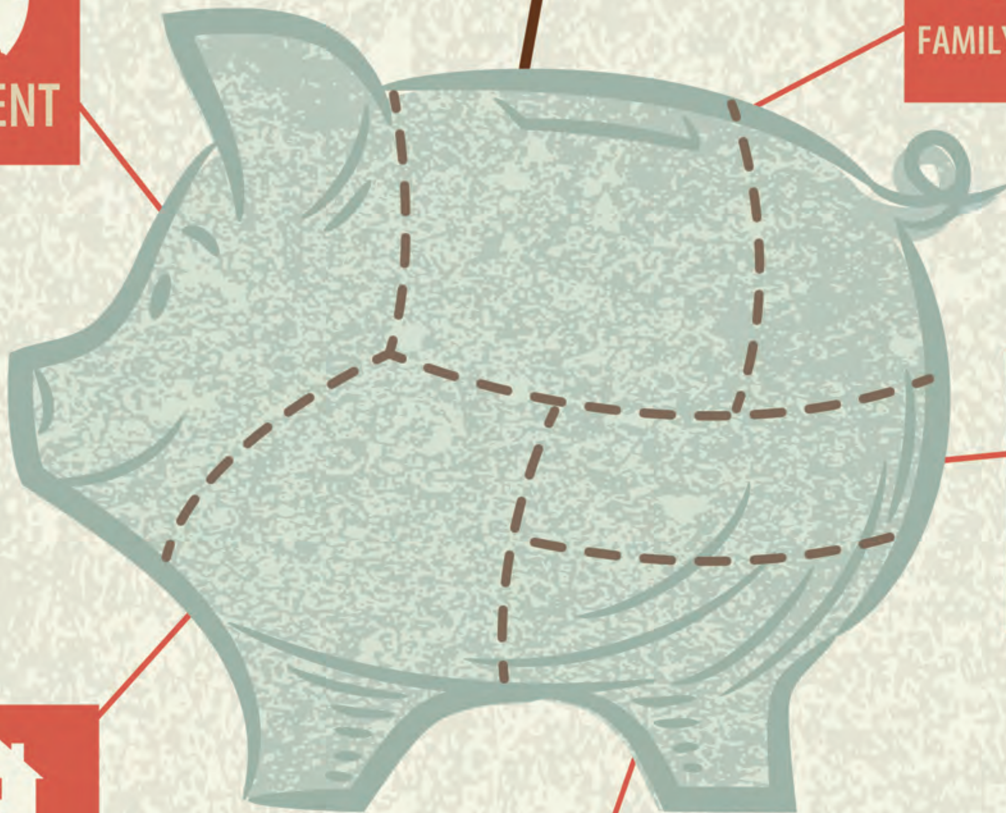

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HELPFUL WEBSITES & PHONE NUMBERS

Category	Organization	Website	Phone
Financial Education, Speakers, Assistance	Oklahoma Society of CPAs	www.KnowWhatCounts.org	(800) 522-8261
	Find Your CPA	www.FindYourCPA.com	
	Tinker Federal Credit Union	www.TinkerFCU.org	(800) 328-7466
	OKC Estate Lawyer	www.OKCEstateLawyer.com	(405) 840-1874
	Quail Creek Bank	www.QuailCreekBank.com	(405) 755-1000
	Weokie Credit Union	www.Weokie.org	(800) 678-5363
	Retirement Investment Advisors	www.RetirementInvestmentAdvisors.com	(405) 842-3443
	American Institute of CPAs	www.360financialliteracy.org	
	Oklahoma Jump$tart Coalition	www.OklahomaJumpstart.org	
	Oklahoma 529 College Savings Plan	www.ok4saving.org	(877) 654-7284
	Oklahoma Money Matters	www.OklahomaMoneyMatters.org	
	Oklahoma Council on Economic Education	www.EconIsOK.org	(405) 513-6315
	Feed The Pig	www.FeedThePig.org	
	Federal Student Aid	www.fafsa.ed.gov	(800) 433-3243
	InvestEd	www.investedok.org	
Tax Help	IRS	www.irs.gov	(877) 777-4778
	Oklahoma Tax Commission	www.tax.ok.gov	(800) 522-8165
	Oklahoma Society of CPAs	www.KnowWhatCounts.org	(800) 522-8261
	FindYour CPA	www.FindYourCPA.com	
	AICPA	www.360taxes.org	
Consumer Help	Federal Trade Commission	www.ftc.gov	(202) 326-2222
	Government-Authorized Free Credit Report	www.AnnualCreditReport.com	(877) 322-8228
	Equifax	www.Equifax.com	(800) 685-1111
	Experian	www.Experian.com	(888) 397-3742
	TransUnion	www.TransUnion.com	(800) 888-4213
	Quizzle	www.Quizzle.com	(800) QUIZZLE
Small Business Help	Okla. Small Business Development Center	www.osbdc.org	(580) 745-2877
	Oklahoma Department of Commerce	okcommerce.gov	(800) 879-6552
	U.S. Small Business Administration	www.sba.gov	(800) 827-5722
	Free CPA referral in Oklahoma	www.KnowWhatCounts.org	(800) 522-8261
Miliatry Help	Oklahoma Department of Veterans Affairs	www.ok.gov/odva/	(855) 701-6382
	Military Hub	www.militaryhub.com	
	National Resource Directory	www.nrd.gov	
	Military OneSource	www.militaryonesource.mil	(800) 342-9647
	Troops to Teachers (Okla.)	ok.gov/sde/troops-teachers	
Education for Children	Money as You Grow	www.MoneyAsYouGrow.org	
	Rich Kid Smart Kid	www.RichKidSmartKid.com	
	H.I.P. Pocket Change	www.USMint.gov/kids/	
	Biz Kids	bizkids.com/	
	Junior Achievement of Oklahoma	oklahoma.ja.org	
Emergency Disasters	American Red Cross	www.redcross.org	(800) 733-2767
	Federal Emergency Management Agency	www.fema.gov	(800)-621-FEMA
	Oklahoma Office of Homeland Security	www.ok.gov/reddirtready	(405) 425-7296
	Disaster Recovery Resources	www.oscpa.com/Content/page1047.aspx	

Your Personal Phone Numbers

Name	How Related (Family, friend, Employer, CPA, attorney, doctor, etc?)	Phone Number

Financial Fitness Kit

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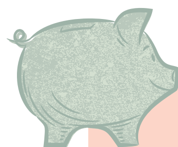

Download a 2016 Financial Fitness Kit and a sample budget at www.KnowWhatCounts.org.

5 STEPS TO IMPROVE YOUR FINANCIAL LITERACY

In celebration of April as National Financial Literacy Month, the Oklahoma Society of Certified Public Accountants (OSCPA) urge Oklahomans to take stock of their financial situations.

Consider these findings compiled by the National Jump$tart Coalition ("Making the Case for Financial Literacy," jumpstart.org):

- 75% of American adults say they would benefit from advice and answers to everyday financial questions from a professional;
- 70% of American adults are worried about their personal finances;
- 60% of American adults continue to spend without a budget;
- 24% of American adults are not paying their bills on time; and
- While 57% are saving for their retirement and 66% maintain non-retirement savings, 28% are worried they do not have enough savings.[1]

Do you wish you had more control over your fiscal condition? There are a few simple steps you can take to begin getting your financial house in order.

1. **First, make a plan.** Put together a regular household budget that details how much money comes in each month and what you spend on necessities and other discretionary items (see the sample budget in this kit to start). This will make it easier to avoid spending more than you earn or running up more debt that you can manage. It can also identify areas where you need to cut back. The budget can serve as the blueprint for achieving your financial goals.

2. **Start saving now.** If you're not already a regular saver, use your budget to determine how much you can set aside each month in savings and retirement accounts. Whether it's for a long-term goal such as college or retirement or for your summer vacation, saving sooner rather than later allows you to build up more interest along the way. Get in the habit now and you'll be very pleasantly surprised by the many options you'll have open to you down the road.

3. **Get a handle on debt.** The average credit card debt for households with credit cards is around $9,600, according to the CreditCards.com. Not only are those households likely facing years of monthly payments to pay off that debt, but they will also be paying hundreds or thousands of dollars of interest on their balances over time. If your household budget includes more debt than it should, there are a number of steps you can take. Instead of focusing on the minimum balance each month, think instead about the maximum you can realistically pay. Figure out which of your charge accounts carries the highest interest rate and plan to pay off that balance first. Many people would jump at the chance to earn 10 percent to 15 percent on an investment. If you pay off high-interest-rate credit cards that charge those rates, you will be putting that much money in your pocket. If possible, transfer your outstanding balances to lower-interest-rate accounts. To prevent your outstanding balances from growing, leave your credit cards at home when you shop and buy only what you can afford with cash.

4. **Seek opportunities to pay less.** Clip coupons and look for sales whenever possible. If you haven't already done so, familiarize yourself with online sites that offer coupons for many popular retailers or feature group shopping deals. Although your savings on each item may be small, you'll find yourself with more money in your bank account at the end of each month.

5. **Expand your knowledge.** The CPA profession's 360 Degrees of Financial Literacy program (360financialliteracy.org) and its campaign with the Ad Council, Feed the Pig (feedthepig.org) feature a wealth of information on challenges that consumers may face. The sites are organized to provide advice to people in various life stages and situations. It helps users educate themselves about the issues they're facing and provides practical tools you can use to better understand your own needs and options. You can also visit KnowWhatCounts.org (or like us on Facebook or follow us on Twitter) to get more money resources from the Oklahoma Society of CPAs. Want to really take control? Consider getting a free referral and free 30-minute consultation from an Oklahoma CPA at FindYourCPA.com.

[1]Findings are from a survey by the National Foundation for Credit Counseling, sponsored by NerdWallet.com

The 2016 Financial Fitness Kit is brought to you by the Oklahoma Society of Certified Public Accountants in cooperation with the Oklahoma Jump$tart Coalition and Jump$tart Your Money Week.

ABOUT THE OKLAHOMA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

The Oklahoma Society of Certified Public Accountants (OSCPA) is the only statewide professional organization for Oklahoma CPAs. Formed in 1918 with a charter membership of 31, we unite more than 6,000 CPAs in public practice, private industry, government and education. All members hold certificates issued pursuant to the laws of the state of Oklahoma or of other states and subscribe to the Code of Professional Conduct embodied in the bylaws of our organization. The OSCPA works with the American Institute of Certified Public Accountants (AICPA) to promote financial education, as part of the CPA profession's nationwide 360 Degrees of Financial Literacy program.

The OSCPA is offering general information for managing money and does not recommend specific actions. Please note the time of this book's publication and that tax laws change frequently. For financial advice tailored to your situation, please contact a CPA. For a free referral and 30-minute consultation in Oklahoma, please visit FindYourCPA.com. In compliance with Treasury Department Circular 230, unless stated to the contrary, any federal tax advice contained here was not intended or written to be used and cannot be used for the purpose of avoiding penalties.

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Chapter One:
FAMILY

Most people would tell you family matters most to them. That's why it's so important to try to protect them financially. Yet, most Americans are still struggling. Consider the following:

- The typical middle-class American family could only replace 21 days of income with readily accessible funds. Even if the family liquidated all its retirement savings and investments, it could only replace 119 days of income (The Pew Financial Security and Mobility Project, 2015).
- Couples who report disagreeing about finances once a week are more than 30 percent more likely to get divorced than couples who report disagreeing about finances a few times a month (research paper by Jeffrey Dew at Utah State University, as reported by The New York Times, 2009).
- More than half of Americans (56 percent) admit to making a significant purchase solo without consulting their significant other (Citibank "It Takes Two" Survey, as reported by BusinessWire, 2015).
- Nearly 80 percent of Americans prefer a partner who is good with money over someone who is physically attractive (Citibank "It Takes Two" Survey, as reported by BusinessWire, 2015).
- Most (84 percent) of American teens report looking to their parents for information on how to manage money, but 34 percent of parents say their family's approach to financial matters is to not discuss finances with their children (Junior Achievement/The Allstate Foundation, 2015).
- Teen boys (31 percent) are more likely than teen girls (20 percent) to report that their parents help them keep track of money (Junior Achievement/The Allstate Foundation, 2015).
- The number of teens who think their parents don't spend enough time talking to them about managing money rose from 21 percent in 2014 to 32 percent in 2015 (Junior Achievement/The Allstate Foundation, 2015).

In this chapter, you will learn tips for merging money when you marry, budgeting for baby, talking to teens and aging parents about money, resolving money issues with stepfamilies, helping boomerang kids and tips for caring for special needs kids.

Get more financial tips from www.FeedThePig.org, www.360FinancialLiteracy.org or www.KnowWhatCounts.org, Also on social media, each offers free tips, e-newsletters, resources and more. Also, look at www.fafsa.ed.gov, www.OklahomaMoneyMatters.org and www.OK4Saving.org.

HOW DO WE COMBINE MONEY WHEN WE MARRY?

Getting married is exciting, but it brings many challenges. One such challenge that you and your spouse will have to face is how to merge your finances. Planning carefully and communicating clearly are important, because the financial decisions that you make now can have a lasting impact on your future.

Discuss financial goals.

The first step in mapping out your financial future together is to discuss your financial goals. Start by making a list of your short-term goals (e.g., paying off wedding debt, new car, vacation) and long-term goals (e.g., having children, your children's college education, retirement). Then, determine which goals are most important to you. Once you've identified the goals that are a priority, you can focus your energy on achieving them.

Prepare a budget.

Next, you should prepare a budget that lists all of your income and expenses over a certain time period (e.g., monthly, annually). You can designate one spouse to be in charge of managing the budget, or you can take turns keeping records and paying the bills. Either way, make sure you develop a record-keeping system that you both understand, including a filing system that allows either of you to easily locate important documents.

Begin your budget by listing income sources (e.g., salaries and wages, interest, dividends). Then, list your expenses (it may be helpful to review several months of entries in your checkbook and credit card bills). Add them up and compare the two totals. Hopefully, you get a positive number, meaning that you spend less than you earn. If not, review your expenses and see where you can cut down on your spending.

Should you have separate or joint bank accounts?

At some point, you and your spouse will have to decide whether to combine your bank accounts or keep them separate. Maintaining a joint account does have advantages, such as easier record keeping and lower maintenance fees. However, it's sometimes more difficult to keep track of how much money is in a joint account when two individuals have access to it. Of course, you could avoid this problem by making sure you tell each other every time you write a check or withdraw funds from the account. Or, you could always decide to maintain separate accounts.

Think twice about credit cards.

If you're thinking about adding your name to your spouse's credit card accounts, carefully weigh pros and cons. When you and your spouse have joint credit, both of you will become responsible for 100 percent of the credit card debt. In addition, if one of you has poor credit, it will negatively impact the credit rating of the other.

If you or your spouse do not qualify for a credit card because of poor credit, and you are willing to give your spouse account privileges anyway, you can make your spouse an authorized user of your credit card. An authorized user is not a joint cardholder and is therefore not liable for any amounts charged to the account. Also, the account activity won't show up on the authorized user's credit record. But remember, you remain responsible for the account.

Evaluate insurance.

If you and your spouse have separate health insurance coverage, you'll want to do a cost/benefit analysis of each plan to see if you should continue to keep your health coverage separate. For example, if your spouse's health plan has a higher deductible and/or co-payments or fewer benefits than those offered by your plan, he or she may want to join your health plan instead. You'll also want to compare the rate for one family plan against the cost of two single plans.

It's a good idea to examine your auto insurance coverage, too. If you and your spouse own separate cars, you may have different auto insurance carriers. Consider pooling your auto insurance policies with one company; many insurance companies will give you a discount if you insure more than one car with them. If one of you has a poor driving record, however, make sure that changing companies won't mean paying a higher premium.

Know about employer-sponsored retirement plans.

If both you and your spouse participate in an employer-sponsored retirement plan, you should be aware of each plan's characteristics. Review each plan together carefully and determine which plan provides the best benefits. If you can afford it, you should each participate to the maximum in your own plan. If your current cash flow is limited, you can make one plan the focus of your retirement strategy.

Review your fiancé's tax situation prior to filing a joint return.

Many couples automatically file a joint income tax return once they are married. Without performing a little background check on each other's tax liabilities and histories, you may be assuming debt or other tax problems of which you were unaware during the dating period. Also, many important elections may affect how you file your returns once married. For example, if your soon-to-be spouse has not sold his or her previously-owned residence, you may want to sell the home and take advantage of the exclusion of the gain prior to the marriage. It is always better to stay out of tax trouble than to get out of tax trouble. Remember, if you have questions, a financial professional – like a CPA – can help.

HOW DO I TALK TO MY TEEN ABOUT MONEY?

Your teen is becoming more independent, but still needs plenty of advice from you. With more money to spend and more opportunities to spend it, your teen can easily get into financial trouble. So before money burns a hole in your child's pocket, teach him or her a few financial lessons. With your help, your teen will soon develop the self-confidence and skills he or she needs to successfully manage money in the real world.

Teach them how to handle job earnings.

Teens often have more expenses than younger children, and your child may be coming to you for money more often. However, with you holding the purse strings, your teen may have difficulty making independent financial decisions. So, encourage your teen to get a part-time job that will enable him or her to earn money for expenses. Here are some things you might want to discuss with your teen when he or she begins working:

- Agree on how your kids should spend their money. Now that they're working, will they need to help out with car insurance or clothing expenses, or do you want them to earmark a portion of each paycheck for college?
- Discuss taxes. Show them how FICA taxes and regular income taxes can eat up take-home pay.
- Introduce them to the concept of paying yourself first. Encourage them to deposit a portion of every paycheck in a savings account before spending any of it.

A teen who is too young to get a job outside the home can make extra cash by babysitting or doing odd jobs for you, neighbors or relatives. This money can supplement any allowance you choose to hand out, enabling your young teen to get a taste of financial independence.

Explain how to develop a budget.

Keeping written spending plans or budgets can help your teens learn to be accountable for their finances. Your ultimate goal is to teach them how to achieve a balance between money coming in and money going out. To develop a spending plan, have them start by listing out all sources of regular income (e.g., an allowance or earnings from a part-time job). Next, have them brainstorm a list of regular expenses (don't include anything you normally pay for). Finally, subtract their expenses from their income. If the results show they won't have enough income to meet expenses, you'll need to help them come up with a plan for making up the shortfall.
Here are some ways you can help your teen learn about budgeting:

- Consider giving out a monthly, rather than weekly, allowance. Tell your teen that the money must last for the whole month and encourage him or her to keep track of what's been spent.
- Encourage your teen to think spending decisions through rather than buying items right away. Show your teen how comparing prices or waiting for an item to go on sale can save him or her money.
- Suggest ways your teen can earn more money or cut back on expenses (e.g., rent a DVD to watch with friends rather than go to the movies) to resolve a budget shortfall.
- Show your teen how to modify a budget by categorizing expenses as needs (expenses that are unavoidable) and wants (expenses that could be cut if necessary).
- Resist the temptation to bail your teen out. If your teen can depend on you to come up with extra cash, he or she will never learn to manage money wisely. But don't be judgmental--your teen will inevitably make some spending mistakes along the way. Your child should know that he or she can always come to you for information, support and advice.

Show how to save for the future.

As a youngster, your child saved up for a short-term goal such as buying a favorite toy. But now that your child is a teen, he or she is ready to focus on saving for larger goals such as a new computer or a car and longer-term goals such as college. Here are some ways you can encourage your teen to save for the future:

- Have your teen put savings goals in writing to make them more concrete.
- Encourage your child to set goals that are based on his or her values, not on keeping up with what other teens have or want.
- Motivate your child by offering to match what he or she saves toward a long-term goal. For instance, for every dollar your child sets aside for college, you might contribute 50 cents or 1 dollar.
- Consider increasing your teen's allowance if he or she is too young to get a part-time job.
- Praise your teen for showing responsibility when he or she reaches a financial goal. Teens still look for, and count on, their parent's approval.
- Open up a savings account for your child if you haven't already done so.
- Introduce your teen to the basics of investing by opening an investment account for your teen (if your teen is a minor, this will be a custodial account). Look for an account that can be opened with only a low initial contribution at an institution that supplies educational materials introducing teens to basic investment terms and concepts.

Coach on using credit wisely.

You can take some comfort in the fact that credit card companies require an adult to cosign a credit card agreement before they will issue a card to someone under the age of 21 (unless that person can prove that he or she has the financial resources to repay the credit card debt), but you can't ignore the credit card issue altogether. Many teens today use credit cards, and it probably won't be long until your teen asks for one too. If you decide to cosign a credit card application for your teen, ask the credit card company to assign a low credit limit (e.g., $300). This can help your child learn to manage credit without getting into serious debt. Here are some things to discuss with your teen before he or she uses a credit card:

- Set limits on what the card can be used for (e.g., emergencies, clothing);
- Review the credit card agreement, and make sure your child understands how much interest will accrue on the unpaid balance, what grace period applies and what fees will be charged;
- Agree on how the bill will be paid and what

will happen if your child can't pay the bill; and

- Make sure your child understands how long it will take to pay off a credit card balance if he or she only makes minimum payments. You can demonstrate this using an online calculator or by reviewing the estimate provided on each month's credit card statement.

If putting a credit card in your teen's hands is a scary thought, you may want to start off with a prepaid spending card. A prepaid spending card looks like a credit card, but works more like a prepaid phone card. You load the card with the dollar amount you choose and your teen can generally use it anywhere a credit card is accepted. Your teen's purchases are deducted from the card balance, and you can transfer more money to the card if necessary. Although there may be some fees associated with the card, no interest or debt accrues. One thing you may especially like about prepaid spending cards is that they allow your teen to gradually get the hang of using credit responsibly. Because you can access account information online or over the phone, you can monitor your teen's spending habits, then sit down and talk with your teen about money management issues.

ADDING A TEEN TO AUTO INSURANCE? BE PREPARED

If adding a young driver to your policy is in your future, you need to be ready for the added costs.

The Insurance Institute for Highway Safety Highway Loss Data Institute reports teen drivers crash three times more often than drivers 20 and older. The Oklahoma Highway Safety Office reported that in 2013, there were almost twice as many male as female drivers involved in fatal crashes. Additionally, OHSO reported 20.1 percent of drivers age 16-19 involved in serious injury motor vehicle crashes in 2013 were driving at an unsafe speed, 14.5 percent failed to yield and 11.6 percent were inattentive. It should be less surprising that, according to www.insurance.com, adding at teen to an auto policy in Oklahoma increases the price by 114 percent on average.

While policies vary based on a multitude of factors, financial experts advise being prepared for the unavoidable expense of a teen driver addition. However, there are ways to save some money on their protection.

1. **Ask for discounts.** Most insurance companies, especially those that have been insuring your family for years, will offer safe driver, multi-car and good grade discounts. There may be other discounts, but the key is to meet with your agent to find the discounts that work best for your family.

2. **Forgo the sports car.** All kids want to look cool to their friends, but insuring a sedan, especially one equipped with safety features like airbags, anti-lock brakes and daytime running lights, will likely cost much less than insuring a souped-up sports car. After narrowing down car choices, ask your agent to for an insurance quote on each model.

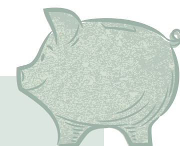
3. **Can you skip collision?** If your teen drives an older model car, it may be worth it to omit collision coverage because the cost of coverage may be more than the value of the car.

4. **Increase your deductible.** Increasing a deductible generally lowers premiums, but be sure the deductible is an amount you can afford to pay out of pocket should an accident occur.

5. **Let your teen borrow your car.** Insuring a teen to drive your car as an occasional operator could be cheaper than insuring your teen as a primary operator on another car.

6. **Monitor their driving.** Some insurance companies can install a device that monitor's your teen's driving habits and reports information (e.g., instances of speeding, seat belt usage, hard braking) back to the insurer. You can also purchase a device that does not report to your insurance provider. (See Consumer Reports "How to Track Your Teen Driver.")

While it will likely increase a family's premium, it's important to discuss increasing liability coverage with your agent. This will provide added protection for the additional friends that will likely be riding as passengers while your teen is driving.



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WHAT IF I HAVE A SPECIAL NEEDS CHILD?

As the parent of a child with special needs, you face many of the same challenges that other parents face. But you'll have to cope with some unique issues as well. The term "special needs" is often used to describe a wide variety of conditions and may mean different things to different people. For example, special needs can include medical conditions such as cerebral palsy. It can mean physical conditions, such as blindness or the loss of a limb. It can also mean neurological conditions, such as learning disabilities, mental retardation, or autism. Getting reliable information and support is important when you have a child with special needs. Start by talking to:

- Your obstetrician, pediatrician, and primary physician;
- Social workers familiar with federal, state, and community resources;
- Mental health professionals (e.g., psychologists and counselors);
- Parents of other children with special needs;
- Members of a community or on-line support group;
- Individuals within your local school systems (e.g., the superintendent, the principal, guidance counselors, and special education teachers)

You'll also want to find out what support programs and services are available in your community. Community volunteer agencies and parent groups can also counsel and educate you about the challenges of raising a child who has special needs. Your local United Way, as well as other nonprofit agencies, may have programs to help you care for your child. Sports events and recreational camps are often sponsored by both local and national organizations and can give your child a chance to interact with others while having fun.

Many national organizations exist for special needs information and advocacy. These groups often have local chapters you can join that may sponsor support groups. In addition, the Internet has become a leading source of information and support for parents of children with special needs. On-line sites offer both general and technical information and can connect you to informal and formal resources.

How do I find and pay for medical care?

Because of his or her special needs, your child may need expert medical care. Learning all you can about your child's condition and treatment options, finding ways to handle health care costs and organizing paperwork can cut down on the stress that inevitably accompanies frequent visits to health care providers. Here are some tips:

- Choose a qualified physician who responds to your child's needs, is knowledgeable about your child's condition and who explains treatment options thoroughly;
- Read your health insurance policy and find out what it does and does not cover;
- Apply for Medicaid if your child is eligible for it (in most states, your child will automatically qualify for Medicaid if he or she meets the Supplemental Security Income (SSI) requirements or lives in a residential care environment);
- Join support groups affiliated with a national organization focused on your child's disability or condition;
- Subscribe to publications that can alert you to new treatments, prescription drugs and research that may benefit your child;
- Keep copies of treatment records, correspondence with your insurance company and supporting documentation; and
- Draft letters that you can keep on file with child-care centers, the school nurse, babysitters or family members that describe your child's medical needs and what to do in case of emergency.

How do I deal with educational issues?

Federal and state special education laws, as well as the Americans with Disabilities Act, require public schools to accept children with disabilities and take whatever steps are necessary to meet their special needs. For example, bathrooms, hallways and other physical facilities must be designed to accommodate wheelchairs. In addition, a public school may have to create special programs, revise its policies and curriculum and offer counseling and other services to disabled students. All states must provide a "free and appropriate public education" to eligible children with disabilities. Have your child evaluated by your state and local school district to find out if he or she is eligible for special education services, including early intervention services starting in infancy or in preschool.

Ensure your child's future.

As the parent of a child with special needs, you'll want to find ways to protect your child's inheritance and ensure that he or she is taken care of when you die. If your child is a minor (under the age of majority, which is 18 in most states) or an adult who is unable to make decisions related to his or her own long-term welfare, your first step should be to name a guardian (e.g., a friend, relative or legal professional) in your will. After your death, this guardian will offer advice and make decisions for your child, manage his or her assets and oversee his or her care after your death. Choose a guardian carefully. He or she should be someone who has your child's best interests at heart.

In order to be eligible for most government benefits (e.g., SSI, Medicaid), your child must have minimal income and assets. If you plan on leaving your child significant assets, you could put his or her eligibility for these benefits at risk. However, you can leave money to your child without risking his or her eligibility for government benefits by establishing a special needs trust to hold funds that your child might otherwise inherit directly upon your death. Funds in a properly drafted special needs trust are not considered "countable" for SSI and Medicaid eligibility purposes. A special needs trust is a complex estate planning tool, so it's best to consult an experienced estate planning attorney.

4 TIPS TO RESOLVE FINANCIAL CONCERNS IN STEPFAMILIES

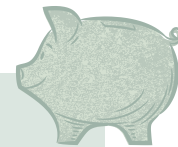
According to the Stepfamily Foundation, about 1,300 new stepfamilies are created every day. Based on Pew Research Center findings, 41 percent of all Americans have at least one step relative. These blended families have an opportunity to launch new relationships and traditions, but they often face pitfalls where finances are concerned. The Oklahoma Society of Certified Public Accountants provides these four tips for issues within stepfamilies and how to address them.

1. **Define types of accounts.** One challenge for stepfamilies can be deciding how to split finances into "yours," "mine" or "ours." Many remarrying couples often start out with separate accounts, which are used to pay for personal expenses, including those for any children from a previous marriage. Remarrying couples may also maintain a joint account for ongoing expenses as a couple, contributing either an equal amount every month or a percentage of each spouse's income. Any combination of accounts can work, but spouses should be sure to clarify the ground rules up front to avoid confusion. Couples should determine how much each person will deposit in certain accounts monthly and define what expenses specific accounts cover. Because financial circumstances change, couples should consider revisiting this arrangement regularly to ensure an approach that best serves their needs. This kind of ongoing communication will help prevent misunderstandings later. It's especially important to budget and maintain clear and updated records that include all accounts. That way, the couple can easily see where they stand financially.

2. **Review and update documents.** After remarrying, the beneficiaries named for life insurance and various financial accounts should be reviewed. Remarrying couples should create or update a durable power of attorney, living will or a healthcare proxy to designate a person to make decisions in case of incapacitation.

