A STUDENT RESOURCE GUIDE
FOR NEW EMPLOYEES

Presented for:
National Park Service

Presented by:
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Michael Burns has been in the financial services industry since 1977. He has provided financial planning to individuals and small businesses at a variety of levels, including investment counseling, insurance planning, risk management, retirement planning, and estate planning. He is responsible for the training and management of agents and financial service representatives. He has custom designed and implemented hundreds of financial plans for individuals as well as a few small businesses.

As owner and president of A.M.I. Marketing Inc., a full service planning firm in Vienna, Virginia he is also responsible for the ongoing development of other financial service representatives through one-on-one training. He currently is a licensee with Emerald Seminars, Inc. and presents Retirement Planning Seminars in the private sector. In early 2000, he became a presenter for Planning, Inc., delivering Financial and Retirement Planning seminars to hundreds of federal employees.

Employment

- 1988 to present: President and owner of A.M.I. Marketing Inc., Vienna, Virginia.
- 1984 to 1988: Burns and Associates Financial Services Agency.
- 1977 to 1984 Penn Corp. Financial, Sales and Management.

Professional Development and Training

- Certified Financial Planner (CFP)
- Chartered Financial Consultant (ChFC)
- Certified Life Underwriters (CLU)
- Certified Fund Specialist (CFS)
- Life Underwriter Training Council Fellow (LUTCF)
- Certified Retirement Plan Counselor (CRPC)
- Registered Financial Consultant (RFC)
- Accredited Estate Planner (AEP**)**
- Certification in Long Term Care (CLTC)

Company Affiliations and Licenses

- Broker/Dealer: ING Financial Partners, Inc.
- Series 6, Series 7, Series 24, Series 63, Series 65

Professional Associations

- Financial Planning Association
- National Association of Insurance and Financial Advisors

➢ *THE NEED FOR FINANCIAL PLANNING*

- **Problems in Common**
  - ✓ ***Cash management:*** More than just keeping a balanced checkbook also includes preparing (and following) a budget, using credit wisely and keeping the income tax burden to the lowest level.
  - ✓ ***Risk management:*** There is a risk of loss of both life and property.
  - ✓ ***Accumulation goals:*** We all need to save money for some reason.
  - ✓ ***Financial independence:*** It is important to take steps now to help insure your retirement years.
  - ✓ ***Estate planning:*** This means recognizing that death is inevitable and planning for the ultimate transfer of our assets to our heirs.
- **Financial Planning is a Process**
  - It starts with assessing your current situation.
  - Determine what cash is coming in.
  - Determine what cash is going out.
  - How much to save and/or invest to meet:
  - Short-Term Goals?
  - Intermediate-Term Goals?
  - Long-Term Goals?

Solving these problems in today's world is not easy. Three basic steps are involved:

– Recognize that professional help is required.
– Meeting with a Certified Financial Planner or other qualified planner for assistance in developing a financial plan or getting a second opinion.
– Meeting with a CPA or Estate Planning Attorney.

US OFFICE OF PERSONNEL MANAGEMENT

www.opm.gov

➢ *FERS RETIREMENT – OVERVIEW (1st leg of FERS Retirement)*

FERS is a retirement plan that provides benefits from three different sources: a *Basic Benefit Plan*, *Social Security*, and the Thrift Savings Plan (TSP). Two of the three parts of FERS (Social Security and the TSP) can go with you to your next job if you leave the Federal Government before retirement. The Basic Benefit and Social Security parts of FERS require you to pay your share each pay period. Your agency withholds the cost of the Basic Benefit and Social Security from your pay as payroll deductions. Your agency pays its part too. Then, after you retire, you receive annuity payments each month for the rest of your life.

The TSP part of FERS is an account that your agency automatically sets up for you. Each pay period your agency deposits into your account amount equal to 1% of the basic pay you earn for the pay period. You can also make your own contributions to your TSP account and your agency will also make a matching contribution. These contributions are tax-deferred. The Thrift Savings Plan is administered by the Federal Retirement Thrift Investment Board.

➢ *FERS BASIC BENEFIT PLAN – ELIGIBILITY*

There are four categories of benefits in the Federal Employees Retirement System (FERS) Basic Benefit Plan: Immediate, Early, Deferred, and Disability

Eligibility is determined by your age and number of years of creditable service. In some cases, you must have reached the Minimum Retirement Age (MRA) to receive retirement benefits. Use the following chart to figure your Minimum Retirement Age.

If you were born	**Your MRA is**
Before 1948	55
In 1948	55 and 2 months
In 1949	55 and 4 months
In 1950	55 and 6 months
In 1951	55 and 8 months
In 1952	55 and 10 months
In 1953 – 1964	56
In 1965	56 and 2 month
In 1966	56 and 4 months
In 1967	56 and 6 months
In 1968	56 and 8 months
In 1969	56 and 10 months
In 1970 and After	57

- **IMMEDIATE RETIREMENT:**
  An immediate retirement benefit is one that starts within 30 days from the date you stop working. If you meet one of the following sets of age and service requirements, you are entitled to an immediate retirement benefit:

Age	Years of Service
62	5
60	20
MRA	30
MRA	10

  If you retire at the MRA with at least 10, but less than 30 years of service, your benefit will be reduced by 5 percent a year for each year you are under 62, unless you have 20 years of service and your benefit starts when you reach age 60 or later.

- **EARLY RETIREMENT:**
  The early retirement benefit is available in certain involuntary separation cases and in cases of voluntary separations during a major reorganization or reduction in force. To be eligible, you must meet the following requirements:

Age	Years of Service
50	20
Any Age	25

- **DEFERRED RETIREMENT:**
  Refers to delayed payment of benefit until criteria are met, as follows:

  If you leave Federal service before you meet the age and service requirements for an immediate retirement benefit, you may be eligible for deferred retirement benefits. To be eligible, you must have completed at least 5 years of creditable civilian service. You may receive benefits when you reach one of the following ages:

Age	Years of Service
62	5
MRA	30
MRA	10

  If you retire at the MRA with at least 10, but less than 30 years of service, your benefit will be reduced by 5 percent a year for each year you are under 62, unless you have 20 years of service and your benefit starts when you reach age 60 or later.

- **DISABILITY RETIREMENT:**
  Disability Federal Employees Retirement System (FERS) Annuity Requirements

Age	Years of Service
Any Age	18 months

Special Requirements: You must have become disabled, while employed in a position subject to FERS, because of a disease or injury, for useful and efficient service in your current position. The disability must be expected to last at least one year. Your agency must certify that it is unable to accommodate your disabling medical condition in your present position and that it has considered you for any vacant position in the same agency at the same grade/pay level, within the same commuting area, for which you are qualified for reassignment.