3. **Revise your will.** Inheritance issues can leave children and spouses anxious about their financial futures. As a result, it's best for a newly remarried couple to have wills and revise existing wills after the wedding in order to address important estate planning issues. Wills should set forth, as specifically as possible, what each beneficiary will inherit. This will not only help minimize potential squabbles among siblings, but also between the surviving spouse and children from an earlier marriage. If you want to leave some assets to your stepchildren, it's important to remember to include them in your will. Since they generally are not considered to be among your legal heirs, it is likely stepchildren won't inherit if you pass away without a will. If a will says the estate is to be divided among your "children," a court may decide if stepchildren are included. Estate planning can also be complicated when one spouse wants to provide for a surviving spouse and give their children access to their inheritance as soon as possible.

4. **Consult a CPA.** A CPA can advise the best options to use such as life insurance, or even trusts, to ensure all of your beneficiaries' needs are met. It will also help to ensure greater family harmony when you navigate financial considerations for blended families. If you don't have one, get a free referral and free 30-minute consultation at www.FindYourCPA.com.



If you want to leave some assets to your stepchildren, it's important to remember to include them in your will.

HOW CAN I HELP MY BOOMERANG KIDS?

It's been called the new retirement wild card. But it's not inflation, health-care costs, or taxes, though those things certainly matter. What is it that's causing so much uncertainty? It's boomerang kids, and the money their parents spend on them.

According to the U.S. Census Bureau, there were 6 million young adults ages 25 to 34 living at home in 2015—18.2 percent of all men (up from 14 percent in 2005) and 12.1 percent of all women (up from 8 percent in 2005). Not surprisingly, the percentages are higher for young adults in the 18 to 24 age bracket, with 58 percent of young men and 52 percent of young women living with their parents in 2015.

Sociologists have cited a number of reasons for this trend—the recession, college debt, the high cost of housing, delayed marriage and a tendency toward prolonged adolescence. But whatever the reason, there's no doubt that boomerang children can be a mixed blessing for their parents, both emotionally and financially. Just when parents may be looking forward to being on their own and preparing for their retirement, their children are back in the nest and relying on their income. While the extra company might be welcome, you don't want to sacrifice your emotional and financial health to help your kids. Parents naturally want to help their children during hard times, but in some cases, the financial strain of another adult (or two or three) in the house can be too much of a financial shock.

Set ground rules.

If your adult children can't afford to live on their own, establish ground rules for moving back home, including general house rules, how long they plan to (or can) stay, and how they can contribute to the household in terms of rent and chores. As an adult, your child should be expected to contribute financially to the household overhead if he or she is working. Determine a reasonable amount your child can contribute toward rent, food, utilities and car expenses. You can then choose to apply this money directly to household expenses or set it aside and give it to your child when he or she moves out, when it can be used for a security deposit on an apartment, a down payment on a car or some other necessary expense.

You should also discuss your child's long-term plan for independence. Does your child have a job or is he or she making sincere efforts to look for work? Does your child need or want to go back to school? Is your child working and saving money for rent, a down payment on a home or graduate school? Make sure your child's plans are realistic and that he or she is taking steps to meet those goals.

It's a balancing act, and there isn't a road map or any right answers. It's common for parents to wonder if they're making a mistake by cushioning their child's transition to adulthood too long or feel anxious if their child isn't making sufficient progress toward independence.

Turn off the free-flowing money spigot.

It can be tempting for parents to pay all of their adult children's expenses, big and small, in an effort to help them get on their feet, but doing so is unlikely to teach them self-sufficiency. Instead, it will probably make them further dependent on you.

If you can afford it, consider giving your child a lump sum for him or her to budget rather than just paying your child's ongoing expenses or paying off his or her debt, and make it clear that is all the financial assistance you plan to provide. Or, instead of giving your child money outright, consider loaning your child money at a low interest rate. If you can't afford to hand over a sum of cash or prefer not to, consider helping with a few critical expenses.

Evaluate what your money is being spent on. A car payment? Credit card debt? Health insurance? A fancy cell phone? Student loans? General spending money? Your child is going to have to cut the frills and live with the basics. If your child is under age 26, consider adding him or her to your family health plan. Otherwise, consider helping him or her pay for health insurance. Think twice about co-signing a new car loan or agreeing to expensive lease payments. Have your child buy a cheaper used car and raise the deductible on his or her car insurance policy to lower premiums. Help your child research the best repayment plan for student loans, but don't pay the bills unless absolutely necessary. Same goes for credit card balances. Have your child choose a less expensive cell phone plan, or consolidate phones under a family plan and have your child pay his or her share. Bottom line--it's important for your child to live within his or her financial means, not yours.

Solidify your own retirement plan.

Even if your child contributes financially to the household, you may still find yourself paying for items he or she can't afford, like student loans or medical bills, or agreeing to pay for bigger ticket items like graduate school or a house down payment. However, beware of jeopardizing your retirement to do this! Make sure your retirement savings are on track. A financial professional can help you see whether your current rate of savings will provide you with enough income during retirement, and can also help you determine how much you can afford to spend on your adult child now.

FINANCIAL PLANNING FOR SAME-SEX COUPLES AFTER THE DOMA DECISION

In June, 2013, the U.S. Supreme Court declared Section 3 of the Defense of Marriage Act unconstitutional, a decision that has sweeping financial implications for same-sex couples who were married in states that recognize same-sex marriage. Couples should consider both the immediate and long-term impact of the ruling. Here are some of the questions to ask.

Should I file amended tax returns?

Although tax season is long past, same-sex couples would be well advised to locate copies of the returns they've filed since they've been married. Because their unions are now recognized under federal law, same-sex couples who qualify are eligible for deductions and credits available to all married couples. If a joint return would have meant a lower tax bite in past years that are still open under the statute of limitations, they may want to consider filing amended returns for those years in order to collect a refund. If you have questions about whether this is the right step for you, be sure to contact a tax professional, like a CPA.

Is there any impact on my state tax return?

It depends on where you live or if you've moved since you married. For example, if a same-sex couple marries in one state but lives in another that does not recognize same-sex marriage, then they will likely be able to file joint federal returns but will have to continue filing separate state tax returns. However, official resolution is still pending on the tax treatment of same-sex couples who marry in a state that allows it but move to a state that doesn't.

How does this change our estate planning?

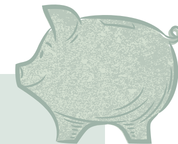
An estate tax issue was actually the impetus for the Supreme Court case, so this should be a key consideration for couples. Surviving same-sex spouses were not previously allowed the right to take advantage of the estate tax exemption that applies to married couples. Under the decision, since same-sex marriages are now recognized under federal law, surviving spouses do not have to pay estate tax on the first $5.25 million that they inherit from a spouse. Couples who had previously set up trusts in order to minimize the taxes paid by a surviving spouse may now want to examine whether those trusts are still necessary or may need to update them in light of the ruling. In your planning, keep in mind, too, that now pensions and retirement savings also are not subject to an inheritance tax when passed to a surviving same-sex spouse. In addition, be aware that same-sex couples now qualify for certain Social Security benefits that were not previously available to them. Same-sex couples will also be able to take advantage of gift tax rules that make it possible for married couples to pass assets to each other without being taxed on the exchange. This area is subject to many options and opportunities, so be sure to consult a financial planning professional with any questions.

Is my health care coverage involved?

Now is a good time to review health coverage choices. For many same-sex couples, spouse coverage under an employer's health plan was previously a taxable benefit, which may have meant they chose the least expensive option to minimize the tax bill on it. If you no longer have to pay taxes on that coverage because of the ruling, you may want to reconsider which coverage is best.

Are there any other steps I should take?

If you haven't already done so, consider making or revising your will, adding your spouse as a beneficiary to your life insurance or retirement plans and adding his or her name to other accounts, mortgages or leases, as appropriate.



Same-sex couples will also be able to take advantage of gift tax rules that make it possible for married couples to pass assets to each other without being taxed on the exchange.

HOW DO I TALK TO MY AGING PARENTS ABOUT FINANCES?

Caring for your aging parents is something you hope you can handle when the time comes, but it's the last thing you want to think about. Whether the time is now or somewhere down the road, there are steps that you can take to make your life (and theirs) a little easier. Some people live their entire lives with little or no assistance from family and friends, but today Americans are living longer than ever before. It's always better to be prepared.

Start the conversation.

The first step you need to take is talking to your parents. Find out what their needs and wishes are. In some cases, however, they may be unwilling or unable to talk about their future. This can happen for a number of reasons, including:

- Incapacity;
- Fear of becoming dependent;
- Resentment toward you for interfering; and/or
- Reluctance to burden you with their problems.

If such is the case with your parents, you may need to do as much planning as you can without them. If their safety or health is in danger, however, you may need to step in as caregiver. The bottom line is that you need to have a plan. If you're nervous about talking to your parents, make a list of topics that you need to discuss. That way, you'll be less likely to forget anything. Here are some things that you may need to talk about:

- Long-term care insurance: Do they have it? If not, should they buy it?
- Living arrangements: Can they still live alone, or is it time to explore other options?
- Medical care decisions: What are their wishes, and who will carry them out?
- Financial planning: How can you protect their assets?
- Estate planning: Do they have all of the necessary documents (e.g., wills, trusts)?
- Expectations: What do you expect from your parents, and what do they expect from you?

Prepare a personal data record.

Once you've opened the lines of communication, your next step is to prepare a personal data record. This document lists information that you might need in case your parents become incapacitated or die. Here's some information that should be included:

- Financial information: Bank accounts, investment accounts, real estate holdings;
- Legal information: Wills, durable power of attorneys, health-care directives;
- Funeral and burial plans: Prepayment information, final wishes;
- Medical information: Health-care providers, medication, medical history;
- Insurance information: Policy numbers, company names;
- Advisor information: Names and phone numbers of any professional service providers; and
- Location of other important records: Keys to safe-deposit boxes, real estate deeds.

Be sure to write down the location of documents and any relevant account numbers. It's a good idea to make copies of all of the documents you've gathered and keep them in a safe place. This is especially important if you live far away, because you'll want the information readily available in the event of an emergency.

Where will your parents live?

If your parents are like many older folks, where they live will depend on how healthy they are. As your parents grow older, their health may deteriorate so much that they can no longer live on their own. At this point, you may need to find them in-home health care or health care within a retirement community or nursing home. Or, you may insist that they come to live with you. If money is an issue, moving in with you may be the best (or only) option, but you'll want to give this decision serious thought. This decision will impact your entire family, so talk about it as a family first. A lot of help is out there, including friends and extended family. Don't be afraid to ask.

Evaluate your parents' abilities.

If you're concerned about your parents' mental or physical capabilities, ask their doctor(s) to recommend a facility for a geriatric assessment. These assessments can be done at hospitals or clinics. The evaluation determines your parents' capabilities for day-to-day activities (e.g., cooking, housework, personal hygiene, taking medications, making phone calls). The facility can then refer you and your parents to organizations that provide support. If you can't be there to care for your parents, or if you just need some guidance to oversee your parents' care, a geriatric care manager (GCM) can also help. Typically, GCMs are nurses or social workers with experience in geriatric care. They can assess your parents' ability to live on their own, coordinate round-the-clock care if necessary, or recommend home health care and other agencies that can help your parents remain independent.

Get support and advice.

Don't try to care for your parents alone. Many local and national caregiver support groups and community services are available to help you cope with caring for your aging parents. If you don't know where to find help, contact your state's department of eldercare services. Or, call (800) 677-1116 to reach the Eldercare Locator, an information and referral service sponsored by the federal government that can direct you to resources available nationally or in your area. Some of the services available in your community may include:

- Caregiver support groups and training;
- Adult day care;
- Respite care;
- Guidelines on how to choose a nursing home; and/or
- Free or low-cost legal advice.

Once you've gathered all of the necessary information, you may find some gaps. Perhaps your mother doesn't have a health-care directive or her will is outdated. You may wish to consult an attorney or other financial professional whose advice both you and your parents can trust.

5 STEPS TO BOOST YOUR HOME'S VALUE

More than 4.9 million homes were sold in 2014, and the median price for a home was up about 6 percent from the previous year, according to the National Association of Realtors. For many people, a home is not only the place to make memories, but also their largest asset. If you're planning on putting a house on the market, you'll want to get the best price for it. Here are five steps to enhance a home's value.

1. **Consider curb appeal.** Most buyers make an immediate assessment about a home based on its front yard and entryway. Since you want to encourage potential buyers to come in, be sure to make the house look as welcoming as possible. Mow the lawn, prune the shrubs and banish weeds before your home is shown. Consider power washing the exterior paint job, repainting your front door, polishing up hardware and fixing any exterior lights to add to the home's aesthetics.

2. **Combat clutter.** Moving involves sorting through possessions and deciding whether to bring them to your next home, put them in storage or get rid of them. Start the process as early as possible to prevent a messy or cluttered house from turning away potential buyers. Organize closets, attics and basements so buyers can clearly see how much space is available. Consider removing items that personalize the home—anything from family photos to hot pink throw pillows—so buyers can picture themselves living there.

3. **Conquer the kitchen and bath.** Whether cooking a favorite meal or sharing thoughts at the kitchen table, much time is spent in the kitchen. According to Consumer Reports, 53 percent of real estate professionals identified the kitchen as one of the more important rooms to shape up before selling. Drastic renovations aren't necessary, but all minor repairs—such as a leaky faucet or broken backsplash tile— are a must before the for-sale sign goes in the yard. Simple, cosmetic improvements—such as a fresh paint job or new energy-efficient lighting—are also beneficial when upgrading the room's look. Take similar steps to update a bathroom, where a new showerhead, faucet or floor tiles could make a more positive impact.

4. **Burnish the basics.** Although there are many inexpensive steps to raise a home's value, major upgrades to problem areas could be necessary to attract buyers and sell at the highest price. It's best to handle more expensive problems—such as leaking roofs, wiring problems, aging furnaces or hot water heaters—before your house goes on the market.

5. **Accentuate the positive.** A National Association of Realtors survey found nearly 40 percent of homebuyers would pay more for a home if it had at least one fireplace. A wooden deck or attractive front porch can also make a home more appealing. Before selling, accentuate the most attractive parts of your home and add value to the sale. If the fireplace needs updating or the porch could use a paint job, invest in your home's assets to distinguish your home.

5 THINGS TO KNOW ABOUT HOME INSURANCE COVERAGE

What would happen if your home was damaged or someone broke into it? Average insurance claims range from about $3,600 for theft to about $37,000 for fire or lightning damage, according to ISO, a Verisk Analytics company. When you're making decisions about your home insurance coverage, keep these five tips in mind.

1. **It's smart to shop around.** Even if your mortgage lender recommends an insurer, you may still want to consider checking out three to five other companies' premiums to be sure you get the best deal. Read the policies carefully, however, to confirm that they are comparable and that the less expensive options provide the coverage you need. Compare their prices, in addition to any available consumer reviews. There may be considerable price differences, for example, between policies that offer replacement value, which covers the expense of rebuilding a similar home or replacing your possessions at current prices, and actual cost value, which reimburses you what it will take to replace your home after subtracting depreciation.

2. **Be sure to ask for discounts.** When evaluating insurance companies, find out if your top choices will offer discounts for steps you take to make your home more secure. These steps might include installing an alarm system, dead bolt locks, updated heating, wiring and electrical systems, fire alarms, smoke detectors and sprinklers; or having well-maintained stairs, driveways and sidewalks. You might even get a discount for a roof made with a sturdier level of material. If you already have a policy and undertake an improvement or update that makes it less likely your home will suffer damage, theft or a liability claim, be sure to contact your insurer and ask about a discount. Additionally, if you've been claim free for a number of years, or a long-time customer of your insurer, then you may qualify for other discounts.

3. **Create a home inventory.** If your home suffered significant damage, would you be able to list all the items lost? After building up a wide range of possessions over the years, this may be a difficult task. Only about 50 percent of homeowners have one, according to the Insurance Information Institute – but an up-to-date home inventory is something that can be extremely valuable in establishing your claim. The inventory should list your

belongings and establish their value based on receipts or any other documentation available, and it should be supplemented with photographs. Keep the list in a fire-proof safe or safe deposit box along with other important documents – including your insurance policy information and agent contact details – and consider storing a copy with a trusted friend or relative so it's easily available when you need it.

4. **Review your policy regularly.** Checking the fine print at least once a year ensures that you'll have full coverage for new purchases or home additions. If you have floaters addressing items not covered in the base policy, such as expensive jewelry, artwork or technology, use this review to decide whether you need to increase, lower or cancel the floater based on changing values.

5. **Factor in insurance costs when buying a home.** Just as some home improvements can lower your insurance costs, there are situations that can raise them. Being in a flood plain or in an earthquake-prone area are examples, since they will require additional coverage, so it's worthwhile to ask about the possible need for other insurance when you're buying a home. A Comprehensive Loss Underwriting Exchange (CLUE) report details a home's loss history, including claims made and loss types and amounts. They are only available to homeowners, but consider asking for one before buying a new place.

THREE QUESTIONS TO ASK ABOUT REVERSE MORTGAGES

One retirement planning resource that has gained interest in recent years is the reverse mortgage, which allows you to convert part of a home's equity into cash without paying additional monthly bills. If you're 62 or older and want money to pay off your mortgage or to help pay for other expenses, you might consider a reverse mortgage. Consider these three questions to decide if a reverse mortgage is right for you.

1. **What is a reverse mortgage?** A reverse mortgage is a type of home loan that allows you to convert a portion of your home's equity into cash. Reverse mortgages take part of the home's equity and converts it into payments – a type of advanced payment on home equity where money received is usually tax-free. Generally, the money doesn't have to be repaid, as long as you live in the home. However, you or your estate must repay the loan when you move to a new home or pass away.

2. **What kind of reverse mortgage can I get?**
   - Single-purpose reverse mortgages: This is the least expensive option and most homeowners with low or moderate income can qualify. The loan can only be used for one purpose, which is specified by the lender (i.e., home repairs). Single-purpose reverse mortgages are offered by some state and local government agencies, as well as non-profit organizations, but they're not available everywhere. Check with your financial advisor to see what options are available in your state.
   - Proprietary reverse mortgages: Also known as private company reverse mortgages, proprietary reverse mortgages are backed by companies that develop them, not federally insured and typically designed for borrowers with higher home values. If you own a higher-valued home, you may receive a higher loan advance and qualify for more funds with this type of loan.
   - Home Equity Conversion Mortgages (HECMs): These are federally-insured and can be used for any purpose – from supplementing retirement income to covering daily living expenses, to preventing foreclosure on your home. These loans tend to be the most popular and are backed by the U. S. Department of Housing and Urban Development (HUD).

3. **Is a reverse mortgage right for me?** There are pros and cons of a reverse mortgage, and only you can determine the right decision. Because there isn't a specific income requirement on reverse mortgages, you are likely to pay higher fees and interest rates with these loans. Reverse mortgages can make leaving a home to an heir difficult because the loan must be repaid once you die. This usually means selling the home or using inheritance to pay off the loan. In many cases, a reverse mortgage isn't worthwhile because of the drawbacks, but there are exceptions.

However, you might want to explore a reverse mortgage if you need cash for retirement expenses. These loans can help ease financial strains, especially if a large portion of money is locked into a home.

Ultimately, the pros and cons need to be weighed and applied to your situation.

Chapter Two:
COLLEGE

College is exciting... and scary. Higher learning generally promises additional personal and professional success. However, it comes with a pretty steep price tag. Consider the following:

- Nearly half—48 percent—of teens think their parents will help pay for college, but only 16 percent of parents of teens report planning to pay for post-secondary education (Junior Achievement/The Allstate Foundation, 2015).
- When asked to consider the rising cost of college, 29 percent of teens in 2015 were considering attending a local community college instead of another college or university, up from 22 percent in 2014 (Junior Achievement/The Allstate Foundation, 2015).
- Of those who are repaying their own student loans or their children's educational loans, 58 percent of American adults expressed they are unable to establish emergency or retirement savings or purchase a car as a result of that financial commitment (National Foundation for Consumer Credit Counseling, Consumer Financial Literacy Survey, 2015).
- About one quarter (24 percent) of young adults (between the ages of 18 and 29) believe their student loan debt will ultimately be forgiven (Junior Achievement/The Allstate Foundation, 2014).
- One-third of students with loans are paying more than $300 per month and 5 percent are paying more than $1,000 per month. (Junior Achievement/The Allstate Foundation, 2014).
- Most parents—71 percent— said increased public awareness of student loan debt had caused them to look at different strategies for funding their child's education (College Savings Foundation, 2014).
- Nearly three-fourths (74 percent) of parents expect their children to contribute to college, and 44 percent of those expect them to get a job (College Savings Foundation, 2014).

In this chapter, you will learn how to be financially prepared for college, ways to lower costs, how to utilize tax credits and ways to pay off student loans more quickly.

Get more financial tips from www.FeedThePig.org, www.360FinancialLiteracy.org or www.KnowWhatCounts.org, Also on social media, each offers free tips, e-newsletters, resources and more. Also, look at www.fafsa.ed.gov, www.OklahomaMoneyMatters.org and www.OK4Saving.org.

UNDERSTAND 529 PLANS AND FINANCIAL AID

The financial aid process is all about assessing what a family can afford to pay for college and trying to fill the gap. To do this, the institutions that offer financial aid examine a family's income and assets to determine how much a family should be expected to contribute before receiving financial aid. Financial aid formulas weigh assets differently, depending on whether they are owned by the parent or the child. It's important to know how your college savings plan account or your prepaid tuition plan account will be classified, because this will affect the amount of your child's financial aid award. Federal and campus-based student financial aid consists of:

- Grants, which do not have to be repaid;
- Loans, which allow you or your child to borrow money for school under federal loan programs, usually with favorable interest rates; and
- Work-study programs, which allow the student to earn money while going to school.

The typical financial aid package contains all of these types of aid. Obviously, grants are more favorable than loans because they don't need to be repaid. However, over the past few decades, the percentage of loans in the average aid package has been steadily increasing, while the percentage of grants has been steadily decreasing. This trend puts into perspective what qualifying for more financial aid can mean. There are no guarantees that a larger financial aid award will consist of grants and scholarships – your child may simply get (and have to pay back) more loans. The two main sources of financial aid are the federal government and colleges. In determining a student's financial need, the federal government uses a formula known as the federal methodology, while colleges use a formula known as the institutional methodology. The treatment of your 529 plan may differ, depending on the formula used.

How is financial need determined?

Though the federal government and colleges use different formulas to assess financial need, the basic process is the same. You and your child fill out a financial aid application by listing your current assets and income (exactly what assets must be listed will depend on the formula used). The federal application is known as the FAFSA (Free Application for Federal Student Aid); colleges generally use an application known as the PROFILE.

Your family's asset and income information is run through a specific formula to determine your expected family contribution (EFC). The EFC represents the amount of money that your family is considered to have available to put toward college costs for that year. The federal government uses its EFC figure in distributing federal aid; a college uses its EFC figure in distributing its own private aid. The difference between your EFC and the cost of attendance (COA) at your child's college equals your child's financial need. The COA generally includes tuition, fees, room and board, books, supplies, transportation and personal expenses. It's important to remember that the amount of your child's financial need will vary, depending on the cost of a particular school.

The results of your FAFSA are sent to every college that your child applies to. Every college will then attempt to craft a financial aid package to meet that student's financial need. In addition to the federal EFC figure, the college has its own EFC figure with which to work. Eventually, the financial aid administrator will create an aid package made up of loans, grants, scholarships and work-study jobs. Some of the aid will be from federal programs (e.g., Stafford Loan, Perkins Loan, Pell Grant), and the rest will be from the college's own endowment funds. Keep in mind that colleges aren't obligated to meet all of your child's financial need. If they don't, you or your child is responsible for the shortfall.

How do 529 plans affect federal methodology?

Under the federal methodology, 529 plans – both college savings plans and prepaid tuition plans – are considered an asset of the parent, if the parent is the account owner. So, if you're the parent and the account owner of a 529 plan, you must list the value of the account as an asset on the FAFSA. Under the federal formula, a parent's assets are assessed (or counted) at a rate of no more than 5.6 percent. This means that every year, the federal government treats 5.6 percent of a parent's assets as available to help pay college costs. By contrast, student assets are currently assessed at a rate of 20 percent. Distributions (withdrawals) from a 529 plan that are used to pay the beneficiary's qualified education expenses aren't classified as either parent or student income on the FAFSA.

How do other college savings options fare under the federal system?

Coverdell education savings accounts, mutual funds and U.S. savings bonds (e.g., Series EE and Series I) owned by a parent are considered parental assets and counted at a rate of 5.6 percent. However, Uniform Gifts to Minor Act (UGMA) and Uniform Transfers to Minors Act (UTMA) custodial accounts and trusts are considered student assets. Under the federal methodology, student assets are assessed at a rate of 20 percent in calculating the EFC. Also, distributions (withdrawals) from a Coverdell ESA that are used to pay qualified education expenses are treated the same as distributions from a 529 plan. They aren't counted as either parent or student income on the FAFSA, so they don't reduce financial aid eligibility. One final point to note is that the federal government excludes some assets entirely from consideration in the financial aid process. These assets include all retirement accounts (e.g., traditional IRAs, Roth IRAs, employer-sponsored retirement plans), cash value life insurance, home equity and annuities.

How do 529 plans work with institutional methodology?

When distributing aid from their own endowment funds, colleges aren't required to use the federal methodology. As noted, most colleges use the PROFILE application (a few colleges use their own individual application). Generally speaking, the PROFILE digs a bit deeper into family finances than the FAFSA. Regarding 529 plans, the PROFILE treats both college savings plans and prepaid tuition plans as a parental asset. Once funds are withdrawn, colleges generally treat the entire amount (contributions plus earnings) from either type of plan as student income.

Note: *Investors should consider the investment objectives, risks, charges and expenses associated with 529 plans before investing. More information about specific 529 plans is available in the issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. Information about Oklahoma 529 Plans is available online at www.ok4saving.org. As of this publication date, the earnings portion of any distributions used to pay for qualified higher education expenses will be free from federal and Oklahoma income tax. Additionally, contributions under certain limits can be deducted from Oklahoma taxable income.*

FAFSA: FREQUENTLY ASKED QUESTIONS

By Oklahoma Money Matters
www.OklahomaMoneyMatters.org

If you or someone you know is planning to enroll in college, you'll want to submit the Free Application for Federal Student Aid (FAFSA). The FAFSA is the application used to obtain all types of federal financial aid, some state financial aid and many scholarships, too.

Why bother?

The FAFSA is required for students seeking federal financial aid, such as Pell Grants and federal student loans. However, other financial aid programs, including some scholarships, also require information provided on the FAFSA. All students should submit the FAFSA as soon as possible each year they enroll in college courses. Many programs that require FAFSA information have deadlines early in the year. Submitting the FAFSA early helps reduce the possibility of missing out on certain financial aid opportunities.

Are you sure it's a good idea?

Some students and their families don't submit the FAFSA because they think they make too much money to qualify for financial aid. The truth is, most students qualify for some type of aid, and completing the FAFSA lets them know all of their aid options. Others don't submit the FAFSA because they're concerned about committing to borrower student loans. The FAFSA isn't a contract; it's simply an application that helps determine students' financial aid options. Further action is required to accept loans and other types of financial aid. Parents who submitted the paper version of the FAFSA are often concerned that the process is tedious and complicated. With the online FAFSA, however, submitting the application has never been easier. Help is available at every step along the way and new tools, like the IRS Data Retrieval Option, have significantly improved and streamlined the process.

What's next?

Remember, the first letter in FAFSA stands for free; students should never pay to complete the FAFSA. Learn how to finish the FAFSA in five steps by watching the video tutorial, available in both English and Spanish, or download the Finish the FAFSA in Five Steps brochure, both found at StartWithFAFSA.org.

For more information about federal student aid, visit StudentAid.ed.gov. To learn more about planning, preparing and paying for college, visitUCanGo2.org.

8 WAYS TO FINANCIALLY PREPARE FOR COLLEGE

According to the College Board report, students paid an average $18,942 in 2014 for college tuition with room and board. Over the past 10 years, tuition for public four-year colleges in the U.S. has increased an average of 3.5 percent annually. Parents and potential college students must be well prepared to handle college costs. Here are eight ways to financially prepare for college:

1. **Research and compare colleges.** In general, public four year colleges are less expensive for in-state students than out-of-state students and less expensive than private four year colleges. Community colleges, which usually provide transferrable college credit for the first two years of college, can provide excellent value at a lower price. Just be sure the classes you take transfer to the four-year institution of your choice.

2. **Use Section 529 plans.** Section 529 plans are set up by states, have several variations – such as prepaid tuition and savings plans – and many rules. Section 529 plans allow tax- free earnings on the investments at federal and state levels, as long as the investment is used for qualified college educational expenses when money is withdrawn. Many states—including Oklahoma—allow a tax deduction for its own state income tax on amounts contributed. See www.ok4saving.org for details.

3. **Set up a Coverdell Savings Account.** A Coverdell Education Savings Account can be established for a beneficiary by parties below certain income limits. The money invested can grow tax free as long as it is used for qualified educational expenses when withdrawn. The annual contribution limit for a beneficiary for 2016 is $2,000 per year.

4. **Apply for federal financial aid.** For many middle to low income parents, the federal government provides need-based financial aid, such as grants, loans and college work study programs. The Pell Grant, which does not need to be repaid, is available for those who meet major need-based financial aid requirements. The maximum Pell Grant for 2015 to 2016 is $5,775. A Free Application for Federal Student Aid (FAFSA) can be completed to determine eligibility for federal financial aid, but students and parents should work through a college financial aid office to secure such aid (www.fafsa.ed.gov)

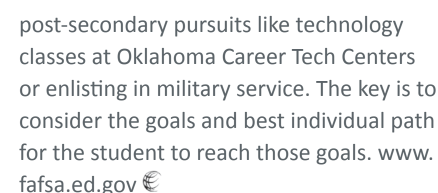
5. **Apply for scholarships.** Scholarships always provide the best value because they are tax free and do not need to be repaid as long as the student meets the scholarship requirements. Students can receive scholarships for excelling academically and athletically. Scholarships are also available through the duration of college and offered by many types of organizations in a variety of fields. For example, the Educational Foundation of the OSCPA offers scholarships to students studying accounting in Oklahoma.

6. **Check tax credits and deductions.** For those parents or students who have not saved enough money or received sufficient financial aid, tax credits and deductions are available. It is best to consult with a CPA as the requirements can be complicated.

7. **Involve the student.** Students can learn financial responsibility by becoming

financially involved with college costs. In high school, students can save money earned from summer jobs for college tuition or books. Students can stay at home and commute to a local college to forgo room and board charges or work part time to meet financial obligations. Involving the student teaches the value of working and saving and allows them to choose between wants and needs.

8. **Weigh your costs against benefits.** The cost of college should be weighed against the benefits that derive from a college education. The major benefits, of course, are higher average pay in careers that follow graduation. College is also a great place to find meaning in life, pursue self-fulfillment, meet diverse people, gain maturity and learn about the world. However, the same can be said for other post-secondary pursuits like technology classes at Oklahoma Career Tech Centers or enlisting in military service. The key is to consider the goals and best individual path for the student to reach those goals. www.fafsa.ed.gov



STICKER SHOCK: CREATIVE WAYS TO LOWER THE COST OF COLLEGE

Even with all of your savvy college shopping and research about financial aid, college costs may still be prohibitive. At these prices, you expect you'll need to make substantial financial sacrifices to send your child to college. Or maybe your child won't be able to attend the college of his or her choice at all. Before you throw in the towel, though, you and your child should consider steps that can actually lower college costs. Although some of these ideas deviate from the typical four-year college experience, they just might be your child's ticket to college--and your ticket to financial sanity.

Ask about tuition discounts and flexible repayment programs.

Before you rule out a college completely, ask whether it offers any tuition discounts or flexible repayment programs. For example, the school may offer a discount if you pay the entire semester's bill up front, or if you allow the money to be directly debited from your bank account. The college may also allow you to spread your payments over 12 months or extend them for a period after your child graduates. And if it's your alma mater, don't forget to inquire about any discounts for the children of alumni. Finally, ask if some charges are optional (e.g., full meal plan versus limited meal plan).

Graduate in three years instead of four. Some colleges offer accelerated programs that allow your child to graduate in three years instead of four. This can save you a whole year's worth of tuition and related expenses. Some colleges offer a similar program that combines an undergraduate/graduate degree in five years. The main drawback is that your child will have to take a heavier course load each semester and may have to forgo summer breaks to meet his or her academic obligations. Also, some educators believe that students need four years of college to develop to their fullest potential—intellectually, emotionally and occupationally.

Earn college credit while still in high school. By taking advanced placement courses or special academic exams, your child may be able to earn college credits while still in high school. This means that your child may be able to take fewer classes in college, saving you money.

Think about cooperative education.

Cooperative (co-op) education is a type of education where semesters of course work alternate with semesters of paid work at internships that your child helps select. Although a co-op degree usually takes five years to obtain, your child will be earning money during these years that can be used for tuition costs. In addition, your child gains valuable job experience.

Enroll in a community college, then transfer to a four-year college.

One surefire way to cut college costs is to have your child enroll in a local community college for a couple of years, where costs are often substantially less than four-year institutions. Then, after two years, your child can transfer to a four-year institution. Your child's diploma will be from the four-year institution, but your expenses won't. Before choosing this route, though, make sure that any credits your child earns at the community college will be transferable to another institution.

Defer enrollment for a year.

Your child might be aching to get to college, but taking a year off, commonly referred to as a "gap year," can give you both some financial breathing room and allow your child to work and save money for a full year before starting college. Your child will apply under the college's normal application deadline with the rest of his or her classmates and, once accepted, can ask for a one-year deferment. But make sure the college offers deferred enrollment before your child goes through the time and expense of applying.

Live at home.

It's not every child's dream, but attending a nearby college and living at home, even for a year or two, can substantially reduce costs by eliminating room-and-board expenses (though your child will incur commuting costs). This arrangement may work out best at a college that has a student commuter population, because the college is likely to try to meet these students' needs. If your child does live at home, you'll both need to sit down beforehand and discuss mutual expectations. For example, now that your child's in college, it's not realistic to expect him or her to adhere to a rigid weekend curfew.

Consider distance learning.

Taking courses on-line is a trend that's here to stay, and many colleges are in the process of creating or expanding their opportunities for distance learning. Your child might be able to take a year's worth of classes from home and then attend the same school in person for the remaining years.

Work part-time throughout the college years.

Part-time work during college can help your child defray some costs, though working during school can be both a physical and emotional strain. To make sure that your child's academic

(Cont. on 18)

work doesn't suffer, one option might be for your child to focus on school for the first two years and then obtain a part-time job in the remaining years.

Join the military.

There are several options here. Under the Reserve Officers' Training Corps (ROTC) scholarship program, your child can receive a free college education in exchange for a required period of active duty following graduation. Your child can apply for an ROTC scholarship at a military recruiting office during his or her junior or senior year of high school. Or, your child can serve in the military and then attend college under the GI Bill. Your child can also attend a service academy, like the U.S. Military Academy at West Point, for free. Be aware, though, that these schools are among the most competitive in the country, and your child must serve a minimum number of years of active duty upon graduation. For more information, visit your local military recruiting office or speak to your child's high school guidance counselor.

Go to school in Canada.

Canadian schools generally offer an excellent education at a price comparable to that of an average four-year public college in the United States. And in the global economy, many employers tend to look favorably on studying abroad. Your child will even be eligible for need-based federal student loans (but not grants), as well as the two federal education tax credits–the American Opportunity credit (Hope credit) and the Lifetime Learning credit.

Check to see if your employer offers any educational assistance.

Does your employer offer any educational benefits for the children of its employees, like partial tuition reimbursement or company scholarships? Check with your human resources manager.

Have grandparents pay tuition directly to the college.

Payments that grandparents (or others) make directly to a college aren't considered gifts for purposes of the federal gift tax rules. So, grandparents can be as generous as they want without having to worry about the tax implications for themselves. Keep in mind, though, that any payments must go directly to the college. They can't be delivered to your child with instructions to apply them to the college bills.

4 WAYS TO COPE WITH OVERLOOKED COLLEGE EXPENSES

College is expensive, but are you sure you know exactly how much it will cost you? You're aware about paying for tuition, room and board, of course, but there are many extra costs you'll face on the way to graduation day. Here are some unexpected charges you should anticipate and tips on how to deal with them:

1. **Hitting the books:** Knowledge clearly doesn't come cheap. The average cost of just one new textbook is hovering around $80, according to the National Association of College Stores (NACS), and prices are clearly rising quickly. Books were going for an average of $57 as recently as 2007. However, required course materials, both purchases and rentals, cost students an average of $313 in 2014, and those that were necessary but not required added up to $358, according to NACS. The good news is that used books—which are averaging around $60—can lower your outlay a lot, as can renting a book online. If you're tight on cash, remember it is possible to use federal student loan money to cover books, supplies, equipment and even rental or purchase of a computer. Another idea is to share books and/or supplies with classmates, but work out in advance scheduling times so conflicts don't come up later, especially during midterms and finals.

2. **Dining right:** The cost of a meal plan will vary greatly depending on the school and the kind of plan you buy, but expect the cost to range from a few hundred to as much as a few thousand dollars. A plan that includes all meals and access to an unlimited buffet will likely be the most expensive, so consider reevaluating your meal plan after the first semester to determine if you're making full use of your plan. If you grab breakfast on the go instead of going to the dining hall or often share a pizza with friends on weekend evenings, find out if you can scale back on your plan.

3. **Transportation:** Many students live at home and commute to college to save on campus living expenses, but it's smart to check out transportation costs in advance so you're not unpleasantly surprised by how high they can be. Expenses for driving to school will include the cost of the car as well as gas, insurance, tolls, parking permits and regular maintenance. The costs of using public transportation can also add up. Keep in mind, too, that while you can use federal student loan money to pay for transportation costs, you will incur a penalty if you cover them by dipping into a 529 college savings plan.

4. **The high cost of participating:** Joining a team, club, fraternity or sorority can be an exciting part of campus life, a chance to make new friends and a way to feel a closer connection to your school. However, it can cost hundreds of dollars to pledge a fraternity or sorority and pay member dues, and don't forget the costs of social activities. Team membership can also mean paying for equipment, uniforms, travel and various other expenses. Before you become involved in an activity, be sure to ask about all the related expenses so you can decide how many interests are realistic. Also, find out about possible scholarship programs or payment plans that can minimize expenses or make them more manageable.

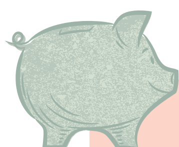
3 WAYS TAX CREDITS CAN HELP LOWER COLLEGE COSTS

Are you looking for options to minimize the costs of higher education? The average cost of tuition and fees for a four-year college education can range from about $40,000 for in-state students at a public college to nearly $135,000 at a private college, according to College Board data (www.collegeboard.org). Fortunately, there are some tax laws that can help lower your outlays. The Oklahoma Society of Certified Public Accountants explains three ways to lower college costs using tax-advantaged options.

1. **Claim the American Opportunity Tax Credit.** The American Opportunity Tax Credit (AOTC) is a tax credit of up to $2,500 of the cost of tuition, fees and course materials paid during the tax year. Room and board, transportation, insurance, medical expenses and fees beyond those required as a condition of enrollment or attendance at an eligible education institution are not considered qualified expenses. You can generally receive the credit if you, your spouse or your dependent were enrolled at least half time in a college program leading toward a degree, certificate or other recognized educational credential—for at least one academic period during the tax year—and had not completed the first four years of college education at the beginning of the tax year. To qualify for the full credit, your modified adjusted gross income must be $80,000 or less ($160,000 or less if married filing jointly). You may be eligible for a reduced credit if your income is less than $90,000 (below $180,000 if filing jointly). The AOTC is available for up to four years of qualifying expenses. It's currently set to expire on Dec. 31, 2017, but Congress has extended the credit in the past.

2. **Claim the Lifetime Learning Credit.** There are several important differences between the AOTC and another valuable option, the Lifetime Learning Credit, or LLC. The LLC is a tax credit for the cost of tuition and fees not only for undergraduate, but also graduate and professional degrees at an eligible institution—as well as for courses that will help you get or improve job skills. To be eligible for the credit, you, your spouse or your dependent can be enrolled in as few as one course at a time. In addition, there is no limit on how many years you can take the credit, so it can come in handy for many educational needs. The LLC provides up to $2,000 per taxpayer, and the income limits differ from those for the AOTC. To qualify for the full LLC, your modified adjusted gross income must be $55,000 or less ($111,000 or less for those married filing jointly). You may be eligible for a reduced credit if your income is less than $65,000 ($131,000 for those filing jointly). However, there is one important fact to remember: Taxpayers aren't allowed to take both the AOTC and the LLC credits in the same tax year.

3. **Look beyond credits.** If you don't qualify for either of these credits, there's another tax-advantaged option that can help you manage college costs, but it will require some advance planning. A 529 college savings plan allows you to invest money that can earn interest and dividends tax free, as long as you spend the money for qualifying expenses at an eligible educational institution. There are no income limits on who can start a plan, but plans will have varying lifetime contribution limits. You can choose among different plans and investment options and change your investment up to twice each calendar year. The sooner you begin using a 529 plan to save for college, the greater your chances are to build tax-free interest and dividends over time. Additionally, Oklahoma residents who contribute to an Oklahoma 529 plan can deduct contributions up to $10,000 for single filers ($20,000 for married filing jointly) from their Oklahoma taxable income. (For additional information, visit www.ok4saving.org.)



The sooner you begin using a 529 plan to save for college, the greater your chances are to build tax-free interest and dividends over time.

CAREFULLY CONSIDER STUDENT LOAN REPAYMENT OPTIONS

If you or someone you know is planning to enroll in college, you'll want to submit the Free Application for Federal Student Aid (FAFSA). The FAFSA is the application used to obtain all types of federal financial aid, some state financial aid and many scholarships, too.

How is REPAYE, the newest income-driven student loan repayment plan, different from the Pay as You Earn (PAYE) Plan?

This plan is very similar, but includes a few adjustments to help make payments more affordable. The PAYE Plan was only available to new borrowers. With REPAYE, any Direct Loan holder can apply. There are no income requirements and payments are calculated based on 10 percent of discretionary income. Undergraduate borrowers may qualify for loan forgiveness after 20 years of on-time payments, and graduate students may qualify after 25 years of repayment, or 10 years if they meet certain requirements. Borrowers should note, the forgiven balance may be taxable as income. This plan also offers an additional interest break by paying half of the difference on your subsidized loans after the original three-year period and half the difference on your unsubsidized loan for all periods.

How can borrowers determine if they're eligible for an income-driven repayment plan?

Income-driven plans are based on income and family size and require recertification each year. To find the most beneficial repayment plan, borrowers can contact their loan holder or explore the Repayment Estimator at StudentAid.ed.gov. This tool allows borrowers to estimate what their payments may look like before committing to a plan. The site also provides helpful charts that compare each plan based on benefits, eligibility, income requirements and how payments are calculated.

How do borrowers apply for an alternative repayment plan?

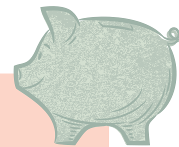
Borrowers should contact their loan holder to discuss all repayment plan options and determine which one is best for their situation. The loan holder can provide an application for Income-Driven Repayment Plan or the application can be completed online at StudentLoans.gov. At the time of application, borrowers must provide proof of income via their federal tax return. If applying online, the IRS Data Retrieval Tool can be used to import income tax information, which will expedite the application process.

If a borrower doesn't qualify for REPAYE, what are the other student loan repayment options?

REPAYE is only available to Direct Loan holders. If borrowers have Federal Family Education Loans (FFEL), they don't qualify for REPAYE. However, they can choose to consolidate their loans with the Direct Loan Program in order to qualify. When choosing this option, note that loan consolidation is a free process through StudentLoans.gov, so no borrower should pay for this service. If borrowers choose not to consolidate with the Direct Loan Program, they can still explore Income-Based Repayment, which calculates payments based on income and family size. This plan also offers loan forgiveness options. Additional repayment plans are available and can be explored in more detail at ReadySetRepay.org. It's important to remember the lowest payment possible isn't always the best option for long-term success. Carefully consider the pros and cons of each repayment option before making a commitment. In addition to potential tax liabilities, borrowers who opt for income-based repayment will pay more in interest over the life of the loan.

How can borrowers learn more about successfully managing student loans?

Our website, ReadySetRepay.org, is a great place to start. Borrowers should also stay in contact with their loan holder, who can help them successfully manage their loans. If borrowers aren't sure who holds their loans, they can look it up in the National Student Loan Data System, at NSLDS.ed.gov.



Borrowers should contact their loan holder to discuss all repayment plan options and determine which one is best for their situation.

5 TIPS TO QUICKLY PAY OFF STUDENT LOAN DEBT

Struggling with student loans? You're not alone. The Consumer Financial Protection Bureau reports that U.S. student loan debt exceeds $1 trillion and student loan debt among seniors 65 years and older has climbed 600 percent in the last decade. If you're stressed to pay off or manage a mountain of student loan debt, here are five easy strategies to help you climb out of the red:

1. **Start now.** Student loan debt is not going away, and the longer you put it off, the more interest you'll pay. The best option is to start making payments as soon as you graduate. Set your monthly payments as high as you can afford to pay, so you are debt-free as soon as possible.

2. **Lower your payments.** If you can't afford your monthly payments, try reducing them. See if you can increase the amount of time you have to pay the loan. Extending the term means you'll pay more interest over time, but reducing your monthly expenses may be your top priority now. You can always increase your monthly payments once you land a big raise or promotion.

3. **Consolidate your bills.** Many students receive several loans to help finance their education, which means that you need to pay a number of different lenders each month. To make life easier, consider consolidating your loans so you make just one payment each month. When you consolidate, you take out a new loan that's equivalent to your total debt, and you use it to pay your existing balances. If you decide to pursue this option, make sure your loan terms won't end up costing you more money.

4. **Pay more than the minimum.** The longer your loan term, the more interest you accrue. While it might not be possible to pay more than the minimum due every month, try to put any extra money you earn (from a bonus, raise, etc.) to your student loans. You'll pay less in the long run and you'll be out of debt faster than if you paid the minimum due each month.

5. **Budget.** You'll never get out of the red if you continue to build debt after graduation. Set a strict cash budget, so you know where your money is going each month. Hold off on big purchases, such as a new car or vacation, until you've paid down your debt. Remember that debt is stress, and life is easier when you don't have stress.

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LARGE PIZZA
ALL DAY MONDAY HOT-N-READY!
Little Caesars
HOT-N-READY
LARGE PIZZA
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STUFFED CRUST PIZZA
for $7.00

Chapter Three:
STARTING OUT

When you become an adult, you have to take on some serious responsibilities. Start out right by establishing good financial footing. Consider the following:

- Forty-seven percent of American Millennials believe that a savings account, earning minimal interest, is the best way to prepare for retirement (TD Ameritrade, 2015).
- Nearly half—48 percent—of Millennials delay buying a home because of their increased financial burden (e.g.. student loans, supporting parents) (TD Ameritrade, 2015).
- About three-fourths of Millennials said they know little or nothing about how to invest (TD Ameritrade, 2015).
- Millennials are twice as likely to leave their job after three years than thirtysomethings (Jobvite Job Seeker Nation survey, 2015).
- When it comes to relationships, 13 percent of Millennials said being irresponsible with money is a deal breaker (Capital One's Millennial Mindset on Money Survey, 2015).

In this chapter, you will learn basics on starting out, planning for a career change, building an emergency fund, tops for combining finances when you marry and how to weigh pros and cons of buying a home or renting and paying down debt or saving.

Get more financial tips from www.FeedThePig.org, www.360FinancialLiteracy.org or www.KnowWhatCounts.org, Also on social media, each offers free tips, e-newsletters, resources and more. Also, check out the "On Your Own" section of Life Stages at www.TinkerFCU.org.

This chapter is sponsored by Tinker Federal Credit Union.

Tinker Federal Credit Union has been helping their members achieve their goals and realize their dreams since 1946. Oklahoma's largest credit union, TFCU offers its members the latest technology that gives them access to their accounts anytime that's convenient for them. As a not-for-profit financial cooperative, TFCU returns profits to its members through higher dividends, lower loan rates and many no-fee or low-fee services. TFCU keeps our members' finances secure, so they can focus on what makes them happy. To find out more about the benefits of membership with TFCU, visit TinkerFCU.org.

4 FINANCIAL TIPS FOR STARTING OUT

You're on your own now. You've finished school, are working your first real job and maybe you're even buying a home or getting married. Here are a few tips to help you start managing your finances.

1. **Construct a budget.** The foundation of any financial plan depends on knowing what your income and expenses are and budgeting accordingly. Your income may be easy to figure out (look at your paycheck), but don't forget to add in other income such as interest income and maybe earnings from a seasonal job. Most of your expenses will also be fixed, such as rent, utilities, and groceries, but don't forget about occasional expenses, such as clothes or car repairs. If your income is greater than your expenses, you're in good shape, but if it's the other way around, you'll need to generate more income or cut expenses, or both. If cutting expenses, look at your wants first (e.g., travel). There's less flexibility when it comes to your needs (e.g., groceries).

2. **Prioritize your debt.** Maybe you've got student loans, a car loan and some credit card debt. Paying all your debts on time will help you establish and maintain a good credit history, so it's important to make debt repayment a priority expense in your budget. If you need to reduce your debt burden, perhaps you can consolidate your student loans to lower the monthly payment. As for credit card debt, resolve to pay it off in a systematic fashion: always pay more than the minimum payment due, and if you have more than one card, direct any extra money you have toward the card with the highest interest rate.

3. **Review your insurance coverage.**
   a. Health insurance: Hopefully, you'll have coverage through your employer. If not, as part of recent health-reform legislation, you may be able to remain on your parents' health insurance if you are under age 26.
   b. Disability insurance: You're fine now, but that could change in a heartbeat if an injury or illness puts you out of commission. Disability insurance pays benefits that will help cover your living expenses if you can't work due to an injury or illness. It may be offered through your employer, or you can purchase it on your own.
   c. Life insurance: If you're employed, you may receive life insurance as part of your employee benefits package. If not, you may want to purchase a small policy to cover any final expenses (e.g., funeral expenses) that might be incurred if you die. If you're getting married or planning a family, you'll need life insurance to protect your loved ones.

4. **Plan for your future.** One "expense item" you should include in your budget is saving for your future. Although retirement seems far off, start saving as soon as possible. Due to compound interest, the sooner you start saving even a modest amount, the greater the amount you can potentially accumulate over time. For example, $50 per month saved at 6 percent compounded monthly for 30 years yields a total accumulation of more than $50,000, even though you only deposited $18,000 of that ($50 x 12 months x 30 years). (This is a hypothetical example and is not intended to reflect the actual performance of any investment--results will vary.) Save for your short-term needs, too. Try to sock away at least three to six months' worth of expenses in a savings or money market account, so that you'll have funds you can access in an emergency. Take advantage of any employer-sponsored retirement plans you're offered. Your contributions come out of your salary on a pretax basis, and any investment earnings are tax deferred until withdrawn. These plans often include employer-matching contributions. You may also want to look into opening an individual retirement account (IRA).

PLANNING FOR A CAREER CHANGE

A higher salary. More job security. Doing what you love. Fewer hours. More travel. Changing careers can be rewarding for many reasons, but career transitions don't always go smoothly. Your career shift may take longer than expected, or you may find yourself temporarily out of work if you need to go back to school or can't immediately find a job. Planning for the financial impact can make the transition easier.

Do your homework.

Make sure you clearly understand the steps involved in a career move, including the financial and personal consequences. For example, how long will it take you to transition from one career to the next? What are the job prospects in your new field? How will changing careers affect your income and expenses in the short and long term? Will you need additional education or training? Will your new career require more or fewer hours? Will you need to move to a different city or state? Is your spouse/partner on board?

Next, prepare a realistic budget and timeline for achieving your career goals. If you haven't already done so, save up an emergency cash reserve that you can rely on, if necessary, during your career transition. It's also a good time to reduce outstanding debt by paying off credit cards and loans.

And here's another suggestion: Assuming it's possible to do so, keep working in your current job while you're taking steps to prepare for your new career. Having a stable source of income and benefits can make the planning process much less stressful.

(Cont. on 24)

Keep your hands off your retirement savings.

Planning ahead can also help protect your retirement savings. When confronted with new expenses or a temporary need for cash, many people tend to look at their retirement savings as an easy source of funds. But raiding your retirement savings, whether for the sake of convenience, to raise capital for a business you're starting or to satisfy a short-term cash crunch, may substantially limit your options in the future. Although you may think you'll be able to make up the difference in your retirement account later—especially if your new career offers a higher salary—that may be easier said than done. In addition, you may owe income taxes and penalties for accessing your retirement funds early.

Consult others for advice.

When planning a career move, consider talking to people who will understand some of the hurdles you'll face when changing professions or shifting to a new industry or job. This may include a career counselor, a small business representative, a graduate school professor or an individual who currently holds a job in your desired field. A financial professional can also help you work through the economics of a career move and recommend steps to protect your finances.

Carefully consider going back to school.

Before you start applying to graduate school, ask yourself whether your investment will be worthwhile. Will you be more marketable after getting your degree? Will you need to take out substantial loans?

In your search for tuition money, look first to your current employer. The first $5,250 of employer-provided education assistance is exempt from federal income tax. But read the fine print—some employers may require you to choose a course of study related to your current position, maintain a minimum grade point average and/or continue to work at the company for a certain period of time after you graduate. Also, investigate whether you can continue to work at your company while you attend school part-time.

Students attending graduate school on at least a half-time basis are eligible for Uncle Sam's three major student loans: the Stafford Loan, Perkins Loan and graduate PLUS Loan. Also, at tax time, you might qualify for certain tax benefits. See IRS Publication 970 for more information.

HOW DO I BUDGET FOR BABY?

So you're going to have or adopt a baby. Congratulations! Parenthood may be one of the most rewarding experiences you'll ever have. As you prepare for life with your baby, here are a few things you should think about.

Reassess your budget.

You'll have to buy a lot of things before (or soon after) your baby arrives. Buying a new crib, stroller, car seat and other items you'll need could cost you well over $1,000. But if you do your homework, you can save money without sacrificing quality and safety. Discount stores or Internet retailers may offer some items at lower prices than you'll find elsewhere. If you don't mind used items, poke around for bargains at yard sales and flea markets. Finally, you'll probably get hand-me-downs and shower gifts from family and friends, so some items will be free.

Buying all of the gear you need is pretty much a one-shot deal, but you'll also have many ongoing expenses that will affect your monthly budget. These may include baby formula and food, diapers, clothing, child care (day care and/or baby-sitters), medical costs not covered by insurance (such as co-payments for doctor's visits), and increased housing costs (if you move to accommodate your larger family, for example). Redo your budget to figure out how much your total monthly expenses will increase after the birth of your baby. If you've never created a budget before, now's the time to start. Chances are you'll be spending at least an extra few hundred dollars a month. If it looks like the added expenses will strain your budget, you'll want to think about ways to cut back on your expenses.

Decide if one of you should stay home.

Will it make sense for both of you to work outside the home, or should one person stay home? That's a question only you and your spouse can answer. Maybe both of you want to work because you enjoy your jobs and neither of you wish to off-ramp. Or maybe you have no choice if the only way you can get by financially is for both of you to work. But don't be too hasty--the financial benefits of two incomes may not be as great as you think. Remember, you may have to pay for expensive day care if both of you work. You'll also pay more in taxes because your household income will be higher. Finally, whether one or both of you work, remember to add in commuting and other work-related expenses. Run the numbers to see how much of a financial benefit you really get if both of you work. Then, weigh that benefit against the peace of mind you would get from having one spouse stay home with the baby. A compromise might be for one of you to work only part-time or to try and get a schedule that allows you to work from home.

Review your insurance needs.

You'll incur high medical expenses during the pregnancy and delivery, so check the maternity coverage that your health insurance offers. And, of course, you'll have another person to insure after the birth. Good medical coverage for your baby is critical, because trips to the pediatrician, prescriptions and other health care costs can really add up over time. Fortunately, adding your baby to your employer-sponsored health plan or your own private plan is usually not a problem. Just ask your employer or insurer what you need to do (and when, usually within 30 days of birth or adoption) to make sure your baby will be covered from the moment of birth. An employer-sponsored plan (if available) is often the best way to insure your baby, because these plans typically provide good coverage at a lower cost. But expect additional premiums and out-of-pocket costs (such as co-payments) after adding your baby to any health plan.

It's also time to think about life insurance. Though it's unlikely that you'll die prematurely,

you should be prepared anyway. Life insurance can protect your family's financial security if something unexpected happens to you. Your spouse can use the death benefit to pay off debts (e.g., a mortgage, car loan, credit cards), support your child and meet other expenses. Some of the funds could also be set aside for your child's future education. If you don't have any life insurance, now may be a good time to get some. The cost of an individual policy typically depends on your age, your health, whether you smoke, and other factors. Even if you already have life insurance (through your employer, for example), you should consider buying more now that you have a baby to care for. An insurance agent or financial professional can help you figure out how much coverage you need.

Update your estate plan.

With a new baby to think about, you and your spouse should update your wills (or prepare wills, if you haven't already) with the help of an attorney. You'll need to address what will happen if an unexpected tragedy strikes. Who would be the best person to raise your child if you and your spouse died at the same time? If the person you choose accepts this responsibility, you'll need to designate him or her in your wills as your minor child's legal guardian. You should also name a contingent guardian, in case the primary guardian dies. Guardianship typically involves managing money and other assets that you leave your minor child. You may also want to ask your attorney about setting up a trust for your child and naming trustees separate from the suggested guardians.

While working with your attorney, you and your spouse should also complete a health-care proxy and durable power of attorney. These documents allow you to designate someone to act on your behalf for medical and financial decisions if you should become incapacitated.

Start saving for your little one's education.

The price of a college education is high and keeps getting higher. By the time your baby is college-bound, the annual cost of college could be almost triple what it is today, including tuition, room and board, books and so on. How will you afford this? Your child may receive financial aid (e.g., grants, scholarships and loans), but you need to plan in case aid is unavailable or insufficient. Set up a college fund to save for your child's education. You can arrange for funds to be deducted from your paycheck and invested in the account(s) that you choose. You can also suggest that family members who want to give gifts could contribute directly to this account. Start as soon as possible (it's never too early), and save as much as your budget permits. Many different savings vehicles are available for this purpose, some of which have tax advantages. Talk to a financial professional about which ones are best for you.

Don't forget about your taxes.

There's no way around it: Having children costs money. However, you may be entitled to some tax breaks that can help defray the cost of raising your child. First, you may be eligible for an extra exemption if your annual income is below a certain level for your filing status. This will reduce your income tax bill for every year that you're eligible to claim the exemption. You may also qualify for one or more child-related tax credits: the child tax credit (a $1,000 credit for each qualifying child), the child and dependent care credit (if you have qualifying child-care expenses), and the earned income credit (if your annual income is below a certain level). To claim any of these exemptions and credits on your federal tax return, you'll need a Social Security number for your child. You may be able to apply for this number (as well as a birth certificate) right at the hospital after your baby's birth. For more information about tax issues, talk to a tax professional, like a CPA.