➢ *FERS – CREDITABLE SERVICE*

- Federal "covered service", that is, service in which the individual's pay is subject to FERS retirement deductions, such as service under a career or career conditional appointment,
- Federal service performed before 1989, where an employee's pay was not subject to retirement deductions, such as, service under a temporary appointment, as long as a deposit is paid. There are a few exceptions to the rule that the service must have been performed before 1989, in order to be eligible to pay a deposit. The only exceptions are:
  - U.S. Senate Child Care Center service
  - Peace Corps/VISTA service
  - service under the Foreign Service Pension System (FSPS)
  - service performed before 12/31/90 with the Democratic or Republican Senatorial Campaign Committee or the Democratic or Republican National Congressional Committee, and
  - service with the Library of Congress Child Development Center prior to 12/21/00.

Deposit: A deposit is the payment of the retirement deductions, plus interest, that would have been withheld from your pay if you had been covered by the Federal Employees Retirement System (FERS) during a period of employment when retirement deductions were not withheld from your salary. You are not required to make this type of payment.

➢ *FERS RETIREMENT – COMPUTATION*

Your basic annuity is computed based on your length of service and "high-3" average salary. To determine your length of service for computation, add all your periods of creditable service, then eliminate any fractional part of a month from the total.

- **HIGH-3 AVERAGE SALARY**
  Your "high-3" average pay is the highest average basic pay you earned during any 3 consecutive years of service. These three years are usually your final three years of service, but can be an earlier period, if your basic pay was higher during that period. Your basic pay is the basic salary you earn for your position. It includes increases to your salary for which retirement deductions are withheld, such as shift rates. It does not include payments for overtime, bonuses, etc. (If your total service was less than 3 years, your average salary was figured by averaging your basic pay during all of your periods of creditable Federal service.)

- **COMPUTATION FOR NON-DISABILITY RETIREMENTS**
  Here is how the basic FERS annuity formula is calculated:

FERS Basic Annuity Formula	
Under Age 62 at Separation for Retirement **Or** Age 62 or Older With Less Than 20 Years of Service	1 percent of your high-3 average salary for each year of service
Age 62 or Older at Separation With 20 or More Years of Service	1.1 percent of your high-3 average salary for each year of service

Your benefit was computed differently, if you retired under one of the provisions below:

Special Provision for Air Traffic Controllers, Firefighters, Law Enforcement Officers, Capitol Police, Supreme Court Police, or Nuclear Materials Couriers
1.7% of your high-3 average salary multiplied by your years of service which do not exceed 20, **plus** 1% of your high-3 average salary multiplied by your service exceeding 20 years

Member of Congress or Congressional Employee (or any combination of the two) Must have at least 5 years of service as Member and/or Congressional Employee
1.7% of your high-3 average salary multiplied by your years of service as a Member of Congress or Congressional Employee which do not exceed 20, **plus** 1% of your high-3 average salary multiplied by your years of other service

Transferred to the Federal Employees Retirement System (FERS)

At time of transfer, had at least 5 years of creditable civilian service covered by either:

- Civil Service Retirement System (CSRS)
- Social Security

(but not both-excludes service during which partial CSRS deductions were withheld)

Annuity will have 2 components:

- FERS Component
- CSRS Component

Computation of FERS Component	
Under Age 62 at Separation for Retirement **Or** Age 62 or Older With Less Than 20 Years of Service	1 percent of your high-3 average salary for each year of service
Age 62 or Older at Separation With 20 or More Years of Service	1.1 percent of your high-3 average salary for each year of service
Computation of CSRS Component ***(For retirements under the special provision for firefighters, law enforcement officers, nuclear materials couriers, Members of Congress or Congressional employees, see below)***	
First 5 years of CSRS service	1.5% of your high-3 average salary for each year of service
Second 5 years of CSRS service	1.75% of your high-3 average salary for each year of service
All years of CSRS service over 10	2% of your high-3 average salary for each year of service
Computation of CSRS Component ***If retired under the special provision for firefighters, law enforcement officers, or nuclear material couriers***	
% of your high-3 average salary, multiplied by up to 20 years of CSRS law enforcement officer, firefighter or nuclear material courier service, **plus** 2% of your high-3 average salary multiplied by all remaining service in the CSRS component	
Computation of CSRS Component ***If retired under the special provision for Members of Congress or Congressional Employees***	

2.5% of your high-3 average salary multiplied by your years and months of service as a Member of Congress and/or Congressional Employee, your military service while on a leave of absence as a Member and up to 5 years of other military service,

plus

1.75% of your high-3 average salary multiplied by your years of other service, which when added to your years of 2.5% service, do not exceed 10 years,

plus

2% of your high-3 average salary multiplied by your years of other service in excess of 10 years

- **REDUCTIONS IN NON-DISABILITY ANNUITY**

  Age

  If you retire under the MRA+10 provision

  - If you have 10 or more years of service and retire at the Minimum Retirement Age (MRA), your benefit will be reduced by 5/12 of 1% for each full month (5% per year) that you were under age 62 on the date your annuity began. However, your annuity will not be reduced if you complete at least 30 years of service, or if you complete at least 20 years of service and your annuity begins when you reach age 60.
  - If you postpone the beginning date of your annuity, the age reduction will be reduced or eliminated.
  - The age reduction applies to both the Civil Service Retirement System and the Federal Employees Retirement System components of your annuity, if you transferred to FERS and part of your annuity is computed under the CSRS provision.

  If you retire under the discontinued service or early optional retirement provision with a CSRS Component

  - If you retire on a discontinued service retirement or early optional retirement because your agency was undergoing a major reorganization, reduction-in-force or transfer of function, and part of your benefit was computed under CSRS rules, the CSRS portion will be reduced if you are under age 55. The reduction is 1/6 of 1% (2% per year) for every month that you are under age 55 at the time of retirement.

  Survivor Benefits

  If you are married, your benefit will be reduced for a survivor benefit, unless your spouse consented to your election of less than a full survivor annuity. If the total of the survivor benefit(s) you elect equals 50% of your benefit, your annuity is reduced by 10%. If the total equals 25%, the reduction is 5%.

  Unpaid or Refunded Service

  If you have a CSRS component in your annuity:

  - The CSRS portion of your benefit will be reduced by 10% of any deposit owed for CSRS non-deduction service performed before October 1, 1982, unless the deposit was paid before retirement.
  - The CSRS portion of your non-disability benefit will be reduced by an actuarial factor for any CSRS refunded service performed before October 1, 1990, if you do

not repay the refund before retirement and your annuity commences after December 2, 1990.

Alternative Annuity

Your benefit may be reduced if you elected a lump sum payment equal to your retirement contributions and a reduced monthly annuity, commonly called an alternative annuity. Only non-disability annuitants who have a life-threatening affliction or other critical medical condition can elect this option.