SHOULD I WORK WITH A FINANCIAL ADVISOR?

The world of 50 years ago was a lot different than it is today. An individual often worked at the same job all his or her adult life, lived in the same house, and stayed married to the same spouse. In those days, too, one spouse could support a family, paying for college ordinarily didn't require taking out a second mortgage, and people could look forward to retiring on Social Security and possibly a company pension.

Today, your hopes and dreams are no different. Like most people, you probably want to buy a home, put your children through college, and retire with a comfortable income. But the world has become a more complex place, especially when it comes to your finances. You may already be working with financial professionals--an accountant or estate planner, for example--each of whom advises you in a specific area. But if you would like a comprehensive financial plan to help you secure your future, you may benefit from the expertise of a financial advisor.

Here are some services a financial advisor may provide.

Even if you feel competent enough to develop a plan of your own, a financial advisor can act as a sounding board for your ideas and help you focus on your goals, using his or her broad knowledge of areas such as estate planning and investments. Specifically, a financial advisor may help you:

- Set financial goals;
- Determine the state of your current financial affairs by reviewing your income, assets, and liabilities, evaluating your insurance coverage and your investment portfolio, assessing your tax obligations and examining your estate plan;
- Develop a plan to help meet your financial goals that addresses your current financial weaknesses and builds on your financial strengths;
- Make recommendations about specific products and services (many advisors are qualified to sell a range of financial products);
- Monitor your plan and periodically evaluate its progress;
- Adjust your plan to help meet your changing financial goals and to accommodate changing investment markets or tax laws.

(Cont. on 26)

There are some misconceptions about financial advisors.

Maybe you have reservations about consulting a financial advisor because you're uncertain about what to expect. Here are some common misconceptions about financial advisors, and the truth behind them:

- **Most people don't need financial advisors.** While it's true that you may have the knowledge and ability to manage your own finances, the financial world grows more intricate every day. A qualified financial advisor has the expertise to help you navigate a steady path towards your financial goals.
- **All financial advisors are the same.** Financial advisors are not covered by uniform state or federal regulations, so there can be a considerable disparity in their qualifications and business practices. Some may specialize in one area such as investment planning, while others may sell a specific range of products, such as insurance. A qualified financial advisor generally looks at your finances as an interrelated whole and can help you with many of your financial needs.
- **Financial advisors serve only the wealthy.** Some advisors do only take on clients with a minimum amount of assets to invest. Many, however, only require that their clients have at least some discretionary income.
- **Financial advisors are only interested in comprehensive plans.** Financial advisors generally prefer to offer advice within the context of a client's current situation and overall financial goals. But financial advisors frequently help clients with specific matters such as rolling over a retirement account or developing a realistic budget.
- **Financial planners aren't worth the expense.** Like other professionals, financial advisors receive compensation for their services, and it's important for you to understand how they're paid. But a good financial advisor may help you save and earn more than you'll pay in fees.

How are financial advisors compensated?

When it comes to compensation, advisors fall into four categories:

1. Salary based—You pay the company for which the advisor works, and the company pays its advisors a salary.
2. Fee based—You pay a fee based on an hourly rate (for specific advice or a financial plan) or based on a percentage of your assets and/or income.
3. Commission based—The advisor receives a commission from a third party for any products you may purchase
4. Commission and fee based—The advisor receives both commissions and fees.

You'll need to decide which type of compensation structure works best for you, based on your own personal circumstances.

When is it time to consult a financial advisor?

In many cases, a specific life event or a perceived need may prompt you to seek professional financial planning guidance. Such events or needs might include:

- Getting married or divorced;
- Having a baby or adopting a child;
- Paying for your child's college education;
- Buying or selling a family business;
- Changing jobs or careers;
- Planning for your retirement;
- Developing an estate plan;
- Coping with the death of your spouse; and/or
- Receiving an inheritance or a financial windfall.

In these situations, a financial professional can help you make objective, rather than emotional, decisions.

However, you don't have to wait until an event occurs before you consult a financial advisor. A financial advisor can help you develop an overall strategy for approaching your financial goals that not only anticipates what you'll need to do to reach them, but that also remains flexible enough to accommodate your evolving financial needs.

In Oklahoma, get a free referral and 30-minute consultation at www.FindYourCPA.com.

SHOULD I RENT OR BUY A HOME?

Buying a home is one of the biggest investments most people will make in their lives. Before starting your search, take the time to sit down and evaluate which is most feasible for you, renting or buying. Here's a look at some of the pros and cons:

What are the pros of buying a home?

- With a fixed-rate mortgage, you'll know your principal and interest payment for the life of the loan (note: local property tax rates may change your payment over time).
- You'll own the property, so you're building equity — and presumably, a return on your investment if you sell.
- Homeowners can usually deduct the interest that is paid on a mortgage for a first home or a second home, but there are some restrictions. Mortgage interest is any interest that you pay on a loan that you secured for a first or second home.

What are the cons of buying a home?

- The biggest initial expense of home ownership is the down payment. Depending on the terms of your loan, you may have to put down as much as 20 percent of the purchase price. That's a big chunk of change to part with at one time.
- You'll encounter ongoing monthly expenses such homeowner's insurance, utilities and general maintenance.
- Home ownership also comes with a responsibility to maintain your property, and you may need to adhere to requirements from a homeowners' association, which may also charge monthly fees.

What are the pros of renting a home?

- With renting, you'll likely have to put down a security deposit, but there isn't a big initial investment.
- Rent and utilities may increase annually, but that is about it as far as expenses go. No outlays are necessary for flooded basements or new windows. That's all up to your landlord to finance.

- When you're renting, you can pick up and move when you'd like, according to the terms of your lease. If you've unintentionally rented in what turns out to be a less than desirable area, you're not tied down by a 30-year loan or the inability to sell a house. When your lease expires, you can move on.

What are the cons of renting a home?

- You're getting a roof over your head, but you're not building any equity. Your landlord gets that benefit.
- There aren't any tax write offs available to renters, only for landlords.
- You'll likely be limited on many changes. If you want to paint or remodel, you'll need to clear it with your landlord first. If you are permitted to make cosmetic changes, you can't take them with you. The next renter will get to hang on to any improvements you make.
- You're basically at your landlord's mercy. If he defaults on his loan, you might lose your home.

After examining the pros and cons, there are a few other items to consider before making your final decision. How long do you plan to live in the area? Do you expect a job change or promotion in the near future? If so, it might not be the best time to buy. Selling a home can take time and involve more costs.

If you're new to a city, take the time to get to know the area. A neighborhood that seems suited to your lifestyle now may not be to your liking after a while.

When you sit down to crunch the numbers, does it make more financial sense to buy or rent? What do you want and what can you afford? You can use free online calculators to help create and analyze this financial scenario and many more.

The thought of buying a home is exciting, but it's a long-term financial commitment. Understand everything that's involved in homeownership before you take the plunge. If now isn't the right time, you can start or continue to save for a down payment until you're ready.

SHOULD I PAY DOWN DEBT OR SAVE AND INVEST?

There are certainly a variety of strategies for paying off debt, many of which can reduce how long it will take to pay off the debt and the total interest paid. But should you pay off the debt? Or should you save and invest? To find out, compare what rate of return you can earn on your investments versus the interest rate on the debt. There may be other factors that you should consider as well.

Probably the most common factor used to decide whether to pay off debt or to make investments is to consider whether you could earn a higher after-tax rate of return on the investments than the after-tax interest rate on the debt if you were to invest your money instead of using it to pay off the debt.

For example, say you have a credit card with a $10,000 balance on which you pay nondeductible interest of 18 percent. You would generally need to earn an after-tax rate of return greater than 18 percent to consider making an investment rather than paying off the debt. So, if you have $10,000 available to invest or pay off debt and the outlook for earning an after-tax rate of return greater than 18 percent isn't good, it may be better to pay off the debt than to make an investment.

On the other hand, say you have a mortgage with a $10,000 balance on which you pay deductible interest of 6 percent. If your income tax rate is 28 percent, your after-tax cost for the mortgage is only 4.32 percent (6 percent x (1 – 28 percent)). You would generally need to earn an after-tax rate of return greater than 4.32 percent to consider making an investment rather than paying off the debt. So, if you have $10,000 available to invest or pay off debt and the outlook for earning an after-tax rate of return greater than 4.32 percent is good, it may be better to invest the $10,000 rather than using it to pay off the debt.

Of course, it isn't an all-or-nothing choice. It may be useful to apply a strategy of paying off debts with high interest rates first, and then investing when you have a good opportunity to make investments that may earn a higher after-tax rate of return than the after-tax interest rate on the debts remaining.

Say, for example, you have a credit card with a $10,000 balance on which you pay 18 percent nondeductible interest. You also have a mortgage with a $10,000 balance on which you pay deductible interest of 6 percent, and your tax rate is 28 percent. So, if you have $20,000 available to invest or pay off debt, it may make sense to pay off the credit card with $10,000 and invest the remaining $10,000.

When investing, keep in mind that, in general, the higher the rate of return, the greater the risk, which can include the loss of principal. If you make investments rather than pay off debt and your investments incur losses, you may still have debts to pay, but will you have the money needed to pay them?

When deciding whether to pay down debt or to save and invest, you might also consider the following:

- What are the terms of your debt? Are there any penalties for prepayment?
- Do you actually have money that you could invest? Most debts have minimum payments that must be paid each month. Failure to make the minimum payment can result in penalties, increased interest rates, and default. Are your funds needed to make those payments?
- How much debt do you have? Is it a problem? How do you feel about debt? Is it something you can easily live with or does it make you uncomfortable?
- If you say you will save the money, will you really invest it or will you spend it? If you pay off the debt, you will have assured instant savings by eliminating the need to come up with the money needed to pay the interest on the debt.
- Would you be able to borrow an additional amount, if needed, and at what interest rate, if you paid off current debt? Do you have an emergency fund, or other source of funds, that could be used if you lose your job or have a medical emergency, or would you have to borrow?
- If your employer matches your contributions in a 401(k) plan, you should generally invest in the 401(k) to get the matching contribution. For example, if your employer matches 50 percent of your contributions up to 6 percent in a 401(k) plan, getting the 50 percent match is like getting an instant 50 percent return on your contribution. In addition, there are tax advantages to investing in a 401(k) plan.

HOW DO I ESTABLISH A FINANCIAL SAFETY NET?

In times of crisis, you don't want to be shaking pennies out of a piggy bank. Having a financial safety net in place can ensure that you're protected when a financial emergency arises. One way to accomplish this is by setting up a cash reserve, a pool of readily available funds that can help you meet emergency or highly urgent short-term needs.

How much is enough?

Most financial professionals suggest that you have three to six months' worth of living expenses in your cash reserve. The actual amount, however, should be based on your particular circumstances. Do you have a mortgage? Do you have short-term and long-term disability protection? Are you paying for your child's orthodontics? Are you making car payments? Other factors you need to consider include your job security, health and income. The bottom line is without an emergency fund, a period of crisis (e.g., unemployment, disability) could be financially devastating.

How do I start building a cash reserve?

If you haven't established a cash reserve, or if the one you have is inadequate, you can take several steps to eliminate the shortfall:

- Save aggressively: If available, use payroll deduction at work; budget your savings as part of regular household expenses;
- Reduce your discretionary spending (e.g., eating out, movies, lottery tickets);
- Use current or liquid assets (those that are cash or are convertible to cash within a year, such as a short-term certificate of deposit);
- Use earnings from other investments (e.g., stocks, bonds, or mutual funds); and/or
- Check out other resources (e.g., do you have a cash value insurance policy that you can borrow from?).

A final note: Your credit line can be a secondary source of funds in a time of crisis. Borrowed money, however, has to be paid back (often at high interest rates). As a result, you shouldn't consider lenders as a primary source for your cash reserve.

Where do I keep my cash reserve?

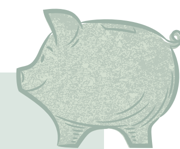
You'll want to make sure that your cash reserve is readily available when you need it. However, an FDIC-insured, low-interest savings account isn't your only option. There are several excellent alternatives, each with unique advantages. For example, money market accounts and short-term CDs typically offer higher interest rates than savings accounts, with little (if any) increased risk.

Don't confuse a money market mutual fund with a money market deposit account. An investment in a money market mutual fund is not insured or guaranteed by the FDIC. Although the mutual fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money by investing in the fund. ***Note:*** *When considering a money market mutual fund, be sure to obtain and read the fund's prospectus, which is available from the fund or your financial advisor, and outlines the fund's investment objectives, risks, fees and expenses. Carefully consider those factors before investing*.

It's important to note that certain fixed-term investment vehicles (i.e., those that pledge to return your principal plus interest on a given date), such as CDs, impose a significant penalty for early withdrawals. So, if you're going to use fixed-term investments as part of your cash reserve, you'll want to be sure to ladder (stagger) their maturity dates over a short period of time (e.g., two to five months). This will ensure the availability of funds, without penalty, to meet sudden financial needs.

How often do I review my cash reserve?

Your personal and financial circumstances change often—a new child comes along, an aging parent becomes more dependent or a larger home brings increased expenses. Because your cash reserve is the first line of protection against financial devastation, you should review it annually to make sure that it fits your current needs.



Most financial professionals suggest that you have three to six months' worth of living expenses in your cash reserve.

6 CONSIDERATIONS FOR MERGING MONEY WHEN YOU MARRY

Getting married is exciting, but it brings many challenges. One such challenge that you and your spouse will have to face is how to combine your finances. Planning carefully and communicating clearly are important, because the financial decisions that you make now can have a lasting impact on your future.

1. **Discuss your financial goals.** The first step in mapping out your financial future together is to discuss your financial goals. Start by making a list of your short-term goals (e.g., paying off wedding debt, new car, vacation) and long-term goals (e.g., having children, your children's college education, retirement). Then, determine which goals are most important to you. Once you've identified the goals that are a priority, you can focus your energy on achieving them.

2. **Prepare a budget.** Next, you should prepare a budget that lists all of your income and expenses over a certain time period (e.g., monthly, annually). You can designate one spouse to be in charge of managing the budget or you can take turns keeping records and paying the bills. If both you and your spouse are going to be involved, make sure that you develop a record-keeping system that both of you understand. And remember to keep your records in a joint filing system so that both of you can easily locate important documents. Begin by listing your sources of income (e.g., salaries and wages, interest, dividends). Then, list your expenses (it may be helpful to review several months of entries in your checkbook and credit card bills). Add them up and compare the two totals. Hopefully, you get a positive number, meaning that you spend less than you earn. If not, review your expenses and see where you can cut down on your spending.

3. **Decide on bank accounts–separate or joint?** At some point, you and your spouse will have to decide whether to combine your bank accounts or keep them separate. Maintaining a joint account does have advantages, such as easier record keeping and lower maintenance fees. However, it's sometimes more difficult to keep track of how much money is in a joint account when two individuals have access to it. Of course, you could avoid this problem by making sure that you tell each other every time you write a check or withdraw funds from the account. Or, you could always decide to maintain separate accounts.

4. **Should you have joint credit cards?** If you're thinking about adding your name to your spouse's credit card accounts, think again. When you and your spouse have joint credit, both of you will become responsible for 100 percent of the credit card debt. In addition, if one of you has poor credit, it will negatively impact the credit rating of the other. If you or your spouse does not qualify for a card because of poor credit and you're willing to give your spouse account privileges anyway, you can make your spouse an authorized user of your credit card. An authorized user is not a joint cardholder and is therefore not liable for any amounts charged to the account. Also, the account activity won't show up on the authorized user's credit record. But remember, you remain responsible for the account.

5. **Discuss insurance.** If you and your spouse have separate health insurance coverage, you'll want to do a cost/benefit analysis of each plan to see if you should continue to keep your health coverage separate. For example, if your spouse's health plan has a higher deductible and/or co-payments or fewer benefits than those offered by your plan, he or she may want to join your health plan instead. You'll also want to compare the rate for one family plan against the cost of two single plans. It's a good idea to examine your auto insurance coverage, too. If you and your spouse own separate cars, you may have different auto insurance carriers. Consider pooling your auto insurance policies with one company; many insurance companies will give you a discount if you insure more than one car with them. If one of you has a poor driving record, however, make sure that changing companies won't mean paying a higher premium.

6. **Learn your employer-sponsored retirement plans.** If both you and your spouse participate in an employer-sponsored retirement plan, you should be aware of each plan's characteristics. Review each plan together carefully and determine which plan provides the best benefits. If you can afford it, you should each participate to the maximum in your own plan. If your current cash flow is limited, you can make one plan the focus of your retirement strategy. Here are some helpful tips:

    - If both plans match contributions, determine which plan offers the best match and take full advantage of it.
    - Compare the vesting schedules for the employer's matching contributions.
    - Compare the investment options offered by each plan—the more options you have, the more likely you are to find an investment mix that suits your needs.
    - Find out whether the plans offer loans. If you plan to use any of your contributions for certain expenses (e.g., your children's college education, a down payment on a house), you may want to participate in the plan that has a loan provision.

Chapter Four:
CREDIT AND DEBT

When you become an adult, you have to take on some serious responsibilities. Start out right by establishing good financial footing. Consider the following:

- The total outstanding U.S. revolving debt in 2013 was $847 billion, equal to the gross domestic product (GDP) of Belgium and Denmark combined (U.S. Federal Reserve, as reported by CreditCards.com, 2015).
- Of Americans who carried a balance on their credit cards, 53 percent were only making the minimum payments (Federal Reserve, as reported by TheSimpleDollar.com, 2013).
- The average American household has $129,579 in debt—$15,355 on credit cards (Nerdwallet.com, 2015).
- More than three-fourths (76 percent) of Americans are living paycheck-to-paycheck (BestDebtCompanys.com, 2016).
- More than half of Americans—56 percent—have no idea what their credit score is (BestDebtCompanys.com, 2016).
- The national average credit card interest rate reached 21 percent in 2014 (BestDebtCompanys.com, 2016).

In this chapter, you will get tips on choosing the right credit cards, how to get out of debt and stay out of debt, how to read your credit report, pros and cons of filing for bankruptcy and more.

Get more credit and debt tips from www.360FinancialLiteracy.org or www.KnowWhatCounts.org, Also, check out the resources available at www.QuailCreek.Bank.

This chapter is sponsored by Quail Creek Bank.

Quail Creek Bank, n.a., has been recognized as one of the Top Performing Banks in the nation by the Independent Community Bankers Association. We have also been given the Bauer Financial 5 Star Rating and #11 in the Top 50 Proven Performers by the Bank Directors Magazine. We attribute much of our success to being on the leading edge of technology that we have implemented in recent years. We have state-of-the-art mobile banking, Internet banking and all systems necessary to enhance our customers' banking experience, whether in person or on the go! The dedication of our local ownership and management team is a true testament to our continued success. We invite you to visit our bank online or in person to experience the difference! We know you will enjoy our Quail Creek Bank family and our loyalty and support to our employees and customers! Learn more at www.QuailCreek.Bank.

HOW CAN I GET CREDIT IF I HAVE NO CREDIT HISTORY?

It's the old catch-22. You cannot establish a credit history without having credit, and you cannot get credit without a credit history. But if you work at it, this problem can be overcome. While you create a history, be sure your efforts will be reported to the credit bureaus.

Use the credit history of a family member or friend to leverage yourself into credit in your own name. If you are added as a joint party or authorized user to another person's credit card, the lender may report the account's payment history on your credit report.

If you have a checking account, ask your bank for overdraft protection (or cash reserve) privileges. With this feature added to your account, you can create credit by writing a check for an amount greater than the balance in your account (but not greater than the limit of your cash reserve line!). Alternatively, ask the bank for a small personal loan. As you repay these debts, you establish a credit history. Make sure the bank reports that history to the credit bureaus.

Secured credit cards are also a good way to get started. Your credit line is secured by your deposit in the bank, minimizing the creditor's risk. For example, if you deposit $500 in the bank, you get a credit card with a maximum limit of $500. As you use the card and make payments, you establish a credit history. These cards have high interest rates, but your goal is only to charge what you can afford to repay. As you repay the debt, you establish a repayment pattern seen by other creditors.

You may qualify for a department store charge card or gas card. Because these cards have lower credit limits and may be used only with the companies that issue them, the lending guidelines may be more liberal than those for major credit cards.

If you still have difficulty obtaining credit in your own name, consider a collateralized or cosigned loan. With a collateralized loan, the item you pledge as collateral (such as a car) minimizes the risk to the credit grantor. With a cosigned loan, your cosigner is equally liable for the balance. Spreading the responsibility for repayment in this fashion minimizes the lender's risk. Successful repayment of these types of loans can then be used to establish your own credit history.

HOW WILL MARRYING SOMEONE WITH BAD CREDIT AFFECT ME?

You are not responsible for your future spouse's bad credit or debt, unless you choose to take it on by getting a loan together to pay off the debt. However, your future spouse's credit problems can prevent you from getting credit as a couple after you're married. Even if you've had spotless credit, you may be turned down for credit cards or loans that you apply for together if your spouse has had serious problems.

You're smart to face this issue now rather than wait until after you're married to discuss it. Attitudes toward spending money, along with credit and debt problems, often lead to arguments that can strain a marriage. Order copies of both of your credit reports from one or more major credit reporting bureaus. Then, sit down and honestly discuss your past and future finances. Find out why your future spouse got into trouble with credit.

Next, if there is still outstanding debt, consider going through credit counseling together. Credit counseling may help your future spouse clean up his or her credit record and get back on track financially. One nonprofit organization, Consumer Credit Counseling Services (CCCS), sponsors money management seminars that can help you plan your financial life together. CCCS can also help you negotiate with creditors and can set up a budget you both can follow to pay off outstanding debt. (In the Oklahoma City area, visit www.cccsok.org. In the Tulsa area, call (800) 308-2227.

Finally, seriously consider keeping your credit separate, at least until your spouse's credit record improves. You don't have to combine your credit when you marry. For instance, apply for credit by yourself instead of applying for joint credit after you're married. You can have separate "associate" cards issued for your spouse to use. Even if your spouse has bad credit, your credit rating will remain unaffected. However, keeping separate credit can be complicated. For one thing, your spouse may resent that you control all of the credit in the household. It's also possible that you'll have a harder time qualifying for loans (e.g., a mortgage) alone than if your spouse's income could also be counted.

3 TIPS TO CHOOSING A CREDIT CARD

Like dandelions in a spring lawn, credit card offers pop up everywhere--stuffing your mailbox, flashing on the Internet, even falling from the magazines in your doctor's waiting room. And they all sound so attractive. "0% APR until next year!" "No fee if you transfer a balance now!" "Low fixed rate!" You're thinking of applying for a card, but how do you decide which offer is best for you?

1. **Learn the lingo.** In order to evaluate credit card offers, you'll need to learn the language they use. Here are some of the more important terms.

    a. Annual percentage rate (APR): the cost of credit as indicated by a yearly (fixed or variable) interest rate. This rate and the periodic rate (the APR expressed as a daily or monthly factor) must be disclosed to you before you become obligated on the card.

    b. Balance computation method: the formula used to determine the outstanding balance on which you're charged interest for the billing period.

    c. Finance charge: the cost of credit for the billing cycle, expressed as a dollar amount and determined by multiplying the outstanding balance by the periodic rate.

    d. Fees: charges (other than the finance charge) that may be levied against your account. Common examples include an annual fee, cash advance fees, balance transfer fees, late payment fees, and over-the-limit fees.

    e. Grace period: the length of time prior to your payment due date during which you may pay off your account without incurring any finance charge.

2. **Once you can talk the talk, ask questions.** Any credit card will cost you something, but depending on the terms and conditions, some are more costly than others. When evaluating a credit card offer, here are some points to consider:

    a. What's the interest rate? Is it fixed or variable? If variable, how is it calculated?
    b. Will you be charged different interest rates for purchases, balance transfers, and cash advances?
    c. What method determines the outstanding balance used to calculate the finance charge?
    d. Is there an annual fee, and what other fees may be charged?
    e. What's the length of the grace period (if any)?

    What you should look for depends in part on how you'll use the card. If you intend to pay off the balance each month and won't incur any finance charges, obtaining a low interest rate is less important than finding a card with no annual fee, minimal transaction fees, and a long grace period. If you'll carry a balance from month to month, you'll want a low interest rate and a balance calculation method that minimizes your finance charges.

3. **Understand balance transfers.** Perhaps you're not currently using your credit card, but you want to minimize the finance charge on your existing balance. One way to do so is to transfer your balance periodically to a new card with a low introductory "teaser" rate of interest. If you choose to "surf" in this fashion, be cautious. Watch out for:

    a. A low interest rate on new purchases, but a higher interest rate on balance transfers;
    b. A low introductory interest rate that applies only for a very short period of time;
    c. Balance transfer fees, particularly uncapped amounts calculated as a percentage of the balance transferred; and
    d. Termination fees and retroactive interest charges levied if you decide to surf the next wave and close the account or transfer the balance to another card before a specified time period has elapsed.

    When you transfer a balance from an existing card to a new one, it's a good idea to close the account you're leaving. By doing so, you won't be tempted to use the card again (at a higher rate of interest once the introductory offer period has expired), and you'll minimize the potential for fraudulent use or identity theft. What's more, if you don't close such accounts and later try to transfer your balance again, a new card issuer might turn down your application, afraid you'll incur too much debt by running up new balances on dormant, but open, credit card accounts.

Voice your concern if you're turned down and speak up for your rights. If you're turned down for a credit card, the issuer must inform you specifically why you were turned down or tell you how to get this information. When the rejection is based even in part on information contained in your credit report, you're entitled to a free copy of the report from the credit bureau that issued it. Get the report and review it; if you discover incorrect notations on it, dispute them. Then contact the card issuer to plead your case, informing the issuer of any corrections made to your credit report. With persistence, you may be able to convince the issuer to approve your credit application.

Your consumer rights related to credit cards are protected by various federal laws.

- The Fair Credit Reporting Act (FCRA) protects your right to know what's in your credit file and sets up procedures to ensure that credit reporting agencies or credit bureaus furnish correct information about you.
- The Fair and Accurate Credit Transactions Act of 2003 (FACTA) amends and strengthens the FCRA, provides protections against identity theft, improves resolution of consumer disputes, improves the accuracy of consumer records and makes improvements in the use of and consumer access to creditor information.
- The Equal Credit Opportunity Act (ECOA) ensures that when you apply for credit, you won't be discriminated against because of your gender, race, marital status or age.

- The Fair Credit Billing Act (FCBA) offers protection against billing errors (including limiting your liability for unauthorized purchases) and may help you reverse the purchase of inferior goods or services charged to your credit card.
- The Fair Debt Collection Practices Act (FDCPA) spells out what practices collection agents may and may not use to collect a debt.

If you feel your rights have been violated and you can't resolve the issue with the creditor, you may file a complaint with one of the federal agencies responsible for enforcing consumer credit laws, including the Federal Trade Commission (FTC), or you can contact the Oklahoma Attorney General (www.ok.gov/oag/).

UNDERSTAND ADVANTAGES AND DISADVANTAGES OF CREDIT CARDS

ADVANTAGES

Convenience--Credit cards can save you time and trouble--no searching for an ATM or keeping cash on-hand.

Record keeping--Credit card statements can help you track your expenses. Some cards even provide year-end summaries that really help out at tax time.
Low-cost loans--You can use revolving credit to save today (e.g., at a one-day sale), when available cash is a week away.

Instant cash--Cash advances are quick and convenient, putting cash in your hand when you need it.

Perks--From frequent flier miles to discounts on automobiles, there is a program out there for everyone. Many credit card companies offer incentive programs based on the amount of purchases you make.

Build positive credit--Controlled use of a credit card can help you establish credit for the first time or rebuild credit if you've had problems in the past--as long as you stay within your means and pay your bills on time.

Purchase protection--Most credit card companies will handle disputes for you. If a merchant won't take back a defective product, check with your credit card company.

Balance surfing--Many credit card companies offer low introductory interest rates. These offers allow you to move balances to lower-rate cards.

DISADVANTAGES

Overuse--Revolving credit makes it easy to spend beyond your means.

Paperwork--You'll need to save your receipts and check them against your statement each month. This is a good way to ensure that you haven't been overcharged.

High-cost fees--Your purchase will suddenly become much more expensive if you carry a balance or miss a payment.

Unexpected fees--Typically, you'll pay between 2 and 4 percent just to get the cash advance; also cash advances usually carry high interest rates.

No free lunch--The high interest rates and annual fees associated with credit cards often outweigh the benefits received. Savings offered by credit cards can often be obtained elsewhere.

Deepening your debt--Consumers are using credit more than ever before. If you charge freely, you may quickly find yourself in over your head--as your balance increases, so do your monthly minimum payments.

Homework--It's up to you to make sure you receive proper credit for incorrect or fraudulent charges.

Teaser rates--Low introductory rates may be an attractive option, but they last only for a limited time. When the teaser rate expires, the interest rate charged on your balance can jump dramatically.

UNDERSTAND MERCHANT REWARDS PROGRAMS

Offered by merchants of all types, rewards programs are marketing tools that encourage brand-loyalty purchasing through price discounts, bonus points and/or coupons toward future purchases, donations to your favorite charity and even cash rebates. If you're part of the program, you access it by using a membership card that looks like (and often is) a credit card. The card compiles information about your purchases and the rewards you've earned; it also stores information about you that's useful to the merchant when tailoring advertising that's pitched to your spending preferences.