- **DISABILITY RETIREMENT COMPUTATION**

  FERS disability benefits are computed in different ways depending on the annuitant's age and amount of service at retirement. In addition, FERS disability retirement benefits are recomputed after the first twelve months and again at age 62, if the annuitant is under age 62 at the time of disability retirement.

  FERS Disability Computation if-

  - Age 62 or older at retirement, or
  - Meet the age and service requirements for immediate voluntary retirement

  You receive your "earned" annuity based on the general FERS annuity computation, as follows—

• If age 62 or older at retirement with less than 20 years of service, or • under age 62 qualified for an immediate voluntary retirement	1 percent of your high-3 average salary for each year of service
• If age 62 or older with 20 or more years of service	1.1 percent of your high-3 average salary for each year of service

FERS Disability Computation if-

- Under age 62 at retirement, and
- Not eligible for voluntary immediate retirement

For the first 12 months	60% of your high-3 average salary minus 100% of your Social security benefit for any month in which you are entitled to Social Security benefits However, you are entitled to your "*earned*" annuity, if it is larger than this amount.
After the first 12 months	40% of your high-3 average salary minus 60% of your Social Security benefit for any month in which you are entitled to

	Social Security disability benefits However, you are entitled to your "*earned*" annuity, if it is larger than this amount.
When you reach age 62 **Your annuity will be recomputed using an amount that essentially represents the annuity you would have received if you had continued working until the day before your 62nd birthday and then retired under FERS.**	If your actual service, plus the credit for time as a disability annuitant equals less than 20 years: 1 percent of your high-3 average salary for each year of service If your actual service, plus the credit for time as a disability annuitant equals 20 or more years: 1.1 percent of your high-3 average salary for each year of service Total Service used in the computation will be increased by the amount of time you have received a disability annuity Average Salary used in the computation will be increased by all FERS cost-of-living increases paid during the time you received a disability annuity.

- **REDUCTIONS IN DISABILITY ANNUITY**
  Survivor Benefits
  If you are married, your benefit will be reduced for a survivor benefit, unless your spouse consented to your election of less than a full survivor annuity.
    - If the total of the survivor benefit(s) you elect equals 50% of your benefit, your annuity is reduced by 10%.
    - If the total equals 25%, the reduction is 5%.

  Unpaid Service if "earned" annuity paid
  If you have a *CSRS component* in your annuity, the CSRS portion of your benefit will be reduced by 10% of any deposit owed for CSRS non-deduction service performed before October 1, 1982, unless the deposit was paid before retirement.

- **COST OF LIVING ADJUSTMENTS**
  Your annuity will be increased for cost-of-living adjustments, if:
    - You are over age 62; or
    - You retired under the special provision for air traffic controllers, law enforcement personnel, or firefighters; or
    - You retired on disability, except when you are receiving a disability annuity based on 60% of your high-3 average salary. This is generally during the first year of receiving disability benefits; or
    - Your retirement includes a portion computed under Civil Service Retirement System (CSRS) rules.

FERS retirees under age 62 who do not fall into one of the categories above, are not eligible for cost-of-living increases until they reach age 62.

If you've been receiving retirement benefits for less than 1 year and are eligible for a cost-of-living adjustment, you'll get a percentage of the cost-of-living increase. The percentage depends on how long you were receiving your annuity before the effective date of the increase.

➢ *FERS RETIREMENT - DISABILITY*

When to Consider Applying for Disability Retirement

You should consider applying for disability retirement only after you have provided your employing agency with complete documentation of your medical condition and your agency has exhausted all reasonable attempts to retain you in a productive capacity, through accommodation or reassignment.

Eligibility Requirements

You must meet all of the following conditions to be eligible for disability retirement:

- You must have completed at least 18 months of Federal civilian service which is creditable under the Federal Employees Retirement System (FERS).
- You must, while employed in a position subject to the retirement system, have become disabled, because of disease or injury, for useful and efficient service in your current position.
- The disability must be expected to last at least one year.
- Your agency must certify that it is unable to accommodate your disabling medical condition in your present position and that it has considered you for any vacant position in the same agency at the same grade or pay level, within the same commuting area, for which you are qualified for reassignment.
- You, or your guardian or other interested person, must apply before your separation from service or within one year thereafter. The application must be received by either OPM or your former employing agency within one year of the date of your separation. This time limit can be waived only if you were mentally incompetent on the date of separation or within one year of this date.
- You must apply for social security disability benefits. Application for disability retirement under FERS requires an application for social security benefits. If the application for social security disability benefits is withdrawn for any reason, OPM will dismiss the FERS disability retirement application upon notification by the Social Security Administration.

Disability Retirement Computation

FERS disability benefits are computed in different ways depending on the annuitant's age and amount of service at retirement. In addition, FERS disability retirement benefits are recomputed after the first twelve months and again at age 62, if the annuitant is under age 62 at the time of disability retirement.

➢ *FERS RETIREMENT – EARLY RETIREMENT*

- **MRA+10 RETIREMENT**

  If you have 10 or more years of service, you can retire at the Minimum Retirement Age (MRA).

  Age Reduction

  Under this type of retirement, your annuity will be reduced for each month that you are under age 62. The reduction is 5% per year (5/12 of a percent per month). However, your annuity will not be reduced if you completed at least 30 years of service, or if you completed at least 20 years of service and your annuity begins when you reach age 60.

  You can reduce or eliminate this age reduction if you choose to have your annuity begin at a date later than your Minimum Retirement Age (MRA). You can choose any beginning date between your MRA and 2 days before your 62nd birthday.

  Determine Your MRA

If your year of birth is…	Your MRA is…
Before 1948	55
In 1948	55 and 2 months
In 1949	55 and 4 months
In 1950	55 and 6 months
In 1951	55 and 8 months
In 1952	55 and 10 months
In 1953 – 1964	56
In 1965	56 and 2 month
In 1966	56 and 4 months
In 1967	56 and 6 months
In 1968	56 and 8 months
In 1969	56 and 10 months
After 1969	57

- **EARLY OPTIONAL RETIREMENT**

  If your agency undergoes a major reorganization, reduction in force, or transfer of function, and a significant percentage of the employees will be separated, or will be reduced in pay, the head of your agency can ask the U.S. Office of Personnel Management (OPM) to permit early optional retirement for eligible employees. If your agency gets approval to permit early optional retirements, eligible employees will be notified of the opportunity to retire voluntarily.

- **DISCONTINUED SERVICE RETIREMENT BECAUSE OF AN INVOLUNTARY SEPARATION**

  The term "involuntary separation" means any separation against the will and without the consent of the employee, other than "for cause" for misconduct or delinquency. The most common cause of an involuntary separation is a reduction in force. Another frequent cause for an involuntary separation is when the location of an office or unit is moved to an area outside the commuting area of the old worksite*. Employees who decline reasonable offers of other positions are not eligible for discontinued service annuities.