While many rewards programs offer credit with (and rewards from) a particular merchant, other programs, offered by credit card issuers, may allow you to earn rewards, such as gift certificates, that may be used with a wide variety of merchants. And in most cases, these cards offer the option of earning cash back each time you use the card. A cash back reward can be used anytime, anywhere.

The rules, restrictions and limitations on what you may earn through a rewards program can be complex. Most programs offer a larger percentage reward for purchasing select products or categories of products than they do for all products. You may have to spend a minimum amount per month, quarter or year to get any rewards, and there are often limits both on the amount of rewards you can earn and on the time allowed for cashing them in. What's more, the originator of the rewards program may change the rules or cancel the program altogether with little notice or recourse.

The prohibition against certain dubious but profitable practices by the Credit Card Accountability, Responsibility and Disclosure Act of 2009, coupled with the overall tightening of credit, have made the reward card market less lucrative, and credit card issuers with rewards programs may begin to take steps to preserve their profit ratios. Such steps could include higher interest rates and annual fees, restructurings of reward policies that water down the rewards, inactivity fees and/or reinstatement fees to restore points lost because of late payments.

TRANSLATING YOUR CREDIT REPORT

Your credit report contains information about your past and present credit transactions. It's used primarily by potential lenders to evaluate your creditworthiness. So if you're about to apply for credit, especially for something significant like a mortgage, you'll want to get and review a copy of your credit report.

First, get a copy of your credit report.

Every consumer is entitled to a free credit report every 12 months from each of the three credit bureaus. To get your free annual report, you can contact each of the three credit bureaus individually, or you can contact one centralized source that has been created for this purpose. Besides the annual report, you are also entitled to a free report under the following circumstances:

- A company has taken adverse action against you, such as denying you credit, insurance, or employment (you must request a copy within 60 days of the adverse action);
- You're unemployed and plan to look for a job within the next 60 days;
- You're on welfare; and/or
- Your report is inaccurate because of fraud, including identity theft.

You can order your free annual report online at www.annualcreditreport.com, by calling 877-322-8228, or by completing an Annual Report Request Form and mailing it to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

Alternatively, you can contact each of the three credit bureaus:

- Experian National Consumer Assistance Center, www.experian.com, P.O. Box 2104, Allen, TX 75013-2104, (888) 397-3742
- Trans Union Annual Credit Report Request Service, www.transunion.com, P.O. Box 105281, Atlanta, GA 30348-5281, (800) 888-4213
- Equifax, Inc., www.equifax.com, P.O. Box 740241, Atlanta, GA 30374, (800) 685-1111

If you make your request online, you should get access to your report immediately. If you request your report by phone or mail, you should receive it within 15 days.

What's in my credit report?

Your credit report usually starts off with your personal information: your name, address, Social Security number, telephone number, employer, past address and past employer, and (if applicable) your spouse's name. Check this information for accuracy; if any of it is wrong, correct it with the credit bureau that issued the report.

The bulk of the information in your credit report is account information. For each creditor, you'll find the lender's name, account number, and type of account; the opening date, high balance, present balance, loan terms, and your payment history; and the current status of the account. You'll also see status indicators that provide information about your payment performance over the past 12 to 24 months. They'll show whether the account is or has been past due, and if past due, they'll show how far (e.g., 30 days, 60 days). They'll also indicate charge-offs or repossessions. Because credit bureaus collect information from courthouse and registry records, you may find notations of bankruptcies, tax liens, judgments, or even criminal proceedings in your file.

At the end of your credit report, you'll find notations on who has requested your information in the past 24 months. When you apply for credit, the lender requests your credit report--that will show up as an inquiry. Other inquiries indicate that your name has been

included in a creditor's prescreen program. If so, you'll probably get a credit card offer in the mail. You may be surprised at how many accounts show up on your report. If you find inactive accounts (e.g., a retailer you no longer do business with), you should contact the credit card company, close the account, and ask for a letter confirming that the account was closed at the customer's request.

How do lenders base the future on the past?

What all this information means in terms of your creditworthiness depends on the lender's criteria. Generally speaking, a lender feels safer assuming that you can be trusted to make timely monthly payments against your debts in the future if you have always done so in the past. A history of late payments or bad debts will hurt you. Based on your track record, a new lender is likely to turn you down for credit or extend it to you at a higher interest rate if your credit report indicates that you are a poor risk.

Too many inquiries on your credit report in a short time can also make lenders suspicious. Loan officers may assume that you're being turned down repeatedly for credit or that you're up to something—going on a shopping spree, financing a bad habit, or borrowing to pay off other debts. Either way, the lenders may not want to take a chance on you.

Your credit report may also indicate that you have good credit, but not enough of it. For instance, if you're applying for a car loan, the lender may be reviewing your credit report to determine if you're capable of handling monthly payments over a period of years. The lender sees that you've always paid your charge cards on time, but your total balances due and monthly payments have been small. Because the lender can't predict from this information whether you'll be able to handle a regular car payment, your loan is approved only on the condition that you supply an acceptable cosigner.

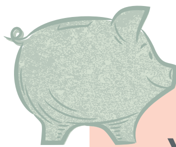
How do I correct errors?

Under federal and some state laws, you have a right to dispute incorrect or misleading information on your credit report. Typically, you'll receive with your report either a form to complete or a telephone number to call about the information that you wish to dispute. Once the credit bureau receives your request, it generally has 30 days to complete a reinvestigation by checking any item you dispute with the party that submitted it. One of four things should then happen:

- The credit bureau reinvestigates, the party submitting the information agrees it's incorrect, and the information is corrected.
- The credit bureau reinvestigates, the party submitting the information maintains it's correct, and your credit report goes unchanged.
- The credit bureau doesn't reinvestigate and so the disputed information must be removed from your report.
- The credit bureau reinvestigates, but the party submitting the information doesn't respond, and so the disputed information must be removed from your report.

You should be provided with a report on the reinvestigation within five days of its conclusion. If the reinvestigation resulted in a change to your credit report, you should also get an updated copy.

You have the right to add to your credit report a statement of 100 words or less that explains your side of the story with respect to any disputed but unchanged information. A summary of your statement will go out with every copy of your credit report in the future, and you can have the statement sent to anyone who has gotten your credit report in the past six months. Unfortunately, though, this may not help you much—creditors often ignore or dismiss these statements.



You can order your free annual report online at www.annualcreditreport.com, by calling 877-322-8228, or by completing an Annual Report Request Form and mailing it to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

5 STEPS TO GET OUT (AND STAY OUT) OF DEBT

Are you carrying a large amount of debt? According to NerdWallet, credit card debt averages almost $15,000 in American households. The Oklahoma Society of Certified Public Accountants offers five steps to pay off outstanding balances and beat high interest costs.

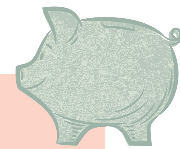
1. **Spend less.** It sounds easy, but whipping out the credit card and going completely off budget can be a temptation. If tempted, leave credit cards at home and resolve to rely on cash throughout the day. Also, delete credit card information from frequently visited online merchants. That way impulse purchases are more difficult and unnecessary purchases must be reconsidered. When splurging seems inevitable, ask yourself, "Is this purchase worth the interest costs if I charge it and don't pay my balance off immediately?" The purchase might become easier to bypass if seen as a budget buster.

2. **Build a better budget.** It's tough to determine how much spending is too much unless you know what's affordable. When creating a budget, add up monthly income and then subtract recurring expenses—such as rent or mortgage, food, commuting costs and any regular debt payments. Remember that spending over the remaining amount will just increase your outstanding debt balances, so be thorough.

3. **Pay off problem accounts.** With a manageable mortgage with low interest rates, make timely payments, but don't make erasing the balance the highest priority since interest payments can be deducted if itemized. High-interest charge cards are another story. The best option is to economize enough to make higher payments in order to get rid of those balances entirely. If making higher payments isn't an option, find a credit card that offers a lower interest rate. Aim to pay more than the minimum balance every month, without adding on any additional debt. Although paying off a low balance first might seem tempting, if the interest rate on that account is reasonable, high interest accounts should be a priority.

4. **Dedicate windfalls to debt.** It's natural to want to spend tax refund money or a work bonus on fun. Set aside a small percentage to put toward a vacation or other indulgence and use the rest of the money to lower outstanding balances. In fact, whenever extra funds are available, earmark a portion for debt payments. Once this becomes a habit, it will also become apparent that smaller or eliminated balances are easier to maintain.

5. **Reap the rewards.** After paying off a big balance, give yourself a pat on the back and a nice reward. Think small so all of the hard work doesn't go to waste. For example, plan a weekend away at a local amusement park instead of a week in the Caribbean. With personal incentives, a smart spending plan is easier to stick with.



When creating a budget, add up monthly income and then subtract recurring expenses—such as rent or mortgage, food, commuting costs and any regular debt payments. Remember that spending over the remaining amount will just increase your outstanding debt balances.

SHOULD I FILE FOR BANKRUPTCY?

Filing bankruptcy can be complex and difficult, and it can have lasting effects. You should consider what's involved carefully before deciding if it's the right answer for you. Don't expect bankruptcy to offer you an easy solution to your overspending habits or financial mismanagement. It's intended to relieve you of burdensome debts incurred due to unfortunate circumstances such as medical problems or unemployment.

How do you know if you should go bankrupt? If your situation is temporary and will change for the better in the near future, you may just need some breathing room. Contact your creditors; they may offer to lower your payments or interest rate under a hardship program. Or perhaps a credit counseling service can help you restructure your debt and get on your feet again. In fact, for bankruptcy filings, credit counseling is a prerequisite.

Then again, you may not see your income going up in the foreseeable future or maybe you can't cut your living expenses any further. Perhaps your pleas to restructure your debt have fallen on deaf ears or the relief you've been offered isn't enough to help. Maybe now it's time to consider bankruptcy.

Understand personal bankruptcy in general.

There are two types of personal bankruptcy, Chapter 7 and Chapter 13. Under Chapter 7, assets are sold to pay creditors and the debt that's left is discharged. If you file under Chapter 13, on the other hand, you probably won't have to sell assets, but all of your disposable income will go to pay creditors for a specified period of time, most likely five years.

Each chapter has its own rules regarding what assets you can keep (so-called exempt property) and what debts you can be discharge (some debts, such as student loans, are non-dischargeable), among other things.

How does Chapter 7 work?

Generally, Chapter 7 is a liquidation proceeding with the court determining what property, if any, you have to sell to pay your debts. By law, you get to keep certain exempt property. There are federal bankruptcy exemptions and each state has its own exemptions. Depending on the state in which you live, you may be able to choose between the federal or state exemptions, or you may have to use your state's exemptions. Exemptions generally include specific amounts for your home, car, jewelry, tools of trade, household goods and furnishings, and retirement savings (In Oklahoma, see www.oklahoma-bankruptcy.com/exemptions.html). Property that is not exempt may be sold to repay your creditors (at least in part). Unsecured debts that remain unpaid are then discharged, with certain exceptions such as tax debts, student loans, domestic support payments and debts resulting from fraud or driving while intoxicated. If you go bankrupt against a secured debt, such as a mortgage or a car loan, the collateral securing the debt--the house or the car--will either revert to the lender or be sold with the proceeds going to the lender as at least a partial satisfaction of that secured debt.

How does Chapter 13 work?

Under Chapter 13, often referred to as wage earner's bankruptcy, you aren't required to sell assets to satisfy creditors. Instead, your debts are reorganized under a plan and you repay them, fully or partially, over a three-year or five-year period with your disposable income (money you have left over after meeting your normal monthly living expenses). If you complete the plan successfully, unsecured debts that remain unpaid are then discharged, with certain exceptions. Chapter 13 is often used to forestall and ultimately prevent foreclosure on real property, such as your home. To accomplish this, you would have to continue to make your regular monthly payments directly to the mortgage lender, plus you make separate catch up payments on overdue amounts according to a schedule spelled out in the Chapter 13 plan. If you complete the repayment schedule successfully, your mortgage would again be considered up to date.

How do I decide whether to file under Chapter 7 or Chapter 13?

An income eligibility test will be applied to all Chapter 7 petitions; if your income is above the median income level in your state, and you're capable of repaying a specified portion of your unsecured debt, you'll be required to file under Chapter 13.

What will life be like after a bankruptcy?

A bankruptcy notation will appear on your credit report for 10 years. It's a serious blemish that can affect you in many ways. Aside from the difficulty it will cause when you try to get new credit, insurance companies may correlate your ability to pay your debts with your ability to make premium payments. As a result, a bankruptcy notation on your credit report may make it difficult (and more expensive) to get certain types of insurance. What's more, an employer may take your credit history into account when deciding to hire or promote you.

Of course, you'll be able to get credit again, but you may have to pay higher interest rates or provide a cosigner or collateral to get started. Getting new credit will help you establish a new track record. But be careful; you won't be able to declare bankruptcy again for several years.

Chapter Five:
INVESTING

Investing can be daunting if you are unfamiliar with the process or the terms…or even if you follow the news lately and watched your savings plummet. The key is to understand the ebb and flow, plan accordingly and seek help when you need it.

- Less than half—48 percent— of Americans adults have money in stocks (Bankrate Money Pulse survey, as reported by CNN Money, 2015).
- Only 47 percent of women say they would be confident discussing money and investing with a financial professional on their own, yet 92 percent of women want to learn about financial planning (Fidelity Investments, 2015).
- More than half—53 percent—said they don't invest because they don't have the money. Twenty-one percent said it's because they don't know about stocks.
- Young adults aged 18-29 are the least likely group to own stocks. Just over 25 percent owned stock in 2013, down from 33 percent in 2008, due to mistrust of the market and the financial industry (Gallup, as reported by ChristianScienceMonitor.com, 2015).

In this chapter, you will learn the basics of investing, how compounding works, how to evaluate your portfolio, handling market volatility and more.

Get more investment advice at www.360financialliteracy.org/Topics/Investor-Education.

CREATING AN INVESTMENT PORTFOLIO

You've identified your goals and done some basic research. You understand the difference between a stock and a bond. But how do you actually go about creating an investment portfolio? What specific investments are right for you? What resources are out there to help you with investment decisions? Do you need a financial professional to help you get started?

It is an almost universally accepted concept that most portfolios should include a mix of investments, such as stocks, bonds, mutual funds and other investment vehicles. A portfolio should also be balanced. That is, the portfolio should contain investments with varying levels and types of risk to help minimize the overall impact if one of the portfolio holdings declines significantly.

Many investors make the mistake of putting all their eggs in one basket. For example, if you invest in one stock, and that stock goes through the roof, a fortune can be made. On the other hand, that stock can lose all its value, resulting in a total loss of your investment. Spreading your investment over multiple asset classes should help reduce your risk of losing your entire investment. However, remember that there is no guarantee that any investment strategy will be successful and that all investing involves risk, including the possible loss of principal.

Asset allocation: How many eggs go in which baskets?

Asset allocation is one of the first steps in creating a diversified investment portfolio. Asset allocation means deciding how your investment dollars should be allocated among broad investment classes, such as stocks, bonds and cash alternatives. Rather than focusing on individual investments (such as which company's stock to buy), asset allocation approaches diversification from a more general viewpoint. For example, what percentage of your portfolio should be in stocks? The underlying principle is that different classes of investments have shown different rates of return and levels of price volatility over time. Also, since different asset classes often respond differently to the same news, your stocks may go down while your bonds go up, or vice versa. Though neither diversification nor asset allocation can guarantee a profit or ensure against a potential loss, diversifying your investments over various asset classes can help you try to minimize volatility and maximize potential return.

So, how do you choose the mix that's right for you? Countless resources are available to assist you, including interactive tools and sample allocation models. Most of these take into account a number of variables in suggesting an asset allocation strategy. Some of those factors are objective (e.g., your age, your financial resources, your time frame for investing, and your investment objectives). Others are more subjective, such as your tolerance for risk or your outlook on the economy. A financial professional can help you tailor an allocation mix to your needs.

Understand diversification.

Diversification isn't limited to asset allocation, either. Even within an investment class, different investments may offer different levels of volatility and potential return. For example, with the stock portion of your portfolio, you might choose to balance higher-volatility stocks with those that have historically been more stable (though past performance is no guarantee of future results). Because most mutual funds invest in dozens to hundreds of securities, including stocks, bonds or other investment vehicles, purchasing shares in a mutual fund reduces your exposure to any one security. In addition to instant diversification, if the fund is actively managed, you get the benefit of a professional money manager making investment decisions on your behalf. However, before investing in a mutual fund, carefully consider its investment objectives, risks, charges and expenses, which are outlined in the prospectus that is available from the fund. Obtain and read a fund's prospectus carefully before investing.

Choose investments that match your tolerance for risk.

Your tolerance for risk is affected by several factors, including your objectives and goals, timeline(s) for using this money, life stage, personality, knowledge, other financial resources and investment experience. You'll want to choose a mix of investments that has the potential to provide the highest possible return at the level of risk you feel comfortable with on an ongoing basis. For that reason, an investment professional will normally ask you questions so that he or she can gauge your risk tolerance and then tailor a portfolio to your risk profile.

Consider using investment professionals and advisors.

A wealth of investment information is available if you want to do your own research before making investment decisions. However, many people aren't comfortable sifting through balance sheets, profit-and-loss statements and performance reports. Others just don't have the time, energy or desire to do the kind of thorough analysis that marks a smart investor. For these people, an investment advisor or professional can be invaluable. Investment advisors and professionals generally fall into three groups: stockbrokers, professional money managers and financial planners. In choosing a financial professional, consider his or her legal responsibilities in selecting securities for you, how the individual or firm is compensated for its services and whether an individual's qualifications and experience are well suited to your needs. Ask friends, family and coworkers if they can recommend professionals whom they have used and worked with well. Ask for references and check with local and federal regulatory agencies to find out whether there have been any customer complaints or disciplinary actions against an individual in the past. Consider how well an individual listens to your goals, objectives and concerns.

- **Stockbrokers:** Stockbrokers work for brokerage houses, generally on commission. Though any investment recommendations they make are required by the SEC to be suitable for you as an investor, a broker may or may not be able to put together an overall financial plan for you, depending on his or her training and accreditation. Verify that an individual broker has the requisite skills and knowledge to assist you in your investment decisions.

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- **Professional money managers:** Professional money managers were once available only for extremely high net-worth individuals. But that has changed a bit now that competition for investment dollars has grown so much, due in part to the proliferation of discount brokers on the Internet. Now, many professional money managers have considerably lowered their initial investment requirements in an effort to attract more clients. A professional money manager designs an investment portfolio tailored to the client's investment objectives. Fees are usually based on a sliding scale as a percentage of assets under management--the more in the account, the lower the percentage you are charged. Management fees and expenses can vary widely among managers, and all fees and charges should be fully disclosed.

- **Financial planners:** A financial planner, like a CPA, can help you set financial goals and develop and help implement an appropriate financial plan that manages all aspects of your financial picture, including investing, retirement planning, estate planning and protection planning. Ideally, a financial planner looks at your finances as an interrelated whole. Because anyone can call himself or herself a financial planner without being educated or licensed in the area, you should choose a financial planner carefully. Make sure you understand the kind of services the planner will provide you and what his or her qualifications are. Financial planners can be either fee based or commission based, so make sure you understand how a planner is compensated. As with any financial professional, it's your responsibility to ensure that the person you're considering is a good fit for you and your objectives.

UNDERSTAND INVESTING BASICS

Simply put, people invest to create wealth. For some, this means thousands of dollars; for others it could mean millions. Common investment goals include saving for a new, larger or second home; a child's education; and a secure retirement. The key to good investing is diversification or asset allocation. While this sounds complicated, it's not—it just means that you shouldn't put all of your eggs in one investment basket. Rather, you want to create a smart, well-balanced investment portfolio.

It's all in the mix.

Asset allocation refers to the percentage of your portfolio dollars invested in the three different investment classes —stocks, bonds and cash equivalents (such as money market funds and short-term certificates of deposit). Studies show that asset allocation is the single most important factor in long-term investment performance. The rationale for this strategy is simple—not all investment classes of assets move up and down at the same time and rate. In some years, stocks generate the best returns, while in others, the bond market is the place to be. Investing is not a single event, it's an ongoing process.

Your portfolio is driven by life circumstances.

No one investment mix is right all of the time—you must re-evaluate them as your income and other life circumstances change, such as having children or changing careers. For example, an allocation of 80 percent stocks and 20 percent bonds that worked well for you in your prime earning years may be inappropriate as you enter retirement. Your investment goals, time frame and tolerance for risk all figure into choosing an asset allocation that is right for you.

Your investment time horizon—the number of years before you will need the money to fulfill your financial goal— is another important factor. The further off your investment goal is, the more aggressively you can invest, since you have more time to weather the market's swings. As your investment horizon grows closer, your investment strategy should gradually become more conservative, shifting the focus from capital growth to capital preservation.

Finally, your tolerance for risk represents your ability and willingness to grin and bear declines in the value of your investments.

Know your options for short-term and long-term investing.

Short-Term Investments

- Certificate of Deposit (CD): A specialized deposit where interest is earned at regular intervals until the CD matures, at which point you get the money you originally deposited, plus the accumulated interest payments. Usually the same interest rates as a short- or intermediate-term bond.

- Money Market Funds: A specialized type of mutual fund that invests in extremely short-term bonds. Usually pays better interest rates than conventional savings accounts, but not as good as certificates of deposit.

- Savings Account: Savings accounts earn a small amount in interest (4 percent and under), making them little better than a piggy bank when it comes to long-term investing. However, you should try to keep enough in the account to cover six months' worth of expenses in case of a financial emergency.

Long-Term Investments

- Mutual Funds: A way for investors to pool their money to buy stocks, bonds or anything else the fund manager decides is worthwhile.

- Stock: A way for individuals to own parts of businesses. A share of stock represents a proportional share of ownership in a company. As the value of the company changes, the value of the share in that company rises or falls.

- Bonds: From an investor's point of view, bonds are similar to CDs, except they are issued by the government or by corporations instead of banks. They are known as "fixed income" securities

because the amount of income they generate each year is set at the time the bond is sold.

Retirement Specific Investments

- 401(k)/SIMPLE IRA: A voluntary retirement plan through your company where you set aside a percentage of your wages before taxes and invest them for your retirement. Some employers will match their employees' contributions up to a certain percentage. Contributions and interest accrued are not taxed until the funds are withdrawn. Annual contributions are limited.

- Individual Retirement Account (IRA): A personal retirement savings plan with a variety of tax benefits. Contributions and interest accrued in a traditional IRA are not taxed until the funds are withdrawn, and in some cases contributions are tax deductible on your federal income tax return. Contributions to a Roth IRA must be after-tax dollars and are not tax deductible. However, you will pay no taxes on the funds when you withdraw them. There are certain limitations on all IRAs.

- Social Security: Nearly everyone who receives a paycheck pays a portion of their wages into a trust fund by paying Social Security taxes. Employers contribute an equal amount. After working a certain number of years, you are eligible to apply for your Social Security benefits—which include retirement money, as well as disability, family and survivor's benefits. The amount of your retirement benefits depends on how much you earned, the number of years you worked and the age at which you choose to start receiving your benefits.

Review your investments and assets.

It's important to think about asset allocation not as an event, but as an ongoing process. You should check your asset allocations at least once a year and rebalance as necessary. As you review the holdings in your investment portfolio—including personal investments as well as 401(k)s, IRAs and other retirement vehicles—keep diversification in mind. You want to make sure your portfolio isn't dominated by one stock or sector. For example, even within your stock class you should diversify among different industries; large and small companies; and domestic and international companies. return at the level of risk you feel comfortable with on an ongoing basis. For that reason, an investment professional will normally ask you questions so that he or she can gauge your risk tolerance and then tailor a portfolio to your risk profile.

EVALUATE THE RISK IN YOUR PORTFOLIO

If you're like most people, you probably evaluate your portfolio in terms of the return it earns. However, as we were all reminded in 2008, returns aren't the only factor you should consider when determining whether your portfolio is allocated appropriately. Also important is the level of risk you take in pursuing those returns.

There are a number of ways to estimate the level of risk in a portfolio. The term "risk" is often used interchangeably with "volatility" (the tendency of a portfolio's value to rise or fall sharply, especially within a relatively short period of time). However, for most people, a portfolio is simply a means to an end—paying for retirement or a child's college tuition, for example. In that context, risk also means the risk of not meeting your financial needs.

How do I measure volatility?

One of the most common measures of volatility is standard deviation, which gauges the degree of an investment's up-and-down moves. It shows how much the investment's returns have deviated from time to time from its own average. The higher the standard deviation of an investment or portfolio, the bumpier the road to those returns has been.

Another way to assess a portfolio's volatility is to determine its beta. This statistic compares a portfolio's ups and downs to those of a benchmark index, such as the S&P 500, and indicates how sensitive the portfolio might be to overall market movements. An investment or portfolio with a beta of 1 would have exactly as much market risk as its benchmark. The higher the beta, the more volatile the portfolio is. A beta of 1.05 means the portfolio involves 5 percent more market risk than the benchmark to which it's compared. If the benchmark rises 10 percent, a portfolio with a beta of 1.05 should theoretically rise 10.5 percent; a fall of 10 percent in the benchmark should mean a corresponding 10.5 percent decline in the portfolio. A 0.95 beta means a portfolio has 5 percent less market risk than that index; in theory, the portfolio would rise and fall 5 percent less than the benchmark. (However, remember that investments also have unique risks that are not related to market behavior. Those risks can create volatility patterns that are different from the underlying benchmark.)

How do I measure my risk?

Another way to evaluate risk is to estimate the chances of your portfolio achieving a desired financial goal. In this case, "risk" means not volatility but the odds that your portfolio will succeed in meeting a specific financial liability. A technique known as Monte Carlo simulation uses computer modeling based on multiple scenarios for how various types of investments might perform based on their past returns. Though past performance is no guarantee of future results, such a projection can estimate how close your plan might come to meeting a future target amount.

Let's look at a hypothetical example. Let's say Bob wants to retire in 15 years. A Monte Carlo simulation might suggest that, given his current level of saving and his portfolio's asset allocation, Bob has a 90 percent chance of achieving his retirement target. If he chose to save more, he might increase his odds of success to 95 percent. Or Bob might decide that he's

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comfortable with having an 85 percent chance of success in reaching his target amount if that also means his portfolio might be less volatile. (However, be aware that though a projection might show a high probability that you'll reach your financial goals, it can't guarantee that outcome.)

Are you getting paid enough to take risk?

Another approach to thinking about portfolio risk involves the reward side of the risk-reward tradeoff. You can compare a portfolio's return to that of a relatively risk-free investment, such as the inflation-adjusted return on a short-term (three months or less) U.S. Treasury bill. Modern portfolio theory is based on the assumption that you should receive greater compensation for taking more risk (though there's no guarantee it will work out that way, of course). A stock should offer a potentially higher return than a Treasury bond. The difference between the two returns is the equity's risk premium. A small-cap stock that's relatively new should offer a higher risk premium than a well-established, dividend-paying stock. While understanding risk premium doesn't necessarily minimize risk, it can help you evaluate whether the return you're getting is worth the risk you're taking.

Whatever your approach to portfolio risk, understanding the nature and level of the risks you face can be critical in sticking to a long-term investing strategy.

HOW DO I HANDLE MARKET VOLATILITY?

Conventional wisdom says that what goes up, must come down. But even if you view market volatility as a normal occurrence, it can be tough to handle when it's your money at stake. Though there's no foolproof way to handle the ups and downs of the stock market, the following common sense tips can help.

Don't put your eggs all in one basket.

Diversifying your investment portfolio is one of the key ways you can handle market volatility. Because asset classes often perform differently under different market conditions, spreading your assets across a variety of different investments such as stocks, bonds, and cash alternatives (e.g., money market funds, CDs, and other short-term instruments), has the potential to help manage your overall risk. Ideally, a decline in one type of asset will be balanced out by a gain in another, though diversification can't guarantee a profit or eliminate the possibility of market loss.

One way to diversify your portfolio is through asset allocation. Asset allocation involves identifying the asset classes that are appropriate for you and allocating a certain percentage of your investment dollars to each class (e.g., 70 percent to stocks, 20 percent to bonds, 10 percent to cash alternatives). An easy way to decide on an appropriate mix of investments is to use a worksheet or an interactive tool that suggests a model or sample allocation based on your investment objectives, risk tolerance level, and investment time horizon.

Focus on the forest, not on the trees.

As the market goes up and down, it's easy to become too focused on day-to-day returns. Instead, keep your eyes on your long-term investing goals and your overall portfolio. Although only you can decide how much investment risk you can handle, if you still have years to invest, don't overestimate the effect of short-term price fluctuations on your portfolio.

Look before you leap.

When the market goes down and investment losses pile up, you may be tempted to pull out of the stock market altogether and look for less volatile investments. The small returns that typically accompany low-risk investments may seem downright attractive when more risky investments are posting negative returns. But before you leap into a different investment strategy, make sure you're doing it for the right reasons. How you choose to invest your money should be consistent with your goals and time horizon.

For instance, putting a larger percentage of your investment dollars into vehicles that offer safety of principal and liquidity (the opportunity to easily access your funds) may be the right strategy for you if your investment goals are short-term (e.g., you'll need the money soon to buy a house) or if a long-term goal such as retirement has now become an immediate goal. But if you still have years to invest, keep in mind that although past performance is no guarantee of future results, stocks have historically outperformed stable value investments over time. If you move most or all of your investment dollars into conservative investments, you've not only locked in any losses you might have, but you've also sacrificed the potential for higher returns.

Look for the silver lining.

A down market, like every cloud, has a silver lining. The silver lining of a down market is the opportunity you have to buy shares of stock at lower prices.

One of the ways you can do this is by using dollar cost averaging. With dollar cost averaging, you don't try to "time the market" by buying shares at the moment when the price is lowest. In fact, you don't worry about price at all. Instead, you invest the same amount of money at regular intervals over time. When the price is higher, your investment dollars buy fewer shares of stock, but when the price is lower, the same dollar amount will buy you more shares. Although dollar cost averaging can't guarantee you a profit or protect against a loss, over time a regular fixed dollar investment may result in an average price per share that's lower than the average market price, assuming you invest through all types of markets. Please remember that since dollar cost averaging involves continuous investment in securities regardless of fluctuating price levels of such securities, you should consider your financial ability to make ongoing purchases.

Don't count your chickens before they hatch.

As the market recovers from a down cycle, elation quickly sets in. If the upswing lasts long enough, it's easy to believe that investing in the stock market is a sure thing. But, of course, it never is. As many investors have learned the hard way, becoming overly optimistic about investing during the good times can be as detrimental as worrying too much during the bad times. The right approach during all kinds of markets is to be realistic. Have a plan, stick with it, and strike a comfortable balance between risk and return.

Don't stick your head in the sand.

While focusing too much on short-term gains or losses is unwise, so is ignoring your investments. You should check up on your portfolio at least once a year, more frequently if the market is particularly volatile or when there have been significant changes in your life. You may need to rebalance your portfolio to bring it back in line with your investment goals and risk tolerance, or redesign it so that it better suits your current needs. If you need help, a financial professional can help you decide which investment options are right for you.

COMPOUNDING CAN ADD FUEL TO YOUR PORTFOLIO

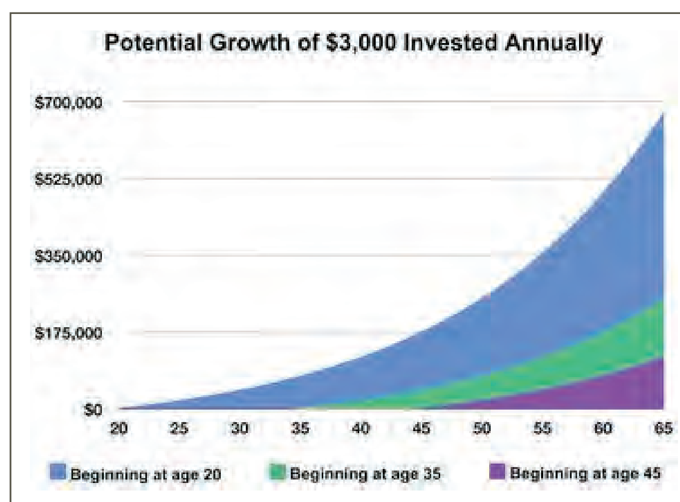
If you enter the terms "Albert Einstein" and "compounding" into an Internet search engine, you'll discover a wide variety of quotes attributed to the great inventor. Some results say Einstein called compounding the "greatest mathematical discovery of all time," while others say he called it the "most powerful force in the universe." Despite the many variations, Einstein's point is valid: compounding can add fuel to your portfolio's growth. The key is to allow enough time to let it go to work.

The premise behind compounding is fairly simple. If an investment's earnings are reinvested back into a portfolio, those earnings may themselves earn returns. Then those returns earn returns and so on. For example, say you invest $1,000 and earn a return of 6 percent—or $60—in one year. If you reinvest, combining that $60 with your $1,000 principal, and earn the same 6 percent the following year, your earnings in year two would increase to $63.60. Over time, compounding can snowball and really add up.

Say at age 45 you begin investing $3,000 annually in an account that earns 6 percent per year, with earnings reinvested. At age 65, your $60,000 principal investment would be worth almost twice as much--about $117,000. That's not bad, right?

Now consider what happens if you begin investing at age 35, using the same assumptions. By 65, your $90,000 principal would nearly triple to just over $250,000.

Finally, consider the results if you start at age 20: your $135,000 investment would be worth a jaw-dropping five times as much—$676,524. That's the power of compounding at work.



How long do I have to wait?

If you'd like to estimate how long it might take for your investment to double, you can use a principle known in investment circles as the "Rule of 72." To use the rule, simply divide 72 by the expected rate of return. For example, if you expect to earn an average of 8 percent over time, the Rule of 72 gauges that your investment would double in approximately nine years. (This rule applies to lump-sum investments, not periodic investment plans such as those given as examples in this article.)

With compounding, the more patience you have, the better off you may be over the long term. The examples in this article assume a steady 6 percent rate of return each year; however, in reality, no investment return can be guaranteed. Your actual earnings will rise and fall with the changing economic and market conditions. That's why it's so important to stay focused on the long term. Over time, the ups and downs may average out, and your earnings can potentially go to work for you.

When it comes to investing, time can be the power behind your potential success.

Note: The examples in this article are hypothetical and for illustrative purposes only. They assume a steady 6% annual rate of return, which does not represent the return on any actual investment and cannot be guaranteed. Moreover, the examples do not take into account fees and taxes, which would have lowered the final results. Speak with a financial professional about how these examples might relate to your own investing circumstances.

WHAT ARE INDICES?

No doubt you've seen headlines reporting that a particular index is up or down. But do you know how an index works and why understanding the nuts and bolts of a specific index can make a difference to your portfolio?

An index is simply a way to measure and report the fluctuations of a securities market or a particular segment of a market. An index is developed by a company that sets specific criteria to determine which securities are included in the index—factors such as a company's size or location, or the liquidity of its stock. For example, the S&P 500 is a collection of large-cap U.S.-based companies that Standard and Poor's considers to be leading representatives of a cross section of industries.

The company that develops the index tracks the performance of its components and aggregates the data to produce a single figure that represents the index as a whole. Virtually every asset class has at least one index that tracks it, but because of the size and variety of the stock market, there are more stock indexes than any other type.

How are indices used?

In addition to providing valuable information needed to monitor how a particular market is faring, an index can serve as the basis for mutual funds or exchange-traded funds that attempt to replicate its performance—that process is known as indexing. An index also can be used as a benchmark for funds that invest in the same asset class, regardless of whether a fund includes the same specific securities. Finally, some investment products do not attempt to replicate an index's performance but represent a bet on the index's general movements, though such investments can be challenging and are not appropriate for every investor.

You can't invest in an index.

You cannot invest directly in an index. You could always purchase each and every security in the index and do the necessary trading to ensure that the portfolio continues to mirror the index, but the financial services industry has saved you the trouble. As noted above, investment products such as index mutual funds and exchange-traded funds are used by investors to try to capture a particular market's performance. However, an index-based investment may not match the return of an index exactly. One reason is what's known as "tracking error." Costs such as taxes, operating expenses (even minimal ones), and transaction costs can differ among mutual funds. As a result, your return may be slightly different from that of the index or even other funds based on the same index, even though most index funds try to keep tracking error to a minimum.

Before investing in a mutual fund, you should carefully consider its investment objectives, risks, fees, and expenses, which can be found in the prospectus available from the fund. Read it carefully before investing and don't forget that any investment involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful.

Indices don't stay static.

Though an index adheres to a set of guidelines for selection of the securities it includes, the company that oversees the index generally reviews the security selection periodically. For example, some indices are rebalanced if an individual security grows so large that it dominates the index. Others have a limit on how much of the index can be devoted to a particular sector or industry, and rebalance if the proportion gets skewed. And in some cases, an index is altered because of serious problems with one of its components (for example, Flowserve Corp. replaced Washington Mutual Inc. in the S&P 500 after WaMu was closed by the Office of Thrift Supervision in 2008).

Watch the weight.

Even indices that include the same securities may not operate in precisely the same way. Why? Because different indices may weight the relative importance of the same securities in different ways. The way an index is weighted determines how much of each individual security is included in it—for example, how many shares of stock. That weighting, in turn, can affect the overall index's performance. Some indices are weighted based on market capitalization. The companies with the highest market cap (total value of stock outstanding) make up a larger share of the index than companies with a smaller market cap. As a result, those companies can have a disproportionate impact on the performance of an index weighted by market cap. For example, a 10 percent decline in the price of the largest company in the S&P 500 index would affect the index's overall return more dramatically than a 10 percent drop in the price of a much smaller company, because the S&P 500 is weighted by market cap.

To produce a figure that indicates the value of the aggregated securities, an index divisor is typically applied to produce a more manageable figure that is easier to quote than the index's actual value.

Other indices are weighted by price—the most expensive stocks receive greater weight than lower-priced stocks. The Dow Jones Industrial Average, which includes 30 large, blue-chip industrial stocks and is commonly referred to as the Dow even though there are several Dow indices, is price-weighted. A relatively new approach to weighting an index is to use certain fundamental attributes, such as dividends or cash flow, as the basis for weighting the stocks that comprise the index.

TEACH YOUR CHILDREN ABOUT STOCKS

More and more young people are becoming fascinated by the stock market. Choosing stocks, tracking their performance and making money can be exciting, challenging and rewarding. But, as experienced investors know, the market can also be frustrating and risky, especially during volatile times. To help kids understand the risks and rewards of the stock market, parents need to talk to their children about investing.

Explain the importance of financial goals.

Don't start off by trying to explain options, selling short, margin calls and other complicated concepts. Instead, begin by explaining the difference between short- and long-term financial goals and between saving and investing. To help your child understand that investing is about making money grow to meet long-term financial goals, use examples he or she will understand. For example, if your child wants to buy a new video game, he or she should focus on saving. However, if he or she hopes to buy a Harley in ten years, investing in stocks or mutual funds may be more appropriate.

Teach them about risk and rewards.

The safest way to make money in the stock market is to buy shares in strong companies with the potential to grow, and to hold onto them. Young investors (and older ones, too) need to understand the concept of risk versus reward — the higher the potential reward from a particular investment, the higher the risk of losing money.

Let them test the waters.

Before putting real money on the line, your child can test his or her stock selection skills and interest level by choosing two or three stocks and following their performance. Teach your child how to find the stock price in the newspaper financial listings or online. Each day, he or she can check to see how the stocks are doing. Watch for stories on the company and share them with your child. Discuss how the story is likely to impact the stock's performance. Then, monitor the financial listings for changes in share price.

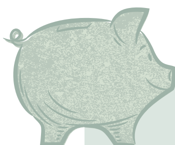
Make the purchase.

While minors can't own stocks or open brokerage accounts in their own names, parents can set up custodial accounts under the Uniform Gifts to Minors Act or Uniform Transfer to Minors Act, depending on state laws. Simply complete a form with the child's name and Social Security number and the name of the custodian.

You and your child should first determine the companies in which the child should invest. One of the best strategies is to select stocks in kid-friendly companies, such as McDonalds, Disney and Microsoft, that are associated with products your child identifies and knows.

Buying a small number of shares without paying high commissions can be a challenge. Some companies will let you make an initial purchase directly without going through a broker, after which you can enroll in the company's dividend reinvestment plan (DRIP) and buy additional shares. The non-profit National Association of Investors Corp. (NAIC) (www.better-investing.org) has a stock purchase program that lets you buy a small number of shares in quality companies. At First Share (www.firstshare.com), you can buy a single share of stock in companies that have a direct purchase program. An online discount broker is another possibility.

By getting your kids interested in investing, you're buying more than shares of stock. You're teaching your child financial skills he or she can use for a lifetime.



Young investors (and older ones, too) need to understand the concept of risk versus reward — the higher the potential reward from a particular investment, the higher the risk of losing money.

Chapter Six:
RETIREMENT PLANNING

Most research shows that Americans are severely lacking when it comes to saving for retirement. Consider this:

- About half of American households don't have any retirement accounts and 29 percent of Americans age 55 and older don't have savings or pensions (Government Accountability Office, as reported by SmartAsset.com, 2015).
- The average 65-year-old couple can expect to spend $220,000 in out-of-pocket costs for health care, and only one in six companies employers offer health insurance coverage to retirees (BenefitsPro.com, 2015).
- The average retiree can expect Medicare to pay 62 percent of his or her health care expenses (BenefitsPro.com, 2015).
- Only 22 percent of American workers are very confident they'll have financially secure retirements (Employee Benefit Research Institute, 2015).
- Women are 80 percent more likely than men to be impoverished at age 65 and older, while women between the ages of 75 to 79 are three times more likely than men to be living in poverty (National Institute on Retirement Security, 2016).
- Even though the median household incomes of individuals aged 65 and older has increased, women have 26 percent less income than men (National Institute on Retirement Security, 2016).

In this chapter, you will learn about annuities, ways to maximize Social Security, ways to build a more secure retirement, exceptions to early IRA withdrawals and more.

Find additional retirement planning tips and calculators at www.360financialliteracy.org/Topics/Retirement-Planning, www.SocialSecurity.gov or www.KnowWhatCounts.org.

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4 WAYS WOMEN CAN BUILD A SECURE RETIREMENT

Women carry a lot of responsibilities on their shoulders, and considerations like saving for retirement can easily fall through the gaps. In a survey by BlackRock, only 53 percent of women have been putting away money for retirement, as compared to 65 percent of men. Even worse, those women who are saving for retirement put back less than half of what men do. The Oklahoma Society of Certified Public Accountants offers four tips for women who want to ensure they are on track for a secure future.

1. Consider the long(er) term. Women should be prepared to save more than men because, on average, women live longer. According to the Social Security Administration, a man turning 65 now can expect to live to about 84, while a woman reaching 65 might live to nearly 87. With improving health and longevity among older people, your retirement strategy should be based on a realistic assessment of how long your money needs to last. While it's always advisable to begin saving early and to set aside as much money as possible, this could be especially true for women because of their longer life expectancy.

2. **Factor in earnings gaps.** One hurdle women must consider is the possibility that they will have to take maternity leave or work part-time at some point during their careers in order to juggle family responsibilities. In fact, according to the BlackRock survey, only about one-half of women between the ages of 25 and 44 are working full time, which could leave them with much less in savings than their male counterparts. Women also continue to earn less, getting about 78 cents for every dollar earned by men, according to the Institute for Women's Policy Research. No matter how your employment changes, CPAs advise that you take advantage of any employer retirement plans when you are working. If the employer offers matching contributions, try to contribute enough to qualify for the highest possible match. If you're not working, find out if you're eligible to contribute to an IRA. For those who are self-employed, investigate the benefits of Simplified Employee Pension (SEP) and SIMPLE retirement plans. There are plenty of opportunities to pump up your retirement savings, so be sure to take them.

3. **Strategize your Social Security.** Your earnings history will also have an impact on your Social Security retirement benefits. At the Social Security Administration site, you can create an account to find out what your benefit payments will be and use the benefit calculators. For example, you can figure how your age at retirement will affect your payment and how spouses can plan to make the most of their benefits.

4. **Be aware of your risk tolerance.** When you invest, do you typically look for high-performing stocks and bonds or more reliable ones, such as Treasury bills or money market funds? Your answer to that question can help you get a sense of your risk tolerance when it comes to investing. That's important because a lower risk tolerance may mean that your money may grow more slowly over time, leaving you with a smaller nest egg. Dodging risk is not necessarily a bad thing, since it can help you avoid losses on your money. Knowing your own approach to risk can help you estimate how quickly your money will earn dividends or interest and how much you need to put away in order to meet your retirement goals.

3 STEPS TO RETIREMENT CATCH-UP

No doubt you've seen headlines reporting that a particular index is up or down. But do you know how an index works and why understanding the nuts and bolts of a specific index can make a difference to your portfolio? Will you have enough to live on during your golden years? According to an Employee Benefit Research Institute survey, roughly one-quarter of Americans are not sure they will have sufficient funds for a comfortable retirement and only 22 percent are very confident they will. Many people work hard for years, doing a good job paying bills and covering life's many unexpected costs, but they may not think about retirement savings until their last day at work is only a few years down the road. If you're uncertain about whether you'll have sufficient cash to fund the retirement you're planning, the Oklahoma Society of Certified Public Accountants offers three important tips.

1. **Know what you'll need.** Just how much is enough? The amount of money you need for a secure retirement varies based on numerous individual circumstances and many personal factors, including where and how you plan to live and any medical issues that affect your longevity. If you're close to retirement and able to anticipate your needs, then it may make sense to develop a detailed budget that tracks your future monthly cash requirements. If you plan to downsize or move to an area with a lower cost of living, those changes should be taken into account. You should also prepare for the possibility of rising health care costs or paying for technology, travel or other items your company might have previously picked up for you. Share your budget with your CPA and ask what steps you need to take to ensure you can cover all retirement costs.

2. **Consider catch-up contributions.** If it's time to ramp up your retirement savings, the good news is tax laws can actually make it easier for you. If you're 50 or older, you can set aside a little more in tax-advantaged retirement plans, using annual catch-up contributions. With a 401(k), 403(b) and most 457(b) plans, you can normally contribute up to $18,000 annually, but once you pass age 49, you can add another $6,000. For a Roth or traditional IRA, the base maximum is $5,500, but rises by another $1,000 if you're 50 or older. Also, don't overlook the significant opportunity open to small business owners who qualify to set up a Simplified Employee Pension IRA (SEP). With a SEP, you can contribute up to 25 percent of your compensation, to a maximum of $53,000. With SEP plans, the amount you contribute is deductible, which lowers your taxable income. However, catch-up contributions are not permitted. If you're running behind on retirement savings, talk to your CPA about your tax-advantaged options for catching up.

3. **Reset your deadline.** Although age 65 was once considered the accepted retirement age, more people are working well beyond that age. If you choose to do so, even part time, not only will you have more time to add to your nest egg, but you could also qualify for higher Social Security payments. You can begin collecting Social Security benefits as early as age 62, but taking payments before you reach the full-retirement age can lower your payments by as much as 30 percent. However, if you were born after 1942 and continue working after the full-retirement age, you can increase your checks by 8 percent for each year you stay on the job until age 70.

8 WAYS TO MAXIMIZE SOCIAL SECURITY BENEFITS

For most Americans, Social Security retirement benefits typically represent 30 to 60 percent of their retirement income and, yet, according to the National Social Security Association,,more than 90 percent of Social Security recipients receive less money than they are entitled to. For many filers, this can represent tens of thousands, or even hundreds of thousands, of dollars in lost retirement benefits.

Experts point out there are thousands of rules governing Social Security and most couples have hundreds of filing options. The Oklahoma Society of Certified Public Accountants offers these tips to help you not leave money on the table:

1. Defer benefits to age 70 – By delaying receipt of benefits from age 62 to 70, you will increase you retirement income payment by 76 percent plus any cost of living adjustments (COLA).

2. Have a do-over – If you've already filed for benefits and wish to undo your election, you can do so up to 12 months from the date you filed.

3. Suspend benefits – If you elected early (age 62), and later decide to defer your Social Security income benefits, you can suspend your benefits as early as age 66. This will allow your benefits to increase by 8 percent per year (known as delayed retirement credits or DRCs) to age 70, resulting in a 32-percent increase.

4. Increase your benefits while receiving your benefits – Your benefits are based on your highest 35 years of averaged indexed monthly earnings. If you continue to work while receiving benefits and your earnings are higher than any of the previous 35 years of indexed earnings, your benefits will be re-calculated to reflect your higher current earnings.

5. Claim spousal benefits – If you get married, you are eligible for spousal benefits once you have been married for at least one year. At FRA, spousal benefits are equal to 50 percent of your spouse's FRA benefit.

6. Claim survivor benefits. Once you have been married for at least nine months, you will be eligible for survivor benefits. Once you and your spouse reach FRA, survivor benefits will be 100 percent of the deceased spouse's benefit amount, including any DRCs. Survivor benefits are available as early as age 60 (or 50 if you are disabled) at a reduced amount.

7. Claim divorced spouse benefits. If you were married for 10 years or longer, divorced for at least two years, not remarried and you and your ex-spouse are at least age 62, then you will be eligible for ex-spousal benefits, which are similar to benefits you would have received if you were still married.

8. Understand what happens if you remarry. If you are divorced and then remarry, you will no longer be eligible for benefits off of your ex-spouse. However, if you remarry after age 60 and your ex-spouse is deceased, you are eligible for ex-spousal survivor benefits even though you had remarried (assuming the criteria noted in No. 7 have also been met).

Please note, the Bipartisan Budget Act passed in November 2015 changed some Social Security rules.

For help navigating the latest rules, consult a CPA who specializes in retirement planning. If you don't have one, get a free referral and 30-minute consultation at www.FindYourCPA.com.

UNDERSTAND ANNUITIES - BASICS, PROS & CONS

Many things in life are uncertain and retirement is no exception. The recent stock market plunge is proof enough. Over the past 20 years, the average lifespan in the United States has risen from 76 to 79 years, according to statistics from The World Bank. With longer life spans and unpredictable economic factors, investors are looking for ways to stretch their retirement money. The Personal Financial Planning Committee of the Oklahoma Society of Certified Public Accountants offers these basics, pros and cons to help explain how annuities can help provide a steady stream of income during your retirement years.

An annuity is a contract between you and an insurance company, giving you a set amount of money for a period of time. Here's how it works: You give an insurance company access to a lump sum of your savings, and in exchange, they give you a stream of guaranteed income.
Before buying an annuity, it is important to understand the different types of annuities. There are two basic types of annuities: fixed and variable. It's important to look at the benefits and structure of each annuity.

- **Fixed annuity:** A fixed annuity offers a set payment for a specific period of time or for a lifetime. The payments are set at a specific dollar amount and a fixed interest rate, which helps protect your payments from the swings in the market place.

- **Variable annuity:** A variable annuity offers a way to grow your payments in the market, but the amount is not guaranteed. The performance of a variable annuity depends on the investments you choose.

In addition to the type of annuity, you'll also need to choose when you want to start receiving payments. There are two types of payouts: immediate and deferred.

- **Immediate:** With immediate annuities, you will start receiving payments immediately. An immediate annuity may be a good option for investors who need funds right away.

- **Deferred:** With deferred annuities, you will receive payments in the future—usually at retirement. The money you invest can grow tax-deferred for several years until you need it. Deferred annuities are typically best for investors who don't need immediate funds and have time to watch their money grow.

There are a few things you should consider before purchasing an annuity:

- Fees can greatly affect the performance of your annuity. Before choosing an annuity, be sure to understand the fees, commissions and any penalties associated with the annuity.

- With a fixed annuity, you'll know exactly how much you will earn. However, variable annuities typically offer a number of investment options. It is important to review the types of investments available to help ensure you maximize the growth potential of your annuity.

- Determining how much to invest in an annuity can be difficult. One method includes adding all your essential retirement expenses, then subtracting any guaranteed retirement funds—such as Social Security or a pension. The resulting gap could be a good start to estimate the monthly annuity payout you might consider.

- Keep in mind that annuities are insurance products. Before choosing an annuity, you'll want to make sure the insurance company (issuer) is a highly rated and financially stable company.

Some annuities offer guaranteed benefits to help offset the risks in the financial markets. Here are a few guaranteed benefits to consider when purchasing an annuity:

- Guaranteed death benefit: Some annuities offer a guaranteed death benefit (GDB). If you die before the annuity begins paying benefits, this guarantees your beneficiary receives a death benefit. Typically, the GDB offers the beneficiary the current market value of the annuity or the amount of the initial investment minus any withdrawals.

- Guaranteed minimum income benefit: Variable annuities may offer investors the option to add the guaranteed minimum income benefit (GMIB) rider to their annuity. The GMIB guarantees you will receive an ongoing payment regardless of market conditions. However, these riders usually cost additional and many have specific limits. Therefore, it is important to carefully evaluate the GMIB option before adding it your annuity.

- Guaranteed income for retirement seems like a great option. However, there are many pros and cons when it comes to annuities.

- **The pros of annuities:**
  1. With all of the uncertain factors and changes you may face in retirement, annuities can provide a guaranteed income stream when you need it the most.

  2. Money invested in an annuity grows tax-deferred. When you start making withdrawals, the earnings portion is taxed at your current income tax rate. However, the principal portion is not taxed, which could be a significant amount of tax savings.

  3. Annuities can be designed to help ensure you don't "outlive" your income. These products can ease your mind by providing a steady stream of income—for either your lifetime or a set period of time.

  4. There is not an annual contribution limit for annuities unlike other retirement accounts—such as 401(k)s and IRAs. Since there is not a contribution limit, investors can choose to put as much money away for retirement as they wish.

- **The cons of annuities:**
  1. Annuities can carry high fees, sales commission and charges, and these

charges are often hidden in the fine print—including underwriting fees, fund management and penalties. Although not all annuities have high fees, it is important to consider how they affect the overall performance of your funds.

2. After you invest in an annuity, you may lose access to the initial principal and your contributions, and if you make an early withdrawal on a deferred annuity, you could face serious penalties. If you withdraw funds before 59 ½, you could be charged a 10 percent penalty from the IRS.

3. In exchange for the guaranteed income stream, you are giving up access to a portion of your savings. If you need the funds before the annuity is scheduled to make payments, you may face penalties and fees. Therefore, if you need to access your savings, you'll want to carefully consider if annuities are the best option for you.

4. Annuities can be hard to understand, especially with multiple types of annuities, benefits and options. If you are considering investing in an annuity, it is best to speak with a professional before adding it to your retirement strategy.

4 WAYS TO KEEP UNEXPECTED COSTS FROM RUINING YOUR RETIREMENT

How much do you need to save for retirement? Determining how much you'll spend on housing, food and other fixed expenses may seem relatively easy, but what about when costs come out of the blue? An Ameriprise study found 90 percent of Americans surveyed had faced at least one unanticipated event that may have made retirement more difficult. The Oklahoma Society of Certified Public Accountants offers four strategies to keep surprise expenses from upending your retirement.

1. **Create a sound foundation.** Before considering unpredictable expenses, be sure you're able to cover the ones seen coming. Unfortunately, many people may not have a realistic idea about how much is needed to fund a secure retirement. According to the Employee Benefit Research Institute Retirement Confidence Survey, 22 percent of workers said they were confident about having enough money to live comfortably throughout retirement. If retirement is worrisome, start making—or perhaps increasing—regular contributions to an employer or individual retirement savings plan, and your money can grow steadily over time.

2. **Take stock of what you've got.** As retirement nears, it becomes easier to predict large but unusual expenses that can undermine your budget. For example, buying a new car near retirement should keep maintenance costs fairly low, but it might be smart to include more costly repairs in your budgeting down the road. The same is certainly true when owning a house. Consider how many years it has been since the roof, furnace, hot water heater and other items that will require significant replacement costs have been replaced, then earmark some savings for those repairs. If the roof and major appliances are aging, you'll want to set aside more each year than if they are all relatively new.

3. **Factor in health care costs.** According to a Fidelity Benefits Consulting survey, a 65-year-old couple retiring now can expect to face an average of $220,000 in health care costs in retirement, not including any nursing home care. According to a Bankers Life & Casualty Company Center for a Secure Retirement study, many Americans expect to rely on Medicare covering their expenses but do not realize it's not free or what percentage is covered for doctor's visits, hospitalization, vision and hearing or long-term care. Therefore, 77 percent of study respondents bought additional insurance to cover out-of-pocket costs that Medicare doesn't encompass.

4. **Keep family in mind.** A parent's health declines and needs help paying for home health care or other expenses; a child loses his or her job and turns to you for help making ends meet; or a grandchild is on the way and you want to help the young parents swing the down payment for a new house. There are many happy and sad reasons that retirees may find themselves digging deep to help out a family member financially, which is why unforeseen requests from loved ones should be included in retirement budgeting.

It may seem difficult to plan for retirement when life brings so much uncertainty. For expert advice on the best ways to plan for the unexpected in retirement, be sure to turn to a local CPA who specializes in financial planning. If you don't have one, get a free referral and free 30-minute consultation at www.FindYourCPA.com.

AGING IN PLACE: 4 QUESTIONS TO CONSIDER

About 90 percent of seniors plan to continue living in their own homes for the next five to 10 years, according to an AARP survey. The Centers for Disease Control and Prevention define "aging in place" as being able to live in one's home and community safely, independently and comfortably – regardless of age, income or ability level. If that's your plan, you should address at least four questions to make independent living a more workable reality:

1. **What really matters to you?** Don't get hung up on the term "aging in place." If you want to continue enjoying the people and activities you love, it may not be necessary to remain in the same residence. As a first step in your planning, list what's important to you in your current lifestyle and the things you wouldn't mind changing. While selling the family home can be an emotional decision, it may be the best choice if a smaller place is easier to maintain, closer to family and a money saver that could allow you to travel.

2. **Will your current home accommodate your needs?** It's important to determine if your current home will still be a good fit if you have problems with mobility or health as you get older. Features that make homes more comfortable for older people include bedrooms and bathrooms that are located on the entry level; few, if any, steps in the doorways or throughout the home; and entryways that are wide enough to accommodate wheelchairs. Conduct an informal assessment of your home to decide if it's accessible now or if some remodeling projects could be in order.

3. **What would renovation cost?** If you don't think your home will remain easily accessible as you age, consider potential renovation expenses. A MetLife study cited renovation costs at $800 to $1,200 for widening a doorway; roughly $500 for the installation of two bathroom grab bars; and $3,500 to $35,000 for a variety of bathroom improvements – including better lighting and handicap accessible showers, tub seats and sinks. If remodeling seems too costly or complicated, you can downsize homes or change to a location that's easier to navigate and still remain independent. There may even be other benefits to moving into a different home or neighborhood. For example, a new place in a populous area may give you easier access to social activities.