  *Exception: If, when you accepted your current position, you were placed under a general mobility agreement whereby you would be subject to geographic reassignment, you would not be eligible for discontinued service annuity rights if your position is moved to an area outside the commuting area.

  If your agency-
  - makes you a reasonable offer and you choose to decline the offer and resign, you will not qualify for discontinued service retirement, or
  - separates you by adverse action procedures for not complying with a directed reassignment to a position that is a "reasonable offer"

  your separation would not be qualifying for discontinued service.

  Reasonable Offer
  - Written offer of another position in your agency and commuting area for which you are qualified, and
  - Which is no more than two grades or pay levels below your current grade or pay level.

  Commuting Area

  Geographic area that usually constitutes one area for employment purposes. It includes any population center (or two or more neighboring ones) and the surrounding localities in which people live and reasonably can be expected to travel back and forth daily in their usual employment.

- **ELIGIBILITY REQUIREMENTS FOR EARLY OPTIONAL RETIREMENT AND DISCONTINUED SERVICE RETIREMENT BECAUSE OF AN INVOLUNTARY SEPARATION**

Age	**Years of Service (At least 5 yrs Civilian Service)**
50	20
Any Age	25

- **ANNUITY COMPUTATION**
  Here is how the basic FERS annuity formula is calculated:

FERS Basic Annuity Formula	
Under Age 62 at Separation for Retirement **Or** Age 62 or Older With Less Than 20 Years of Service	1 percent of your high-3 average salary for each year of service
Age 62 or Older at Separation With 20 or More Years of Service	1.1 percent of your high-3 average salary for each year of service

Reductions in Annuity

In addition to the regular reductions for survivor benefits, unpaid service and refunded service, your annuity would be subject to the following age reduction:

- If you retire under the MRA+10 provision
  - If you have 10 or more years of service and retire at the Minimum Retirement Age (MRA), your benefit will be reduced by 5/12 of 1% for each full month (5% per year) that you were under age 62 on the date your annuity began. However, your annuity will not be reduced if you complete at least 30 years of service, or if you complete at least 20 years of service and your annuity begins when you reach age 60.
  - If you postpone the beginning date of your annuity, the age reduction will be reduced or eliminated.
  - The age reduction applies to both the Civil Service Retirement System and the Federal Employees Retirement System components of your annuity, if you transferred to FERS and part of your annuity is computed under the CSRS provision.

- If you retire under the discontinued service or early optional retirement provision with a CSRS Component

  - If you retire on a discontinued service retirement or early optional retirement because your agency was undergoing a major reorganization, reduction-in-force or transfer of function, and part of your benefit was computed under CSRS rules, the CSRS portion will be reduced if you are under age 55. The reduction is 1/6 of 1% (2% per year) for every month that you are under age 55 at the time of retirement.

➢ *FERS RETIREMENT – VOLUNTARY*

Age and Service Requirements for Voluntary Retirement

Eligibility is based on your age and the number of years of creditable service and any other special requirements. If you meet one of the following sets of requirements, you may be eligible for a voluntary immediate retirement benefit. An immediate annuity is one that begins within 30 days after your separation.

<table>
<tr><th>Type of Retirement</th><th>Minimum Age</th><th>Minimum Service</th><th>Special Requirements</th></tr>
<tr><td rowspan="8">Voluntary (Optional)</td><td>62</td><td>5</td><td>None</td></tr>
<tr><td>60</td><td>20</td><td>None</td></tr>
<tr><td>MRA*</td><td>30</td><td>None</td></tr>
<tr><td>MRA*</td><td>10</td><td>None

(Note: Annuity is reduced by 5% for each year the employee is under age 62.)</td></tr>
<tr><td>Any age</td><td>25</td><td rowspan="2">You must retire under special provisions for air traffic controllers, law enforcement or firefighter personnel.</td></tr>
<tr><td>50</td><td>20</td></tr>
<tr><td>Any age</td><td>25</td><td rowspan="2">OPM must have determined that your agency is undergoing a major reorganization, reduction-in-force, or transfer of function.</td></tr>
<tr><td>50</td><td>20</td></tr>
</table>

➢ *FERS RETIREMENT – ANNUITY SUPPLEMENT*

The FERS annuity supplement is paid in addition to gross monthly Federal Employees Retirement System (FERS) annuity benefits. It represents what you would receive for your FERS civilian service from the Social Security Administration (SSA) and is calculated as if you were eligible to receive SSA benefits on the day you retired. Eligibility for the annuity supplement continues until the earlier of:

- The last day of the month before the first month for which you would be entitled to actual social security benefits, or
- The last day of the month in which you reach age 62.

- **Eligibility for the Annuity Supplement**

  If you retire voluntarily on an immediate annuity which is not reduced for age, you may be eligible for the annuity supplement, in addition to your regular monthly FERS benefit. You may also receive the supplement if you retired involuntarily before attaining your Minimum Retirement Age (MRA) or voluntarily because of a major reorganization, reduction in force, or an early retirement for Members of Congress. However, in these three instances, you will not be eligible for the annuity supplement until you reach your Minimum Retirement Age (MRA). If you receive a deferred benefit, a disability benefit or an immediate MRA+10 benefit, you will not be eligible for the annuity supplement.

  If your annuity has a Civil Service Retirement System (CSRS) and a Federal Employees Retirement System (FERS) component, you can still receive an annuity supplement. However, you must have completed one full calendar year of service subject to FERS computation rules.

- **Computation of Annuity Supplement**
  The FERS annuity supplement is computed as if you were age 62 and fully insured for a social security benefit when the supplement begins. OPM first estimates what your full career (40 years) social security benefit would be. Then we calculate the amount of your civilian service under FERS and reduce the estimated full career social security benefit accordingly. For example, if your estimated full career social security benefit would be $1,000 and you had worked 30 years under FERS, we would divide 30 by 40 (.75) and multiply ($1,000 x .75 = $750). The result would be your FERS annuity supplement, prior to any reductions.

- **Changes in the Amount of the Supplement**
  Like social security benefits, the FERS annuity supplement is subject to an earnings test. It is reduced if you earn more than the social security exempt amount of earnings in the immediately preceding year. The supplement is reduced by $1.00 for every $2.00 of earnings over the minimum level. It is possible that the supplement could reduce to $0. However, the FERS basic benefit will not be reduced. If you are receiving a supplement, you must report your earnings to OPM. You will receive instructions on how to report your earnings, once you begin receiving the annuity supplement.

- **Minimum Level of Earnings**
  The amount you may earn without affecting your FERS annuity supplement is determined by the Social Security Administration each year. It increases with the annual increases in average wages for the national workforce.

- **Definition of Earnings**
  The FERS basic benefit is not considered earnings when determining your earnings for the earnings test. Earnings for the year consist of the sum of wages for service performed in the year, plus all net earnings from self-employment for the year, minus any net loss from self-employment for the year

➢ *FERS – SERVICE CREDIT*

Civilian Service

Under FERS, you can make a payment for the following types of service, in order to credit it toward your retirement:

- Any period of creditable civilian service performed before 1989 during which no retirement deductions were withheld from your pay.
- Any period of civilian service during which retirement deductions were withheld from your pay and refunded to you based on an application you filed before you became covered by FERS.
- Any period of Peace Corps or VISTA volunteer service (excluding training time) regardless of when the service was performed.

Payment cannot be made for:

- Any period of service under FERS for which you received a refund of your retirement deductions based on an application you filed after you had been covered by FERS.
- Temporary or intermittent service which you performed after 1988. Temporary service means an appointment which is limited to one year or less. Intermittent service means an appointment with no scheduled tour of duty.
- Any other service which is not creditable under FERS.
- Periods of leave without pay.
- Time covered by a lump sum leave payment.

If retirement deductions were not withheld during the period of service-

You can pay a deposit for the service, if it was performed before 1989. FERS deposits (excluding Peace Corps and VISTA volunteer service) are normally 1.3 percent of your basic pay for the service, plus interest. The 1.3 percent rate applies regardless of whether deductions would have been taken at that rate, if they had been taken at the time the service was performed.

Deposit for Service Ending before January 1, 1989 and Covered by FERS

You can make a deposit for creditable Federal Employees Retirement System (FERS) service you performed before 1989 during which retirement deductions were not withheld from your pay. Interest is charged from the midpoint of periods of service and is compounded annually. Interest is charged to the date the deposit is paid in full or annuity begins, whichever is earlier. If you do not pay for a period of this type of service, you will not receive credit in determining your eligibility to retire or in computing your retirement benefit.

Deposit for Service Ending on/after January 1, 1989 and Covered by FERS

With certain minor exceptions, a Federal Employees Retirement System (FERS) employee cannot make a deposit for non-contributory service performed on/after January 1, 1989.

If you transferred to FERS from CSRS, the following rules apply to the CSRS portion of your annuity-

Deposit for Service Ending before October 1, 1982 and Covered by CSRS

You can make a deposit for creditable Civil Service Retirement System (CSRS) service you performed before October 1982 during which retirement deductions were not withheld from your pay. You will receive retirement credit for all of this service whether or not you pay the deposit. However, unless you pay the deposit in full, your annual benefit will be reduced by 10 percent of the deposit amount due at retirement. Also, any annuity due your surviving spouse will be reduced proportionately. Interest is charged from the midpoint of periods of service through the date of the bill. If full payment is received within 30 days after the bill is issued, no additional interest is charged. Otherwise, interest will be computed after each payment at the rate of 3 percent for the interval since the most recent payment you have made. You may pay installments of $50 or more, but paying the full amount minimizes further interest charges. After each payment we will send you an updated account statement.

Deposit for Service Ending on/after October 1, 1982 and Covered by CSRS

You can make a deposit for creditable Civil Service Retirement System (CSRS) service you performed on or after October 1982 during which retirement deductions were not withheld from your pay. Unless you pay the deposit in full, you will not receive credit for the service in the computation of your annuity. Interest is charged from the midpoint of periods of service and is compounded annually. Interest is charged through December 31 of the year before the year in which the bill is being issued. If full payment is received by December 31 of the year in which the bill is issued, no additional interest will be charged. If not, interest will be computed once each year as of December 31 based on the unpaid balance at that time.

If retirement deductions were withheld from your pay and later refunded to you—

Redeposit Service and Covered by FERS

You can repay any refund you received for any period of civilian service during which retirement deductions were withheld from your pay and later returned to you before you were covered by the Federal Employees Retirement System (FERS). Interest is charged from the date of the refund and compounded annually. Interest is charged to the date full payment is made or the date annuity begins, whichever is earlier. If you do not pay for a period of this type of service, you will not receive credit in determining your eligibility to retire or in computing your retirement benefit.

Redeposit Service Ending before October 1990 and Covered by CSRS

You can repay the refund you received for periods of civilian service ending before October 1990 during which retirement deductions were withheld from your pay and later refunded to you. However, you will receive credit for all of this service whether or not you make the payment (unless you retire under the disability provisions of the law). Your annuity will be subject to a permanent actuarial reduction based on the amount of redeposit and interest due

and your age at retirement. The actuarial reduction will not be applied to any annuity due your surviving spouse. You can avoid the reduction by repaying the refund.
If the refund was paid before October 1, 1982, interest is charged up through the billing date. If full payment is received within 30 days after the bill is issued, no additional interest will be charged. Otherwise, interest will be computed after each payment at the rate of 3 percent for the interval since the most recent payment.

If the refund was paid on or after October 1, 1982, interest is compounded annually and charged through December 31 of the year before the year in which this bill is being issued. If full payment is received by December 31 of the year in which this bill is issued, no additional interest will be charged. If not, interest will be computed once each year as of December 31 based on the unpaid balance at that time.

Redeposit Service Ending on or after October 1, 1990 and Covered by CSRS
You can repay the refund you received for periods of civilian service ending on or after October 1, 1990, during which retirement deductions were withheld from your pay and later refunded to you. Unless you pay the redeposit in full, you will not receive credit for this service in the computation of your annuity. Consequently, your annuity, as well as any annuity due your surviving spouse, will be reduced. For refunds paid on or after October 1, 1982, interest is compounded annually and charged through December 31 of the year before the year in which this bill is being issued. If full payment is received by December 31 of the year in which this bill is issued, no additional interest will be charged. If not, interest will be computed once each year as of December 31 based on the unpaid balance at that time. Interest is applied at the rated described in the table.

Procedures for paying a deposit or redeposit-
You should apply to make a payment by completing a Standard Form 3108 Application to Make Service Credit/FERS. If you are within six months of retirement, you should submit your request to make the deposit or redeposit at the same time you submit your application for retirement. You can use a form or letter to do this. We will notify you of any amounts due so you can decide whether or not to make the payment. We cannot, however, authorize your regular annuity payments until we have your decision about the payment.

The table below lists the interest rates for unpaid deposits. These interest rates are also used for unpaid redeposits and for unpaid post-1956 military deposits.

If the period of nondeduction service was performed before 10/1/82, the interest rate is generally 3%. If the service was performed on or after 10/1/82, then the interest rate charged is 3% through 12/31/84, and variable interest rates thereafter as shown on the next page.