4. **Do I have a good support system?** Either now or later, you may need to rely on others to care for you or help with everyday tasks. It will be easier to remain relatively independent if you live near family or friends, home health care providers, doctors and medical facilities. Your planning should include a local support system that meets your changing needs. As part of this effort, investigate local community and government resources, in addition to geriatric care managers. For more eldercare tips and locations, visit www.eldercare.gov and read "Your 1st Step to Finding Resources for Older Adults."

BACK TO WORK AFTER RETIREMENT: HOW SOCIAL SECURITY, TAXES AND HEALTH CARE MAY BE AFFECTED

The old notions about retirement have, well, retired. Rather than leaving work at age 65 and going fishing or focusing on gardening, many retirees are celebrating retirement by going back to work.

According to a January 2015 Gallup poll, 80 percent of boomers in their 50s are in the workforce; 50 percent of boomers in their 60s are in the workforce and 30 percent of boomers ages 67 to 68 are working. Either by design or out of financial need, boomers are working longer, but not all of them want or need to maintain full-time positions. One in 10 baby boomers works part-time, a statistic that may increase as employers discover the magical mix of benefits that will keep high-performing boomers contributing to their bottom lines. Additionally, Gallup reports that boomers are one of the fastest growing groups of entrepreneurs because many look for an encore career after retirement.

Regardless of the reason, it's important to understand how going back to work might impact retirement benefits and taxes. Individuals thinking about returning to the workforce after retiring need to learn if and how Social Security benefits, health insurance and taxes will be affected so they don't lose benefits or end up in a higher tax bracket. Keep the following in mind when considering employment after retirement:

- **Social Security Benefits:** If you're aged 62 or older, you may have already decided to start receiving retirement benefits. However, if you get a new job and expect your income to increase, you're required to notify the Social Security Administration (SSA). If you receive benefits, but are not yet at full retirement age (as defined by the SSA), some of your benefits may be reduced if you earn more than the annual income limit (which is $15,720 in 2015). Generally, for every two dollars you earn above the annual limit, your benefits are reduced by one dollar.

  The SSA full retirement age has been gradually increasing, but it's currently between 65 and 67 years old, depending on the year you were born (it is age 67 for everyone born in 1960 and later). If you're at the year when you will reach your full retirement age, but haven't had your birthday yet, your benefits will decrease, but not by as much. Benefits will be reduced by one dollar for every three dollars you earn above the annual limit

($41,880 in 2015), until your birthday. You can estimate how much your annual benefits will be reduced by using the online Retirement Earnings Test Calculator at www.ssa.gov. Once you reach full retirement age, your benefits will no longer be reduced, no matter how much money you earn.

If you return to work after starting to receive benefits, you may be able to receive a higher benefit based on those earnings. The SSA automatically re-computes your benefit amount after the additional earnings are credited to your earnings record. Moreover, you can repay all SSA benefits collected to date with no interest, and the benefits will be reset to a higher number based on your current age and past earnings.

- **Income Tax:** Going back to work might mean more money, but it also might bump you into a higher tax bracket. In addition, extra distributions or benefits received on top of your salary may count as additional income. You could also find yourself in a higher tax bracket by taking pension distributions on top of a regular salary or by collecting Social Security benefits while you continue working. Crunch the numbers to see how close your current income is to the next tax bracket. As much as 85 percent of your Social Security benefits can be taxable if your other income, including tax exempt interest plus half of your Social Security, exceeds the threshold. According to the online Benefit Planner at www.SSA.gov, if you:
    - file a federal tax return as an "individual" and your combined income is
        1. Between $25,000 and $34,000, you may have to pay income tax on up to 50 percent of your benefits.
        2. More than $34,000, up to 85 percent of your benefits may be taxable.
    - file a joint return, and you and your spouse have a combined income that is
        1. Between $32,000 and $44,000, you may have to pay income tax on up to 50 percent of your benefits
        2. More than $44,000, up to 85 percent of your benefits may be taxable.
        3. Are married and file a separate tax return, you probably will pay taxes on your benefits.

- **Health Care:** Health insurance is one of the biggest reasons many people under age 65 remain employed or return to the workforce. If you're age 65 or older and already covered by Medicare, check with your employer's human resources department about how the insurance coverage would work with your Medicare. You can also view the online publication Medicare and Other Health Benefits: Your Guide to Who Pays First at www.medicare.gov. According to its website, Medicare Part B insurance premiums range from $104.50 to $335.70 per month as adjusted gross income ranges from $85,000 (single filers or married filing single) or $170,000 (married filing jointly) to $214,000 (single filers), $129,000 (married filing single) or $428,000 (married filing jointly). If you have private health insurance, carefully compare your benefits and coverage to what might be available from your new employer. Although group plans tend to be cheaper than individual policies, it might make sense to keep what you have rather than cancelling and re-applying at a later date. This is especially true if you have retiree health insurance from a former employer.

- **Pension Plans and Retirement Accounts:** Returning to work will likely ease your financial situation and allow you to delay accessing your 401(k) account. If you have a traditional pension plan or IRA, rules will vary. Check with your pension plan provider and the human resources department at your company to see if returning to work will impact your benefits, especially if you're returning to the same employer. The 401(k) rules get more restrictive for business owners with ownership interest exceeding 5 percent. Working past age 70½ doesn't affect the required minimum distribution (RMD) rules for traditional IRAs—RMDs are still required and will generally be taxed as ordinary income. There are no RMD requirements for Roth IRAs.

There are many variables involved in returning to work and evaluating the short- and long-term tax impacts, Social Security benefits and health care. A CPA can help you analyze your current situation and determine the best course of action with regard to your personal financial plan.

PROJECTED RETIREMENT

Start saving as much as you can, as soon as you can. The earlier you start, the longer compounding can work for you. For example, a 20 year old who saves $200 a month until age 65 and earns exactly 6% on saved funds annually would have accumulated around $550,000. But a 40 year old contributing the same amount each month at the same earnings rate would have accumulated only $138,600 by age 65.

Contribute $200/month to age 65 at different hypothetical earnings rates

	Start at age 20	Start at age 30	Start at age 40	Start at age 50
2%	$174,931	$121,510	$77,764	$41,943
4%	$301,894	$182,746	$102,826	$49,218
6%	$551,199	$284,942	$138,599	$58,164
8%	$1,054,908	$458,776	$190,205	$69,208

(This is a hypothetical example and is not intended to reflect the actual performance of any specific investment. Earnings are pretax, and may be subject to income tax when distributed.)

4 IRA EARLY WITHDRAWAL TAX PENALTY EXCEPTIONS

Choosing an early withdrawal from your IRA can be a costly move, often resulting in unfavorable consequences, such as tax penalties and loss of future growth. In an effort to discourage the early collection of designated retirement money during taxpayers' working years, Uncle Sam imposes a 10 percent penalty in addition to one's regular tax bill. A withdrawal made earlier than age 59½ could qualify for such a penalty, unless an available exemption criterion is met.

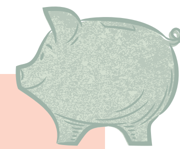
However, taking money from an IRA doesn't necessarily have to be a radical option. In some cases, the workaround merely requires an understanding of the available exceptions in the IRS tax code. Others require some preplanning measures. Although not all early withdrawals will be absolved from the additional tax expense, some will. Here are four examples:

- **College Tuition** – It's okay to make an early withdrawal to pay costs relating to higher education for you, your spouse, your children or your grandchildren. As long as the eligible student attends an accredited school, either private or public, you can use your retirement money to pay for tuition and fees, books, equipment and other expenses such as class supplies. Additionally, distributions to pay for room and board are also exempt from the 10 percent penalty, as long as the recipient is at least a half-time student. These distributions are included in your taxable income and will be subject to regular tax. Since federal financial aid is based on your income situation, early draws have the ability to negatively impact a student's chances of qualifying for financial aid and even push the IRA holder into a higher tax bracket. As such, you could end up paying more money overall, so use caution.

- **First Home Purchase** – You can use $10,000 toward the purchase of your first home. If you are married, this amount becomes $20,000 since you may each pull $10,000 from your respective retirement accounts. The early withdrawal money can be used to meet down payment requirements, pay for groundbreaking costs on new construction and even rebuild your white-picket fence. Plus, consider the IRS's interpretation of "first-time homebuyer." You do not have to be buying, building or rebuilding your first home. Instead, you qualify for the exemption as long as you or your spouse did not own a home during the prior two-year period. Not only can you use your IRA funds toward a down payment, but so may your spouse, child, grandchild and parent. The timing of the early withdrawal is important, since the IRS requires funds to be used within 120 days of the distribution. During that timeframe, should you cancel or reschedule the purchase or construction project, the money can be returned to your IRA without penalty.

- **Medical Bills** – You can use your IRA for medical expenses. The IRS will not penalize you should you need to pay for unreimbursed medical expenses that exceed 10 percent of your adjusted gross income. Timing is again important, as early withdrawal money for medical expenses must be used in the year the medical expenses are incurred. It is not necessary to itemize deductions to meet this exception.

- **Medical Insurance** – Finally, withdrawals made following a period of unemployment are acceptable if used to pay for health insurance for you, your spouse or your dependents.



Taking money from an IRA doesn't necessarily have to be a radical option. In some cases, the workaround merely requires an understanding of the available exceptions in the IRS tax code. Others require some preplanning measures.

Chapter Seven:

ESTATE PLANNING

Nobody likes to think about dying, but eventually, it will happen to all of us. What will happen to your assets or your loved ones when you're gone? Consider this:

- More than half—55 percent—of Americans die without a will or estate plan (American Bar Association, 2014).
- The number of American adults with living wills increased between 2004 and 2007, rising from 31 percent to 41 percent (LexisNexis, as quoted by LegalZoom.com, 2008).
- Thirty-eight percent of American adults have a health care power of attorney (LexisNexis, as quoted by LegalZoom.com, 2008).

In this chapter, you will learn why everyone needs estate planning, trust and life insurance basics, how probate works and more.

Find additional estate planning tips at www.360financialliteracy.org/Topics/Retirement-Planning/Estate-Planning-Basics and at www.okcestatelawyer.com.

This chapter is sponsored by Donna J. Jackson, CPA, Attorney at Law.

Donna J. Jackson, CPA, JD, is a nationally recognized attorney, speaker and educator in estate planning, probate and elder law. Ms. Jackson is a CPA and holds a master's degree (LL.M.) in elder law. She has more than 25 years of legal experience and limits her practice to estate planning with an emphasis on Medicaid, VA benefits and special needs planning, including trusts, special needs trusts, wills, durable power of attorneys and living wills. In addition, Ms. Jackson's practice includes taxes: corporate, trust, individual, gift and estate; probates and business organizations, including corporations, limited partnerships and limited liability companies. Learn more at www.OKCEstateLawyer.com.

WHY DO I NEED ESTATE PLANNING?

By Donna J. Jackson, CPA, Attorney at Law

Believe it or not, you have an estate. In fact, nearly everyone does. Your estate is comprised of everything you own - your car, home, other real estate, checking and savings accounts, investments, life insurance, furniture, and personal possessions. No matter how large or modest, everyone has an estate and something in common—you can't take it with you when you die.

When that happens—and that is a "when" and not an "if"—you probably want to control how those things are given to the people or other organizations you care about. To ensure your wishes are carried out, you need to provide instructions stating who you want to receive something of yours, what you want them to receive and when they are to receive it. You will, of course, want this to happen with the least amount paid in taxes, legal fees and court costs.

That is estate planning—making a plan in advance and naming who you want to receive the things you own after you die. However, good estate planning is much more than that. It should also:

- Include instructions for passing your values (religion, education, hard work, etc.) in addition to your valuables;
- Include instructions for your care if you become disabled before you die;
- Name a guardian and an inheritance manager for minor children;
- Provide for family members with special needs without disrupting government benefits;
- Provide for loved ones who might be irresponsible with money or who may need future protection from creditors or divorce;
- Include life insurance to provide for your family at your death, disability income insurance to replace your income if you cannot work due to illness or injury, and long-term care insurance to help pay for your care in case of an extended illness or injury;
- Provide for the transfer of your business at your retirement, disability or death;
- Minimize taxes, court costs and unnecessary legal fees; and
- Be an ongoing process, not a one-time event. Your plan should be reviewed and updated as your family and financial situations (and laws) change over your lifetime.

Elder law and special needs planning are intertwined with estate planning and are defined more by the clients to be served than technical and legal distinctions. Elder law takes into account not only the estate planning needs of a client but also their needs as it is related to their age. Likewise, special needs planning not only take into account the estate planning needs of a client but also their needs as they are related to the client's disabilities.

Hiring an attorney who is knowledgeable in all three areas will insure that the client's general estate planning needs and their individualized needs are met. For elder law clients, this may involve planning for long-term care needs including nursing home care and coordinating private and public resources to finance the cost of that care. For special needs clients, that may include court procedures such as obtaining guardianship. It is important (not to mention more convenient) to be able to comprehensively plan with one firm.

To ensure your wishes are carried out, you need to provide instructions stating who you want to receive something of yours, what you want them to receive and when they are to receive it.

6 REASONS WHY WOMEN NEED ESTATE PLANNING

They say men are from Mars and women are from Venus, but is this true when it comes to estate planning? Absolutely. And because women often find themselves in such different circumstances than men, it is even more crucial for them to educate themselves about estate planning and consult an experienced estate planning professional.

1. **Women tend to live longer than men.** Women live an average of 4.9 years longer than men (Source: National Vital Statistics Report, Volume 59, Number 4, March 2011). That means women need their assets to last longer than men do. It also means that wives are probably going to outlive their husbands, so they will likely inherit their husbands' estates and they will probably have the last word about the final disposition of assets going to the couple's heirs.

2. **Women tend to earn less during their lives than men.** Full-time working women earned only 81.2 cents for each dollar a man earned in 2010 (Source: Bureau of Labor Statistics, Women at Work report, March 2011). Further, women work fewer years than men in order to care for home and family, further reducing their ability to save (Source: GAO-04-35, October 31, 2003). Simply put, women earn less money over their lifetimes than men. This means that women must plan to make fewer dollars last longer. It's important that women get sound retirement planning advice.

3. **Most custodial parents are women.** Approximately 84 percent of custodial parents are women (Source: U.S. Census Bureau, Custodial Mothers and Fathers and Their Child Support report, November 2009). Women who are parents of young children need to plan for the continued care of those children if something unforeseen should happen. They also need to determine who will handle the children's property until they are older.

4. **Women are business owners.** Women owned 7.8 million nonfarm U.S. businesses operating in the 50 states and the District of Columbia in 2007. (Source: U.S. Census Bureau, Facts for Features article, January 26, 2011). Women who are business owners need to protect their assets, and plan for the succession of their businesses.

5. **Women are professionals.** Women make up 57.5 percent of professional and related occupations (Source: Bureau of Labor Statistics, Current Population Survey, Table 11, "Employed persons by detailed occupation, sex, race, and Hispanic or Latino ethnicity," 2010). Women in professions with high litigation risks, like medicine, law and real estate, can benefit from asset protection planning.

6. **Women are wealthy.** Women control $14 trillion in assets (Source: Center for Women's Business Research, 2005) and three-fourths of the financial wealth in the United States (Source: womensvoicesforchange.org, July 21, 2011). It's important for women to get sound investment, charitable giving, and tax planning advice.

How do I create an estate plan?

Regardless of marital status or net worth, women should make important decisions and arrangements today in order to protect themselves, their husbands or partners and other loved ones in case of incapacity or death. To create an estate plan, women need to have at least a working knowledge of the estate planning tools that are available, which typically include:

- **Will:** A will is a written directive that includes instructions about who is to settle the estate (the executor), how property is to be distributed to the heirs, and perhaps most importantly, who will raise the children. Dying without a will means that a probate court will distribute the estate, which might result in family problems and lawsuits. Wills should be reviewed at least every two years, and updated after significant life events such as a birth, death, divorce, or remarriage.

- **Trust:** A trust is a legal entity where someone, known as the grantor, arranges with another person, known as the trustee, to hold property for the benefit of a third party, known as the beneficiary. The grantor names the beneficiary and trustee, and establishes the rules the trustee must follow in a document called a trust agreement.

- **Durable Power of Attorney:** A durable power of attorney (DPOA) names family members or other trusted individuals to make financial decisions or transact business on behalf of the person executing the DPOA.

- **Health-Care Directives:** Health-care directives are instructions about the medical care that would be wanted if conditions were such that the patient couldn't express his or her own wishes.

4 EXAMPLES OF FAMOUS PEOPLE WHO FAILED TO PROPERLY PLAN

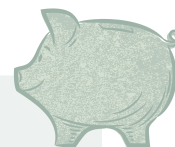
It's almost impossible to overstate the importance of estate planning, regardless of the size of your estate or the stage of life you're in. A close second to the need to plan your estate is getting it done correctly, based on your individual circumstances. You might think that those who are rich and famous would be way ahead of the curve when it comes to planning their estates properly, considering the resources and lawyers presumably available to them. Yet, there are plenty of celebrities and people of note who died with inadequate (or nonexistent) estate plans.

1. **No estate plan:** It's hard to imagine why some famous people left this world with no estate plan. A case in point involves former entertainer-turned-congressman Salvatore Phillip "Sonny" Bono. He died in a skiing accident in 1998, leaving no will or estate plan of any kind. His surviving wife had to petition the probate court to be appointed her deceased husband's administrator, seek court permission to continue various business ventures in which Sonny was involved and settle multiple claims against the estate (including one from Sonny's more famous prior spouse, Cher). To make matters worse, a claim against the estate was brought by a purported extramarital child, which necessitated a DNA test from Sonny's body to determine whether he'd fathered the claimant (he did not).

2. **Do-it-yourself disaster:** We've all seen the ads for do-your-own legal documents, including wills and trusts. And the law does not require that you hire an attorney to prepare your will. But even the highest ranking jurist of his time should have relied on estate planning experts to prepare his estate plan. Instead, U.S. Supreme Court Chief Justice Warren E. Burger, who died in 1995, apparently typed his own will (consisting of only 176 words), which contained several typographical errors. More importantly, he neglected to address several issues that a well-drafted will would typically include. His family paid more than $450,000 in taxes and had to seek the probate court's permission to complete administrative tasks like selling real estate.

3. **The importance of updating your estate plan:** Sure, formulating and executing an estate plan is important, but it shouldn't be an "out-of-sight, out-of-mind" endeavor. It's equally important to periodically review your documents to be sure they're up-to-date. The problems that can arise by failing to review and update your estate plan are evidenced by the estate of actor Heath Ledger. Although Ledger had a will prepared years before his death, there were several changes in his life that transpired after the will had been written, not the least of which was his relationship with actress Michelle Williams and the birth of their daughter, Matilda Rose. His will left everything to his parents and sister, and failed to provide for his significant other and their daughter. Apparently his family eventually agreed to provide for Matilda Rose, but not without some family disharmony.

4. **Let someone know where the documents are kept:** An updated estate plan only works if the people responsible for carrying out your wishes know where to find these important documents. Olympic medalist Florence Griffith Joyner died at the young age of 38, but her husband claimed he couldn't locate her will, leading to a dispute between Mr. Joyner and Flo Jo's mother, who claimed the right to live in the Joyner house for the rest of her life. The will of baseball star Ted Williams instructed his executor to cremate his body and sprinkle the ashes at sea. However, one of William's daughters produced a note, allegedly signed by Ted and two of his children, agreeing that their bodies would be cryogenically stored. Before the will could be filed with the probate court, the body was taken to a cryogenic company, where its head was severed and placed in a container.



Formulating and executing an estate plan is important, but it shouldn't be an "out-of-sight, out-of-mind" endeavor.

4 TIPS ABOUT TRUSTS

Should a trust be part of your estate planning? Trusts are typically associated with the very rich, but a surprising number of people use them to solve a variety of problems or achieve a range of objectives. Here are four tips for planning an estate with a trust:

1. **Set terms for your heirs.** In certain cases, parents want to leave all of their assets to their children, but they want to control when their children can access the inheritance. In this type of situation, a testamentary trust, which is written into a will, could be the answer. For example, a couple can set up a testamentary trust in case they die while their children are young. In this case, the parents would name a trustee in their wills to manage the money until their children reach a point in their life—a certain age, college graduation, marriage, etc. A testamentary trust can also be used when the beneficiary has a disability and needs assistance overseeing their inheritance. In general, it is easy and inexpensive to add a testamentary trust to a will.

2. **Avoid probate.** According to CNN, probate can cost between 5 to 7 percent of an estate. The probate process, which begins after someone dies, involves making sure the will is valid, identifying and assessing the property involved, paying any taxes and allocating the property to the correct heirs. In a typical case, important property ownership—such as real estate, bank or investment accounts—could be transferred to the trust. This is when you would name yourself as the trustee and then name a successor trustee, who would distribute the trust property to your beneficiaries when you die. Upon your death, your heirs receive inheritance from the trust immediately. This allows them to sidestep probate for a more private process. You may also remove items from a revocable living trust during your lifetime.

3. **Deal with family complexity.** According to the Pew Research Center, 40 percent of weddings are a remarriage for at least one of the partners involved. This type of situation can complicate estate planning. For example, spouses want to ensure that, after death, the surviving spouse has enough to live on. However, they also want to guarantee that children from previous marriages receive inheritance. A Qualified Terminable Interest Trust (QTIP) makes it easier for you to provide for both your spouse and children in a blended family.

4. **Don't forget the will.** Although trusts can be useful, they should not take the place of a will. A will can help address how assets outside of a trust should be handled. You also need a living will or health care directive, which spells out what medical treatments you would allow to prolong your life if incapacitated. You might also need to appoint a health care proxy, who would make medical decisions for you if incapacitated; and a durable power of attorney, who is authorized to make financial and/or legal decisions if you're unable to do so.

PROTECT YOUR LOVED ONES - LEARN LIFE INSURANCE BASICS

While facing the death of a loved one is never easy, one way to help ease some of the stress is to try to be prepared financially. Life insurance is one of the best ways to do that. However, more than four out of every 10 people do not own a life insurance policy, in any amount, according to BestLifeRates.org. Further, while cost is the primary reason given for not having life insurance, Millennials overestimate the cost by 213 percent and Gen Xers overestimate the cost by 119 percent, according to the 2015 Insurance Barometer Study by LIMRA and Life Happens.

When you think about life insurance, you may dismiss it as something only older people need. At its very basic, a life insurance policy is taken out on someone's life that pays out when the insured dies, helping to financially protect dependents and loved ones. Insurance proceeds are used to pay ongoing expenses, educate young children, pay off mortgages and cover final expenses. People put off buying life insurance because they don't want to think about their own mortality, but CPAs say it's important to your family's financial security. Understanding your options is the first step.

- **Decipher the jargon.** "Life insurance" is a broad term covering many types of policies in two main categories: term policies and permanent policies. Permanent life policies are divided into three categories: whole life, universal and variable life insurances.

  1. **Term policies:** Term policies are pure temporary insurance coverage purchased for a fixed time period such as one year, five years, 10 years or more. If the insured person dies during the insurance period, the amount of the policy is paid to the named beneficiary. At the end of the term, assuming the policy has not been renewed, the policy no longer has any value.

  2. **Permanent life policies:** Permanent life policies provide insurance coverage and build cash value you can borrow against. They are typically more expensive than term insurance.

  3. **Whole life insurance:** Whole life insurance has a set premium payment and builds cash value at a guaranteed rate of return.

(Cont. on 60)

4. **Universal life insurance:** Universal life insurance is a flexible-premium, adjustable life insurance product that allows you to vary the premium payment within certain limits. The death benefit can be increased or decreased as defined in the policy without having to buy a new contract. Like whole life, the cash value can be borrowed.

5. **Variable life insurance:** Variable life insurance is permanent insurance that builds cash value. What makes variable life insurance different is the cash value is dependent on the investment performance of one or more separate accounts. In other words, the policy owner is subject to financial risk, which may result in the loss of its cash value.

Life insurance coverage may be bundled (or combined) with other insurance policies. For example, the package may pair life coverage with long-term care coverage.

- **How much should you buy and what will it cost?** Figuring out how much life insurance you should purchase comes down to crunching the numbers and knowing your personal level of risk. You can come up with a number by either estimating the potential income for the rest of your life, multiplying your annual salary by the number of years left to retirement, or you can use the family needs approach. This method focuses on the amount of life insurance it would take to allow your family to meet its various financial obligations and expenses in the event of your death. With the family needs approach, you divide your family's financial needs into three main categories:

  1. Immediate needs at death, such as cash needed for estate taxes and settlement costs, credit card and other debts, including mortgages (unless you choose to include mortgage payments as part of ongoing family needs), an emergency fund for unexpected costs and college education expenses;
  2. Ongoing income needs for expenses related to food, clothing, shelter and transportation, among other things. These income needs will vary in amount and duration, depending on a number of factors, such as your spouse's age, your children's ages, your surviving spouse's capacity to earn income, your debt (including mortgages) and whether you'll provide funds for your surviving spouse's retirement; and
  3. Special funding needs, such as college funding, charitable bequests, funding a buy/sell agreement or business succession planning.

Once you determine the total amount of your family's financial needs, you subtract from this total the available assets your family could use to defray some or all of their expenses. The difference, if any, represents an amount that life insurance proceeds—and the income from future investment of those proceeds—can cover.

Trying to figure out how much life insurance is enough isn't always easy, and the amount will likely change with changing circumstances. Once a year, examine your family's anticipated expenses in the event of your death and you will get a timelier, more realistic estimate of your life insurance needs.

Unfortunately, many people underestimate their insurance needs and are under-insured. Often, the purchase of life insurance is based on cost instead of what's needed. By the same token, it's possible to have more insurance than needed. You may have purchased a large policy during a particular point in your life and then didn't adjust your coverage when your insurance need was reduced. Both of these circumstances are reasons to review your insurance coverage periodically with your financial professional. Doing so can reveal opportunities to change your levels of coverage to match your current and projected life insurance needs. Agents use actuarial tables, which project your life expectancy and determine your costs. If you purchase a policy when you're younger, the premiums are generally less expensive.

Follow these tips:

1. Work with a reputable agent.
2. Work with your professional advisers to help choose the right amount of coverage for your purposes.
3. Understand the terms and costs so you don't buy a policy that isn't just right for you.
4. Reduce your premiums by stopping smoking, losing weight, wearing your seatbelt and not having a dangerous hobby, like skydiving.

If you have a spouse or other dependents, it's vital to have some type of life insurance in place. Depending on your specific needs, your life insurance policy can play an important role in your long-term personal financial plan.

HOW DOES PROBATE WORK?

By Donna J. Jackson, CPA, Attorney at Law

The probate process can be confusing and very cumbersome for the pro se client, which is why it's recommended to consult an attorney if you find yourself in a position needing to probate the estate of a loved one. Probate is a court process that family members often face when a loved one has passed away without a trust-based estate plan in place. Unfortunately, simply having a will won't avoid probate in Oklahoma.

Probate generally includes:

- Proving in court that the deceased person's will is valid (if that person had a will);
- Identifying the heirs of the deceased person's estate and the shares they are entitled to receive;
- Collecting and determining the value of the deceased person's property;
- Insuring the debts and taxes of the deceased person are paid from the estate; and
- Distributing the remaining property in the estate as the will, or the laws of intestacy, directs.

In Oklahoma the probate process can take anywhere from several months to several years, depending on the complexity of the case. You should find an attorney you trust who is prepared to walk you through the probate process and provide you with all of the assistance you need so your loved one's estate can be managed efficiently and effectively.

ESTATE PLANNING ISSUES FOR UNMARRIED COUPLES

There are several laws that are potentially beneficial to married couples that are not available to unmarried partners, especially when it comes to estate planning. That's why it's important to recognize the risks faced by unmarried partners and some potential ways to help mitigate them.

Wills or trusts: All states have probate laws that provide some protections for the surviving spouse, but generally no such protections exist for a surviving domestic partner. Therefore, it's vitally important for live-in partners to prepare estate planning documents including wills and, in some cases, trusts. Through wills and trusts, you can provide for the financial support of your surviving partner after your death.

Titling assets: How your assets are titled can determine their disposition upon your death. For example, if you want your partner to receive your home at your death, you could title it in both names as joint tenants with rights of survivorship. However, retitling your home in this manner gives your partner ownership rights in the property. Also, depending on the value of the home, there may be gift tax implications, and the home may be exposed to claims of your partner's creditors.

While you could simply leave your home to your partner through your will or trust, you may want other family members to ultimately receive the home after your partner dies. In this case, you could create a life estate for your partner, allowing him or her the right to remain in the home for life, while naming other beneficiaries to receive title to the property at the death of your partner.

Beneficiary designations: Certain types of assets allow for their transfer at death through beneficiary designations. IRAs, life insurance, annuities, and 401(k)s are some examples. However, it's important to remember that generally, the beneficiaries named in these assets will receive them at your death, even if you make other provisions in your will or trust. So be sure your beneficiary designations are current and comply with your wishes.

Power of attorney and health-care documents: A durable power of attorney is a legal document that allows you to authorize someone to carry on your financial affairs and protect your property if you are unable to do so during a period of incapacity. Without this type of authorization, the courts may appoint one or more persons to act on your behalf. This proceeding can be expensive and time consuming, and you may not have any control over the person(s) appointed by the court. More importantly, your partner may not have access to needed financial support through your assets.

A health care power of attorney or health-care proxy is a legal document in which you give your appointed agent the right to make certain health care decisions on your behalf if you are unable to do so. Without this document, doctors and hospitals often rely on family members to make health care decisions for someone who's incapacitated. Often state law does not recognize unmarried couples as family, so if you want your partner to be able to make these decisions on your behalf, you should name your partner as your health-care agent.