Interest Rates for Deposits Received on or after October 1, 1982

Up to 1984	3%	**1997**	6.875%
1985	13%	**1998**	6.75%
1986	11.125%	**1999**	5.75%
1987	9%	**2000**	5.875%
1988	8.375%	**2001**	6.375%
1989	9.125%	**2002**	5.5%
1990	8.75%	**2003**	5.0%
1991	8.625%	**2004**	3.875%
1992	8.125%	**2005**	4.375%
1993	7.125%	**2006**	4.125%
1994	6.25%	**2007**	4.875%
1995	7%	**2008**	4.75%
1996	6.875%	**2009**	3.875%
		2010	3.125%

Military Service

Credit for Military Service performed after 1956-

To receive FERS credit for military service performed after 1956, you must pay a deposit. The amount of the deposit is:

Dates of Service	**Amount of Deposit Due**
Through 12/31/98	3% of military basic pay
1/1/99 through 12/31/99	3.25% of military basic pay
1/1/00 through 12/31/00	3.4% of military basic pay
1/1/01 to the present	3% of military basic pay

If you are entitled to have part of your retirement computed under CSRS Rules, military service performed prior to your transfer to FERS comes under the following CSRS deposit rules:

The CSRS deposit is 7 percent of your military basic pay

- If you were first employed in a civilian position before October 1, 1982, you do not pay the deposit and you are eligible for a Social Security benefit at age 62, the CSRS part of your annuity will be recomputed at age 62 to delete credit for the post-1956 military service.
- If you were first hired on or after October 1, 1982, you will not receive any credit for post-1956 military service if you do not make the deposit for it.

Procedures for paying the post-1956 military service deposit-

You must make the deposit payment for your post-1956 military service before you stop working for the government. It is paid to your employing agency. You should ask your local servicing personnel center for help in determining whether to make this payment. They can provide personalized assistance because they have your employment records.

➢ *FERS – SURVIVOR BENEFITS*

Introduction

CSRS and FERS both provide survivor benefits, but the benefits offered by the two plans differ greatly. Depending on your personal situation, the benefits offered by one plan may be better for you than the other plan's benefits.

Recipients of Survivor Benefits

Under CSRS, FERS, and Social Security, survivor benefits can be paid under various conditions to current and former spouses and children. Social Security benefits can also be paid to dependent elderly parents. Surviving spouses must meet certain age and length of marriage requirements in order to qualify for benefits. You can also elect benefits for a spouse you marry after retirement under both FERS and CSRS. The rules for who is eligible for spousal benefits are the same for FERS Basic Benefits and CSRS. Under both CSRS and FERS, children's benefits are payable to each unmarried child:

- up to age 18;
- up to age 22 if a full-time student; and
- at any age if the child became disabled before age 18.

Also, under both CSRS and FERS, your Thrift Savings Plan account will be available to your designated survivor. If you want more information about CSRS and FERS survivor benefits (including court ordered benefits for a former spouse), several pamphlets on OPM's website have more information.

If You Die as an Employee

FERS also pays benefits to the eligible survivors of an employee who had at least 18 months of creditable civilian service. Your CSRS service counts to meet this requirement.

Under FERS, if you die while you are a Federal employee, and have more than 18 months of creditable civilian service but less than 10 years of total service, your eligible spouse will receive a two-part FERS benefit. It includes a lump-sum payment that is adjusted each year for inflation ($21,783.34 for 1998), plus the greater of half of your high-3 average pay or half of your annual rate of pay at death. Social Security and other survivor benefit payments will not affect this lump-sum benefit.

In addition, if you had 10 years of service, your eligible spouse will also receive an annuity equal to one-half of your accrued Basic Benefit.

FERS childrens' benefits also depend on whether your spouse is still living and how many children are eligible for benefits. In addition, children's benefits are reduced dollar for dollar by Social Security children's benefits that may be payable.

Social Security also provides survivor benefits to the eligible survivors of an employee who met the minimum Social Security eligibility requirements. The number of Social Security credits needed to qualify depends on when the employee was born and how old he/she was at the time of death. The minimum number of credits required is 18 months.

Under CSRS and FERS these benefits are available without additional cost to you, that is, at the regular deduction rate for CSRS and FERS benefits.

If You Die After You Retire

If you are a FERS retiree when you die, your eligible spouse will be paid 50% of the amount of your annuity, plus a Special Retirement Supplement if your spouse is younger than age 60 and not yet eligible for Social Security benefits.

As a married retiree under FERS, your annuity will be reduced in order to provide for this survivor benefit unless you and your spouse waive the reduction. Under FERS, the reduction is larger than under CSRS. It is a full 10% of your entire annual benefit amount. Again, the 50% benefit is based on the amount of your annuity before this reduction is taken. You and your spouse also can choose a smaller survivor benefit of 25% of your annuity, with a 5% reduction in your benefit. However, under FERS you cannot choose other benefit levels as you can under CSRS.

Children's benefits are the same for both retirees and employees.

➢ *FERS – SPOUSE EQUITY ACT*

Law

The Civil Service Retirement Spouse Equity Act of 1984 (Public Law 98-615) was enacted on November 8, 1984. Under this act, as amended, certain former spouses of Federal employees, former employees, and annuitants may qualify to enroll in a health benefits plan under the FEHB Program.

Eligibility

Your former spouse is eligible to enroll under Spouse Equity provisions if:

- you were divorced during your employment or receipt of annuity;
- he/she was covered as a family member under an FEHB enrollment at least one day during the 18 months before your marriage ended (Note: This requirement is also met when both you and your former spouse have FEHB enrollments);
- he/she is entitled to a portion of your annuity or to a former spouse survivor annuity; and
- he/she has not remarried before age 55.

Your employing office will determine whether your former spouse is eligible to enroll.

➢ *FEDERAL BALLPARK ESTIMATE*

What is the Federal Ballpark Estimate? The Federal Ballpark Estimate includes projected Federal annuity and Thrift Savings Plan benefits to help you quickly identify approximately how much you need to save to fund a comfortable retirement.

Who can use the Federal Ballpark Estimate? The Federal Ballpark Estimate can be used by employees covered by the Civil Service Retirement System (CSRS), CSRS-Offset, or the Federal Employees Retirement System (FERS) who plan to retire under the voluntary age and service rules. The current version does not perform estimates for employees planning to retire under the Minimum Retirement Age (MRA) + 10 rules. The Federal Ballpark Estimate does not estimate the retirement benefits for employees who are covered by special computation rules, e.g. law enforcement officers, firefighters, air traffic controllers. A future version of the Federal Ballpark Estimate will include those calculations.

Can I use the Federal Ballpark Estimate if I elected FERS or have a service computation date (SCD) before 1/1/1987? While FERS began on January 1, 1987, it is possible for a FERS employee to have an SCD prior to that date. For example, employees with prior CSRS service who elected FERS and employees who paid military deposits can have SCD’s earlier than 1987. If you are in one of these groups, enter the correct SCD and follow the directions in the "Warning" message. The Federal Ballpark Estimate will correctly estimate your benefits.

Email questions or comments to benefits@opm.gov.

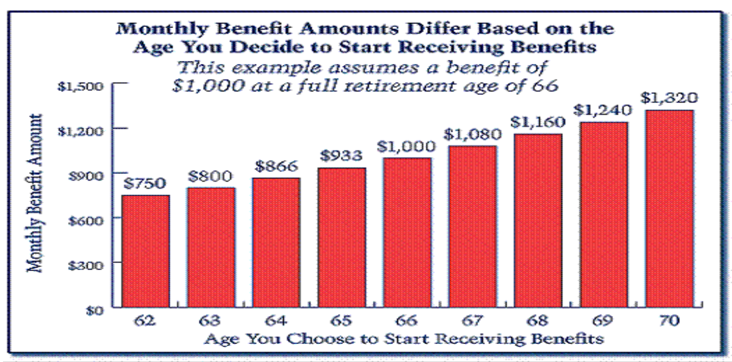
➢ *SOCIAL SECURITY BENEFITS (2ND leg of FERS Retirement)*

No matter what your full retirement age (also called "normal retirement age") is, you may start receiving benefits as early as age 62 or as late as age 70.

If you retire early

You can retire at any time between age 62 and full retirement age. However, if you start benefits early, your benefits are reduced a fraction of a percent for each month before your full retirement age.

The following chart provides an example of how your monthly benefit amount can differ based on the age at which you decide to start receiving benefits.



For more information, please visit the Social security website at www.socialsecurity.gov.
This website will give you access to a Retirement Planner, Disability Planner, Survivors Planner, Retirement Estimator, and Benefit Calculators.

How the Social Security Retirement Planner can help you now

This planner provides detailed information about your Social Security retirement benefits **under current law**. It also points out things you may want to consider as you prepare for the future.
If you are:

- Looking for information, you can:
  - Find your retirement age,
  - Estimate your life expectancy,
  - Use our Retirement Estimator and our other benefit calculators to test different retirement ages or future earnings amounts,
  - Learn about Social Security programs,
  - Find out what happens
    - if you work after you retire or
    - if you are already a Medicare Beneficiary and
  - Learn how certain types of earnings and pensions can affect your benefits

WHAT IS THE THRIFT SAVINGS PLAN? (3rd leg of FERS Retirement)

- The Thrift Savings Plan (TSP) is a retirement savings and investment plan for Federal employees.
- The purpose of the TSP is to provide retirement income.
- The TSP offers Federal employees the same type of savings and tax benefits that many private corporations offer their employees under 401(k) plans or 403(b) plans.

WHO MAY CONTRIBUTE TO THE THRIFT SAVING PLAN?

- Employees covered by the Federal Employees' Retirement System (FERS) and the Civil Service Retirement System (CSRS) can contribute to the TSP. The participation rules are different for FERS and CSRS employees.
- The TSP is a **defined contribution** plan. The retirement income that you receive from your TSP account will depend on how much you (and your agency, if you are a FERS employee) have contributed to your account and the growth from your account.

HOW MUCH CAN I CONTRIBUTE TO THE TSP?

FERS Participants — You can contribute up to $16,500 per year, deducted proportionately, from each pay period to your TSP account as soon as you become a Federal employee. Once you are eligible, you will receive:

- Agency Automatic (1%) Contributions
- Agency Matching Contributions
- Immediate vesting in Agency Matching Contributions and vesting — generally in 3 years — in Agency Automatic (1%) Contributions

WHAT ARE THE MAJOR FEATURES OF THE TSP?

All Participants — The TSP offers:

- Immediate employee contributions
- Before-tax savings and tax-deferred investment earnings
- Low administrative and investment expenses
- Transfers or rollovers of eligible distributions into the TSP
- A choice of investment funds:
  - Government Securities Investment (G) Fund
  - Fixed Income Index Investment (F) Fund
  - Common Stock Index Investment (C) Fund
  - Small Capitalization Stock Index Investment (S) Fund
  - International Stock Index Investment (I) Fund
  - Lifecycle (L) Funds
- Ability to make contribution allocations daily
- Ability to make interfund transfers twice a month

- Loans from your own contributions and attributable earnings while you are in Federal service
- Catch-up contributions for participants age 50 or older is $5,500.
- In-service withdrawals for financial hardship or after you reach age 59½
- Portable benefits and a choice of withdrawal options after you separate from Federal service
- Ability to designate beneficiaries for your account balance
- Protection of spouses' rights for loans and withdrawals and recognition of qualifying court orders

➢ *HOW DOES THE TSP FIT INTO THE TOTAL RETIREMENT PLAN FOR FERS EMPLOYEES?*

- The TSP is one of the three parts of your retirement package, along with your FERS Basic Annuity and Social Security.
- Your TSP account will provide an important source of retirement income. The TSP is especially important to FERS employees because the formula used to compute your FERS Basic Annuity is less generous than the formula used to compute the CSRS annuity.
- As a FERS employee, you may begin contributing to the TSP when you are first hired by the Federal Government. Once you become eligible for agency contributions, you will receive Agency Automatic (1%) Contributions whether or not you are contributing.

➢ *WHAT IF I CAN'T AFFORD TO CONTRIBUTE VERY MUCH?*

- You can contribute as little as one dollar per pay period. Even small savings add up over time. If you are a FERS employee and put in only $10 each biweekly pay period, here's the amount you could have in your TSP account in 25 years. This is in addition to your Agency Automatic (1%) Contributions, which you get whether you contribute or not:

Your $10 biweekly contributions	**$6,500**
Agency's matching contributions	**$6,500**
Earnings (assuming 7% a year)	**$22,360**
Your total	**$35,360**

➢ *UPCOMING CHANGES TO THE TSP?*

- Signed into law by Thrift Savings Plan Enhancement Act of 2009.
- Immediate agency contributions – no waiting period.
- Automatic Enrollment – starting in the Summer 2010, 3% automatic contribution when hired
- Plus Agency 1%
- Plus Agency 3% Matching
- Roth TSP – coming in Summer of 2011?

This page was updated on **November 1, 2010**.

- **Loan interest rate** for new loans is 2.125%.
- **Elective Deferral Limit (I.R.C. Section 402(g))**: The elective deferral limit for 2011 and 2010 is $16,500.
- **I.R.C. Section 415(c) Limit**: The limit for 2011 and 2010 is $49,000.
- **Catch-Up Contributions**: The limit on catch-up contributions for 2011 and 2010 is $5,500. If you are at least age 50 (or will become age 50 during the calendar year) and if you have made or will make the maximum amount of employee contributions for the calendar year (e.g., $16,500 in 2011), you may also make catch-up contributions to your TSP account.
- **Participant statements**: are on line in Account Access on this web site. Click on Your TSP Participant Statement for more information.
- **Annuity interest rate index**: 2.625% for annuities purchased in November 2010, and 2.750% for annuities purchased in October 2010. You can also view historical annuity interest rates.
- **Your account balance** is updated each business day. To access your account balance on this web site, you will need your TSP account number (or custom user ID) and your 8-character Web Password. To obtain your account balance from the ThriftLine, you will need your TSP account number and 4-digit TSP Personal Identification Number (PIN).
- **Civilian TSP participants who are members of the Ready Reserve**: If you are a civilian TSP participant with an outstanding TSP loan and are placed in nonpay status to perform military service, make sure your agency provides the TSP with documentation to certify your status and suspend loan payments. The Internal Revenue Code allows the TSP to suspend loan payments for all participants placed in nonpay status for up to one year of nonpay. However, participants placed in nonpay status to perform military service for more than one year are authorized suspension of loan payments for the entire period of military service.