Domestic partnership agreement: Generally, the law does not always spell out the financial rights and responsibilities of domestic partners. To address these issues, live-in partners can use a domestic partnership agreement (if recognized in their state), which is a contract that addresses the sharing of income, expenses, and property.

Unmarried couples face potential estate planning pitfalls. And state laws vary, so it's important to consult an attorney or personal financial specialist (PFS) who is familiar with state and federal laws that affect unmarried couples.

TAX AND LEGAL ISSUES FOR HIRING CAREGIVERS

By Donna J. Jackson, CPA, Attorney at Law

For loved ones to be able to stay at home, a caregiver may have to be hired. That could be through a home health company or an individual caregiver. A family member may even be hired as a caregiver. In any event, the client hiring the caregiver needs to be advised regarding tax and legal issues in hiring a caregiver.

The first issue is relates to payroll and withholding taxes. If the caregiver is provided by a home health company, the company is responsible for payroll and withholding taxes. The client pays a fee to the company. If the client hires an individual to provide home health care, the client will need to determine whether they need to treat the caregiver as an employee or independent contractor for tax purposes. Special rules apply to workers who provide in-home services for elderly or disabled individuals. Normally, caregivers are employees of the elderly person or the disabled person for whom they provide services because they work in the homes of the elderly or disabled person. In addition, the elderly person or the disabled person has the right to tell the caregiver what needs to be done. If the caregiver is not a family member, the client may be responsible for payroll taxes. The client may still need to report the earnings of the caregiver on Form W-2. IRS Publication 926, Household Employer's Tax Guide can provide more information.

According to the IRS, the client will be responsible for withholding social security and Medicare taxes if the client pays the caregiver wages in excess of $2,000 for the year applicable for 2016. Social security tax has to be withheld from the caregiver's wages at a rate of 6.2 percent up to the social security wage base limit of $118,500 of total wages for 2016. Medicare taxes are withheld at 1.45 percent with no wage limit. The client will have to match the employee's share. Additional Medicare Tax applies to an individual's Medicare wages that exceed a threshold amount based on the taxpayer's filing status. Employers are responsible for withholding the 0.9% Additional Medicare Tax on an individual's wages paid in excess of $200,000 in a calendar year, without regard to filing status. An employer is required to begin withholding Additional Medicare Tax in the pay period in which it pays wages in excess of $200,000 to an employee and continue to withhold it each pay period until the end of the calendar year. There is no employer match for Additional Medicare Tax. According the IRS, the client has no obligation to withhold federal income taxes. The client should have the caregiver complete Form W-4, Employee's Withholding Allowance Certificate. If the client pays the caregiver more than $1,000 in wages for the year, the client will have to pay federal unemployment taxes. In addition, the client will have to pay state unemployment taxes. The federal unemployment rate is 6 percent on wages up to $7,000 per year. The client will have to issue a W-2 to the caregiver after the end of the year. In addition, Form W-3 transmittal will have to be filed with the IRS with the red copies of the W-2s. The W-2s have to be given to the caregiver by January 31 and sent to the IRS by February 29. The client will report the payroll taxes for the caregiver on Schedule H, Household Employment Taxes with the client's 1040 income tax return. The client needs to determine the payroll taxes that will be owed on Schedule H when they file estimates to avoid underestimated penalties.

If the caregiver is a family member, the elderly person or the disabled person may not owe employment taxes. According to the IRS, the client does not have to withhold social security and Medicare taxes if the caregiver is the spouse, parent, a child under age 21 or an employee under age 18. On the IRS website, irs.gov, under Family Caregivers and Self-Employment Tax, the IRS provides some examples regarding the tax consequences of family caregivers.

In addition to social security taxes and Medicare taxes, the client needs to consider obtaining workers' compensation insurance. One of the financial risks of hiring a caregiver is potential injuries the caregiver may incur while on the job in the home. The client would be responsible for the caregiver's medical expenses and disability. The client's homeowners insurance alone will not cover those expenses. Another financial risk to the client is the potential risk of being sued for discrimination or harassment. The client should obtain an umbrella policy with a discrimination rider.

Finally, if the client hires a caregiver, the term of employment should be documented with a caregiver agreement covering all issues of employment. The contract should include the name of the employer; name, address and phone number of the caregiver; wages and benefits; when and how payments will be made; days and hours of work; the caregiver's social security number and driver's license number; duties to be performed; unacceptable behaviors; consequences of unacceptable behavior; vacation and holidays; emergency absences and termination procedures. It should be signed and dated by both parties.

Chapter Eight:
TAXES

Benjamin Franklin said, "In this world nothing can be said to be certain, except death and taxes." While it may be a bit morbid, it is fairly accurate, and some may actually feel that taxes are more sinister than death. Consider this:

- The federal tax code is 74,608 pages (Washington Examiner, 2016).
- Federal tax laws and regulations have grown to more than 10 million words in length, which includes the Internal Revenue Code (2,412,000 words long) and federal tax regulations (7,655,000 words long) (Tax Foundation, 2015).
- U.S. taxpayers and businesses spend about 7.6 billion hours a year complying with the filing requirements of the Internal Revenue Code (IRS, 2008).
- If tax compliance were an industry, it would be one of the largest in the United States. To consume 7.6 billion hours, the "tax industry" requires the equivalent of 3.8 million full-time workers (IRS, 2008).
- Tax regulations, which are issued by the Treasury Department to provide guidance on the meaning of the Internal Revenue Code, now stand about a foot tall (IRS, 2008).
- Americans paid $1.4 trillion in income tax in 2014 (The Washington Post, 2015).
- Tax-refund fraud is expected to hit $21 billion in 2016 (IRS, as reported by CNBC, 2015).

In this chapter, you will learn ways to protect yourself from tax return theft, details about the child tax credit, tips for choosing a tax preparer, how to appeal an IRS decision and more.

Find additional tax help, visit www.360financialliteracy.org/Topics/Taxes, www.360taxes.org and www.KnowWhatCounts.org. For a free CPA referral and free 30-minute consultation in Oklahoma, visit www.FindYourCPA.com.

9 TIPS TO CHOOSING A TAX PREPARER

Many people may promote themselves as tax preparers —especially as the April 15 tax return deadline nears. What does this mean? You need to understand the qualifications of the person who will be preparing your return. The Oklahoma Society of Certified Public Accountants says it's important you know the answer to that question because taxpayers are legally responsible for what's on their returns even if someone else prepares it.

The IRS developed a public online database of tax preparers who obtained a Preparer Tax Identification Number (PTIN), which is required for anyone to prepare a federal return for compensation. It's important to know that there are no minimum education or experience requirements to obtain a PTIN or be listed in the IRS database.

According to the IRS, here are a few points to keep in mind when someone else prepares your return:

1. **Check the person's qualifications.** Regulations require all paid tax return preparers to have a PTIN. In addition to making sure the preparer has a PTIN, ask if he or she is affiliated with a professional organization and attends continuing education classes.

2. **Check the preparer's history.** Check to see if the preparer has a questionable history with the Better Business Bureau and check for any disciplinary actions and licensure status through the Oklahoma Accountancy Board for certified public accountants; the state bar associations for attorneys; and the IRS Office of Enrollment for enrolled agents.

   - **Enrolled Agents:** An enrolled agent (EA) is licensed by the federal government and is authorized to represent a taxpayer at any IRS meeting or hearing. Many are former IRS employees and those who aren't need to pass an IRS test. They are also required to complete an average of 24 hours of continuing education per year.

   - **Tax Attorneys:** Tax attorneys don't necessarily specialize in filing tax returns. You may want one if you encounter legal issues regarding your taxes. Tax attorneys can represent you before the IRS as well as in court. Many specialize in certain areas, so be sure you choose one who suits your needs.

   - **CPAs:** Though not all CPAs are tax preparers, all CPAs first must pass the rigorous Uniform CPA Examination in order to qualify for their licenses. Additionally, they are required to take an average of 40 hours of continuing education per year, as well as ethics courses. (To learn more about the differences between accountants and CPAs, go to http://www.oscpa.com/Content/page886.aspx.)

3. **Find out about their service fees.** Avoid preparers who base their fee on a percentage of your refund or those who claim they can obtain larger refunds than other preparers. Also, always make sure any refund due is sent to you or deposited into an account in your name. Under no circumstances should all or part of your refund be directly deposited into a preparer's bank account.

4. **Ask if they offer electronic filing.** Any paid preparer who prepares and files more than 10 returns for clients must file the returns electronically, unless the client opts to file a paper return. More than 1 billion individual tax returns have been safely and securely processed since the debut of electronic filing in 1990. Make sure your preparer offers IRS e-file.

5. **Make sure the tax preparer is accessible.** Make sure you will be able to contact the tax preparer after the return has been filed, even after the April due date, in case questions arise.

6. **Provide all records and receipts needed to prepare your return.** Reputable preparers will request to see your records and receipts and will ask you multiple questions to determine your total income and your qualifications for expenses, deductions and other items. Do not use a preparer who is willing to electronically file your return before you receive your Form W-2 using your last pay stub. This is against IRS e-file rules.

7. **Never sign a blank return.** Avoid tax preparers that ask you to sign a blank tax form.

8. **Review the entire return before signing it.** Before you sign your tax return, review it and ask questions. Make sure you understand everything and are comfortable with the accuracy of the return before you sign it.

9. **Make sure the preparer signs the form and includes his or her preparer tax identification number (PTIN).** A paid preparer must sign the return and include his or her PTIN as required by law. Although the preparer signs the return, you are responsible for the accuracy of every item on your return. The preparer must also give you a copy of the return.

Having your return prepared accurately by a knowledgeable tax expert can save you both time and money—and help prevent possible IRS penalties or audits in the future.

ORGANIZE YOUR TAX RECORDS

Are you one of those taxpayers surrounded by mounds of receipts, bank statements and cancelled checks on the night before your income tax returns are due? Fear not. There are some simple steps you can take to get yourself organized so you're not in panic mode every April.

File it.

A shoebox full of receipts and sticky notes isn't too far from the truth for many people's tax filing systems, unfortunately. While this makes for a hilarious image, it also makes for disorganization and confusion. Right now, in preparation for filing your income tax returns this April, set up a system of folders into which you can organize your paperwork. Just keep dropping your paperwork into the appropriate files so you avoid cowering under a tower of crumpled receipts in April.

How many files you create for organization is up to you, but at the minimum, tax and personal financial planning experts suggest:

- **Income:** Everything you receive that is reported to the IRS (salary, dividends, interest, self-employment earnings). If you really want to take your organizational efforts to the next level, write all income sources and amounts earned on a sheet in the file as they occur. A few extra minutes now can save you hours down the road.
- **Expenses and deductions:** If you want to itemize deductions on your return, you'll need to have the proof to back them up. If you have a lot of deductions, you may need to divide this group into smaller categories such as charitable deductions, child-care costs, mortgage statements, medical bills, etc.
- **Investments:** Don't make the mistake of only including your year-end statement, because you may need to give a record of your account activity. Consider separate files for deductible/tax-deferred investments, nondeductible investments and taxable investments.

Depending on your personal financial situation, you may also want to consider creating files for last year's tax return documents, cancelled checks and credit card statements.

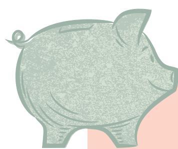
Are you banking online?

Do you wonder what to do in this era of online banking and bill paying? Many banks promote these services as a way to keep your tax records online and in one place. Even if you keep your records electronically, you should still have a system for retaining and organizing your information. If you pay a bill online, print a confirmation statement and file it in lieu of a canceled check. If you're trying to go paperless, you can save scanned documents to your computer's hard drive, but be sure to back them up. You should also encrypt your financial information for safety.

Although creating a simple file system for your tax documents may seem very low tech in our high tech world, it's an easy way to get your organization efforts started and then maintain throughout the year.

Should you keep it or toss it?

Over the years, even using the file system, your paperwork is going to accumulate. What can you throw away and when? CPAs recommend keeping records that support items on your tax return for at least three years after that tax return has been filed. Examples include bills, credit card and other receipts, invoices, mileage logs, canceled, imaged or substitute checks or other proof of payment and any other records to support deductions or credits claimed. You should typically keep records relating to property at least three years after you've sold or otherwise disposed of the property. Examples include a home purchase or improvement, stocks and other investments, individual retirement account transactions and rental property records.



Depending on your personal financial situation, you may also want to consider creating files for last year's tax return documents, cancelled checks and credit card statements.

SHOULD I ITEMIZE OR TAKE THE STANDARD DEDUCTION?

By IRS

When you file a tax return, you usually have a choice to make: whether to itemize deductions or take the standard deduction. You should compare both methods and use the one that gives you the greater tax benefit.

Here are six facts to help you choose:

1. **Figure your itemized deductions.** Add up the cost of items you paid for during the year that you might be able to deduct. Expenses could include home mortgage interest, state income taxes or sales taxes (but not both), real estate and personal property taxes, and gifts to charities. They may also include large casualty or theft losses or large medical and dental expenses that insurance did not cover. Unreimbursed employee business expenses may also be deductible.

2. **Know your standard deduction.** If you do not itemize, your basic standard deduction amount depends on your filing status. For 2015, the basic amounts were:
   - Single = $6,300
   - Married Filing Jointly = $12,600
   - Head of Household = $9,250
   - Married Filing Separately = $6,300
   - Qualifying Widow(er) = $12,600

3. **Apply other rules in some cases.** Your standard deduction is higher if you are 65 or older or blind. Other rules apply if someone else can claim you as a dependent on his or her tax return. To figure your standard deduction in these cases, use the worksheet in the instructions for Form 1040, U.S. Individual Income Tax Return.

4. **Check for the exceptions.** Some people do not qualify for the standard deduction and should itemize. This includes married people who file a separate return and their spouse itemizes deductions. See the Form 1040 instructions for the rules about who may not claim a standard deduction.

5. **Choose the best method.** Compare your itemized and standard deduction amounts. You should file using the method with the larger amount.

6. **File the right forms.** To itemize your deductions, use Form 1040, and Schedule A, Itemized Deductions. You can take the standard deduction on Forms 1040, 1040A or 1040EZ.

For more information about allowable deductions, see Publication 17, Your Federal Income Tax, and the instructions for Schedule A. Tax forms and publications are available on the IRS website at www.irs.gov. You may also call 800-TAX-FORM (800-829-3676) to order them by mail.

4 WAYS TO PROTECT YOURSELF FROM TAX ID THEFT

According to NBC News, the Internal Revenue Service paid out $5.8 billion in fraudulent refunds in 2013, and last year, the agency stopped payment on 1.4 million returns filed by thieves who attempted to claim $8 billion. Tax refund fraud caused by identity theft is a major challenge for taxpayers. Here are four ways to help protect yourself from tax ID theft.

1. **What is tax return ID theft?** Identity thieves often use a legitimate taxpayer's identity to fraudulently file a tax return and claim a refund. However, tax payers who are identity theft victims are unaware their identities have been stolen until they try to file a tax return. This results in a duplicate filing under the same name and Social Security number, which reveals they have become a victim of identity theft.

2. **What are some red flags?** If you receive a notice or letter from the IRS, be alert to possible tax-related identity theft. If the letter or notice indicates more than one tax return was filed under your name or there is a balance due, refund offset or have had collection actions taken against you (for a year you did not file a tax return), you will want to contact the IRS immediately.

3. **Be proactive.** According to the IRS, there are steps you can take to protect your tax and financial information. Do not carry your Social Security card, or any other document that includes your Social Security number or Individual Taxpayer Identification Number. Do not give personal information over the phone, through mail or online unless you know exactly who you are dealing with. Also, check your credit report every 12 months for suspicious activity, and use firewalls, anti-spam or virus software, update security patches and periodically change passwords for online accounts.

4. **What should you do if you've been victimized?** If you become a victim of identity theft, contact the IRS Identity Protection Specialized Unit at (800) 908-4490, ext. 245 so the appropriate steps can be taken to secure your tax account. You should also report ID theft incidents to the Federal Trade Commission at consumer.ftc.gov or the FTC Identity Theft Hotline at (877) 438-4338. After you have completed these steps, you will want to file a report with the local police and contact the fraud departments of the three major credit bureaus: Equifax at (800) 525-6285; Experian at (888) 397-3742; and TransUnion at (800) 680-7289. Don't forget to close any accounts opened fraudulently or that appear suspicious.

Remember, the IRS does not initiate contact with taxpayers by email to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels.

CLAIMING THE CHILD AND DEPENDENT CARE TAX CREDIT

By IRS

The Child and Dependent Care Credit can help offset some of the costs you pay for the care of your child, a dependent or a spouse. Here are 10 facts the IRS wants you to know about the tax credit for child and dependent care expenses.

1. If you paid someone to care for your child, dependent or spouse last year, you may qualify for the child and dependent care credit. You claim the credit when you file your federal income tax return.

2. You can claim the Child and Dependent Care Credit for "qualifying individuals." A qualifying individual includes your child under age 13. It also includes your spouse or dependent who lived with you for more than half the year who was physically or mentally incapable of self-care.

3. The care must have been provided so you – and your spouse if you are married filing jointly – could work or look for work.

4. You, and your spouse if you file jointly, must have earned income, such as income from a job. A special rule applies for a spouse who is a student or not able to care for himself or herself.

5. Payments for care cannot go to your spouse, the parent of your qualifying person or to someone you can claim as a dependent on your return. Payments can also not go to your child who is under age 19, even if the child is not your dependent.

6. This credit can be worth up to 35 percent of your qualifying costs for care, depending upon your income. When figuring the amount of your credit, you can claim up to $3,000 of your total costs if you have one qualifying individual. If you have two or more qualifying individuals you can claim up to $6,000 of your costs (as of November 2015).

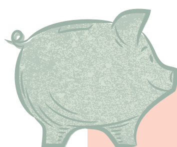
7. If your employer provides dependent care benefits, special rules apply. See Form 2441, Child and Dependent Care Expenses for how the rules apply to you.

8. You must include the Social Security number on your tax return for each qualifying individual.

9. You must also include on your tax return the name, address and Social Security number (individuals) or Employer Identification Number (businesses) of your care provider.

10. To claim the credit, attach Form 2441 to your tax return. If you use IRS e-file to prepare and file your return, the software will do this for you.

For more information see Publication 503, Child and Dependent Care Expenses, or the instructions for Form 2441. Both are available at www.IRS.gov or by calling 800-TAX-FORM (800-829-3676).



When figuring the amount of your credit, you can claim up to $3,000 of your total costs if you have one qualifying individual.

3 TAX TIPS TARGETED TO BABY BOOMERS

The Baby Boom generation, the children born in the post-World War II years between 1946 and 1964, includes about 76 million people. Now that generation is heading into retirement, with roughly 10,000 Boomers expected to retire every day between now and 2030. If you or a family member are part of this group, do you know what tax and other financial issues you should be considering?

Be aware of the RMD deadline.

Required minimum distributions (RMDs) can create a potentially expensive pitfall for those who aren't aware of the important rules surrounding them. The RMD rules apply to traditional individual retirement accounts (IRAs) and IRA-based plans such as Simplified Employee Pensions (SEPs), Salary Reduction Simplified Employee Pensions (SARSEPs) and Savings Incentive Match Plan for Employees (SIMPLE) IRAs. If you have an IRA, you must take your first required minimum distribution for the year in which you turn age 70½. However, the first payment can be delayed until April 1 of the year following the year in which you turn 70½. So, if you turned 70 on, say, May 15, 2015, you hit 70½ six months later, on Nov. 15, 2015, and you would need to start taking IRA distributions by April 1, 2016. For all subsequent years, including the year in which you were paid the first RMD by April 1, you must take the RMD by December 31 of that year. The amount of the RMD is generally calculated by dividing the prior December 31 balance of your account by a life expectancy factor, published in Internal Revenue Service (IRS) tables. Any withdrawals you take will be included in your taxable income (unless they have already been taxed, as would be the case with a Roth IRA, for example). If you miss the RMD deadline, fail to withdraw a RMD or fail to withdraw the full amount of the RMD, the amount not withdrawn is taxed at 50 percent. It's important to note that the RMD rules do not apply to Roth IRAs while the owner is alive.

Don't confuse IRAs and 401(k)s.

The RMD rules apply to all employer sponsored retirement plans as well, including profit-sharing plans, 401(k) plans, 403(b) plans and 457(b) plans. While RMDs are required beginning at age 70½ for IRAs, with an employer sponsored retirement plan, distributions begin at 70 ½ years of age or, if later, the year in which you retire, as long as your employer's plan allows it. You should also be able to continue to contribute to the plan as long as you work, unless you own 5 percent or more of the business. If you are a 5-percent owner of the business sponsoring the retirement plan, the RMDs must begin once you are 70 ½. It's very important, then, to understand the different rules for each type of retirement account. You could face a penalty if you don't take RMDs as required, but you could miss out on some tax benefits if you take them before it's necessary. Sound a little confusing? It can be. That's why it's a good idea to consult your CPA about how the RMD rules affect your specific situation.

Understand taxes on Social Security income.

Want to minimize taxes on Social Security income? Your tax rate on Social Security varies depending on your total taxable income, including distributions from retirement accounts. There are a number of steps you can consider to reduce that rate. For example, you could take distributions from a Roth IRA rather than from a traditional IRA, since a qualified Roth IRA withdrawal should generally not be taxable. Keep in mind, too, that you can delay collecting Social Security. If you do, the amount you receive will increase until you reach age 70. If you plan to work into your 60s or 70s, you might consider putting off taking Social Security benefits, even if you've reached full retirement age, until you've stopped working. The result: You'll get higher benefits and the tax you pay on them may be reduced.

(Editor's Note: Tax information changes frequently. Please consult a CPA or IRS.gov to make sure the information you have is current.)

5 TAX QUESTIONS THE SELF-EMPLOYED SHOULD ANSWER

According to CNBC, roughly 10 million Americans are self-employed. If you plan on starting a new business this year or recently did start a new business, there are important tax issues to keep in mind, even if you simply plan on converting a spare bedroom into a new office. Here are five common tax questions for the self-employed:

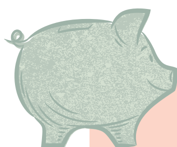
1. **What's the self-employment tax?** When you strike out on your own, tax considerations can get a little complicated—and potentially more expensive. For example, the self-employment tax will loom large in your plans because you will have to pay all of your Social Security and Medicare taxes each year instead of splitting them with an employer. Although this might seem daunting, you are allowed to deduct up to 50 percent of self-employment taxes from your net income.

2. **How do tax payments work?** Since an employer is no longer withholding your federal, state and local taxes, you will also have to figure out what income tax you owe—based on your earnings—and make quarterly estimated tax payments. If you don't pay enough in taxes by withholding or through estimated payments, you could be subject to a penalty. However, if you are earning income through self-employment while still holding another staff job, you will receive credit for Social Security and other taxes that your employer withholds, which may lower your self-employment taxes.

3. **What deductions can I take?** There are many business-related deductions available for those who are self-employed. You could be eligible for a home office deduction for any space in your house that is set aside exclusively for regular business use if it's your principal place of business. Other related costs you may be able to deduct include a percentage of your rent or depreciation on a home you own, property taxes, utilities, home maintenance costs and home insurance. Of course, you may also be eligible to deduct a variety of other expenses related to running your business – including Internet and phone use, the costs of equipment or supplies, travel, meals and entertainment. Talk to your CPA to ensure you're taking all the deductions available to you.

4. **How does the ACA affect me?** The Affordable Care Act (ACA) requires all individuals to have minimum essential health care coverage or pay an individual shared responsibility payment when they file their tax returns. Through the ACA, self-employed individuals are able to shop for flexible coverage through the government's Health Insurance Marketplace. Check with your CPA to decide what health care coverage plan is the best option for you and your family.

5. **How do I save for retirement?** The self-employed have some appealing retirement savings choices that can help minimize tax outlays, which helps secure a future. According to the IRS, you can contribute up to 25 percent of your net earnings from self-employment—up to $53,000 in 2016—to a simplified employee pension (SEP). Alternatively, you can set aside up to $12,500 of self-employment net earnings in a savings incentive match plan for employees (SIMPLE IRA Plan), plus an additional $3,000 if you're 50 or older. Be sure to ask your CPA about more details of all your retirement plan options.



The self-employment tax will loom large in your plans because you will have to pay all of your Social Security and Medicare taxes each year instead of splitting them with an employer.

FIVE QUESTIONS TO ASK WHEN FILING AN EXTENSION

Sometimes the tax deadline rolls around faster than expected. Despite best intentions, extenuating circumstances could mean that filing your taxes on time just isn't an option. If this scenario sounds familiar, filing an extension may be the best course of action. Fortunately, the IRS offers the option for both individuals and businesses. The Oklahoma Society of Certified Public Accountants offers tips to ensuring your extension is a success.

1. Why file an extension?

Perhaps you're a business owner and have not received all of your tax documentation in time for the April 15 deadline. Or you're an individual with a complicated tax situation and need more time to work with your CPA to ensure your paperwork is correct. Maybe you've had a family emergency or illness that left you unable to complete your return on time. If you fall into one of these categories, you may want to consider filing an extension. The good news is the IRS doesn't need to know the reason you're seeking an extension as long as your request is filed by April 15.

2. How much time does it buy me?

An extension is for six months after April 15, so October 15 of the same calendar year. This assumes you submit your request by April 15. But—and this is important to remember—filing an extension does not mean you get an extension on paying your taxes. You still need to make an estimated payment by April 15. Failure to pay by the deadline will result in penalties, interest and late fees.

3. If I can't pay all of the tax I owe, should I still file an extension?

In short, yes. The IRS can assess both a failure-to-file penalty and a failure-to-pay penalty. Although the IRS will charge you penalties and interest on any tax due, you can avoid the more severe late payment penalty of half a percent per month if you file on time. According to the IRS, the penalty starts accruing the day after the tax filing due date and will not exceed 25 percent of your unpaid taxes. Filing an extension by the deadline and paying what you can is the best way to avoid the failure-to-file penalty. The IRS also offers payment plans if you cannot pay your taxes in full.

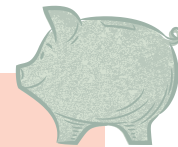
4. How do I file for an extension?

To file an extension, you'll need to submit Tax Form 4868. If you're working with a tax professional such as a CPA, he or she can do this for you. If not, you can e-file the form or complete a paper copy. The most important thing to remember is that the IRS must receive the form, and your payment, by the deadline.

5. Do I need to file an extension if I'm stationed overseas?

The IRS automatically grants military personnel serving overseas a two-month extension beyond the deadline. There's no need to file an extension—the extra time is automatic. If you'll need additional time beyond the two months, you should file an extension.

Check with your CPA to explain your options are and to help you develop a tax plan that goes according to schedule. If you don't have a CPA, you can get a free referral and free 30-minute consultation at www.FindYourCPA.com.



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WHAT IF I WANT TO APPEAL AN IRS DECISION?

What happens if you disagree with an Internal Revenue Service determination about your taxes? There are options available to you if you'd like to plead your case. Each year, thousands of taxpayers address tax disputes through the IRS's appeals process. Here's when you might consider an appeal and how it works.

First steps sometimes fail.

Let's say you're undergoing an IRS audit. You've had lengthy discussions with the IRS auditor, but you two still can't agree on the amount you owe. Your first step should be to ask to speak to the auditor's manager to find out if you can come to a successful resolution with him or her. If that attempt fails, the appeals process is another option.

Get started.

An appeal is designed to be a free and relatively straightforward alternative to help you avoid having to take your case to court. In addition to an audit, a taxpayer may turn to the appeals process because of a disagreement over an IRS assessment, penalty, interest charge, offers in compromise or liens or levies. Typically, if there is a dispute, you will receive a letter from the IRS explaining your right to appeal, but you can also initiate a request for an appeal.

Put it in writing.

If the entire amount of additional tax and penalty proposed for each tax period is $25,000 or less, then you may qualify for a small case request. If the amount you want to appeal is greater than $25,000, you will have to file a formal written protest in order to have an appeal. The written protest should cover the decisions with which you don't agree and your reasons and the facts supporting your opinion, including any legal or regulatory support.

Talk it out.

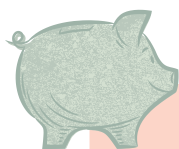
The next step usually involves having a conference, either by phone or mail or in person, with an objective IRS appeals officer to discuss your case. The conferences are informal. You aren't required to have any type of representation, but a representative who is recognized by the IRS—such as your CPA or an attorney—can participate if you'd like to have an expert involved. Before the conference begins, you should have all the paperwork you need to support your appeal. However, this is not the time to introduce new documentation. If you do, you may be sent back to the IRS auditor for further consideration. If you're not satisfied with the results of the appeals process, you will generally still be able to take your case to court, although be aware that it will likely be an expensive and time-consuming option.

What's the timeframe?

Normally, you should receive a response to your request for an appeal within 90 days. Once you've had your appeals conference, it may take anywhere from 90 days to a year for your case to be resolved.

Should you consider an offer in compromise?

Sometimes a taxpayer may not necessarily disagree with the IRS's conclusions about his or her tax situation but may simply be unable to pay. In that case, an offer in compromise may be the best answer. The IRS will consider your case based on your income, expenses, assets and overall ability to pay and determine a payment amount that may be less than your total outstanding tax bill. You must be up to date on your tax return filings and not involved in a bankruptcy proceeding. Any refunds you are due within the calendar year in which your offer is accepted will be applied to the offer that the IRS accepts. You can pay off the amount you owe either in one lump sum or in monthly payments.



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