Comparison of the TSP Funds

The chart below provides a comparison of the available TSP Funds. For more detailed information about each fund, see the **TSP Fund Information Sheets**.

	G Fund	**F Fund***	**C Fund***	**S Fund***	**I Fund***	**L Funds****
Description of Investments	Government securities (specially issued to the TSP)	Government, corporate, and mortgage-backed bonds	Stocks of large and medium-sized U.S. companies	Stocks of small to medium-sized U.S. companies not included in the C fund	International stocks of 21 developed countries	Invested in the G, F, C, S, and I Funds
Objective of Fund	Interest income without risk of loss of principal	To match the performance of the Barclays Capital U.S. Aggregate Bond Index	To match the performance of the Standard & Poor's 500 (S&P 500) Index	To match the performance of the Dow Jones U.S. Completion TSM Index	To match the performance of the Morgan Stanley Capital International EAFE (Europe, Australasia, Far East) Index	To provide professionally diversified portfolios based on various time horizons, using the G, F, C, S and I Funds
Risk	Inflation risk	Market risk, credit risk, prepayment risk, Inflation risk	Market risk, Inflation risk	Market risk, Inflation risk	Market risk, currency risk, inflation risk	Exposed to all of the types of risk to which the individual TSP funds are exposed – but *total* risk is reduced through diversification among the five individual funds
Volatility	Low	Low to moderate	Moderate	Moderate to high – historically more volatile than C Fund	Moderate to high – historically more volatile than C Fund	Asset allocation shifts as time horizon approaches to reduce volatility
Types of Earnings***	Interest	Change in market prices Interest	Change in market prices Dividends	Change in market prices Dividends	Change in market prices Change in relative value of currency Dividends	Composite of earnings in the underlying funds
Inception Date	April 1, 1987	Jan. 29, 1988	Jan. 29, 1988	May 1, 2001	May 1, 2001	August 1, 2005

* The F, C, S, and I Funds also have earnings from securities lending income and from temporary investments in G Fund securities. These amounts represent a very small portion of total earnings.

** Each of the L Funds is invested in the individual TSP funds (G, F, C, S, and I). The portion of your L Fund balance invested in each of the individual TSP funds depends on the L Fund you choose.

*** Income from interest and dividends is included in the share price calculation. It is not paid directly to participants' accounts.

➢ *WHAT IS AN INTERFUND TRANSFER?*

- An interfund transfer is the movement of some or all of your existing account balance among the TSP Funds. You may move part or all of the money in your account from one fund to any other fund or funds. If you are a FERS employee, this includes your agency contributions and their earnings, even if you have never contributed your own money to your account.
- An interfund transfer involves only money that is already in your account. It does not change the way new contributions are allocated to the TSP funds.

➢ *WHAT IS THE TSP LOAN PROGRAM?*

- The TSP loan program gives access to the money that you have contributed to your account and the earnings on that money.
- You must be in pay status to obtain a loan, because your regular loan payments are made through payroll deductions.
- You cannot borrow any agency contributions in your account or any earnings attributable to those contributions.

➢ *WHAT TYPES OF LOANS ARE THERE?*

There are two types of loans:

- *A general purpose loan*: repayment period of 1 to 5 years with no documentation needed.
- *A residential loan*: repayment period of 1 to 15 years with documentation.
  - The minimum loan amount is $1,000.
  - The maximum loan amount is $50,000, but the maximum amount you are eligible to borrow depends on the amount you have contributed.
  - You may have one general purpose loan and one residential loan out at any one time.

➢ *THE PERFECT INVESTMENT*

- **High rate of return:** one that outperforms inflation and taxes and meets your investment goals
- **Completely safe:** no concern of loss
- **Always liquid:** receive cash with no penalty
- **No income taxes:** keep what you earn
- No skill or knowledge required

➢ *THE REAL WORLD*

- ➢ A "perfect" investment does not exist, of course.
- ➢ Selecting the best investment for a situation is made easier by answering a few questions.

➢ *CONSIDER THE FOLLOWING…*

- Why are you investing?
- When will the money be needed?
- How much risk are you willing to assume?
- Are income taxes a concern?
- What is the economic outlook?
- Do you have the skill to manage your investment?
- How much money is available to invest?

➢ *TYPES OF INVESTMENT RISK*

The possibility that an investment will return less than expected is known as "investment risk".

- Risk vs. Reward
  – The greater the risk, the greater the potential reward.
  – A risk free investment does not exist.
- Market Risk – the possibility that downward changes in the market price of an investment will result in a loss of principal for an investor.
  – Associated with the ups and downs of the stock market.
  – Reduced by longer time horizons for investing and through diversification.
- Inflation Risk
  – For many, safety of principal is the primary goal when investing.
  – Certain investments such as CD's or T-Bills provide protection from market risk; they may not provide protection from inflation risk.

➢ *CHART*

End of Year	CD Value at End of Year (5%)	Purchasing Power at 3% Inflation Rate	"Real" Value of CD	"Loss" Due to Inflation
1	$10,500	97.09%	$10,194	$306
2	$11,025	94.26%	$10,392	$633
3	$11,576	91.51%	$10,594	$982
4	$12,155	88.85%	$10,800	$1,355
5	$12,763	86.26%	$11,009	$1,753
6	$13,401	83.75%	$11,223	$2,178
7	$14,071	81.31%	$11,441	$2,630
8	$14,775	78.94%	$11,663	$3,111
9	$15,513	76.64%	$11,890	$3,624
10	$16,289	74.41%	$12,121	$4,168

**For illustrative purposes only. This does not reflect the performance of any specific scenario.*

➢ *OTHER COMMON RISK FACTORS*

- Credit Risk – chance that the issuer of a debt-type instrument will not carry out its obligations. Also known as “default risk”
- Liquidity Risk – not being able to sell without losing part of the principal.
- Interest Rate Risk – the risk that an increase in the general level of interest rates will cause the market value of existing investments to fall.
- Tax risk – the possibility that a change in tax law will change the tax characteristics of an investment.
- Event risk – occurs when something substantial happens to a company or an industry that has an immediate impact on its financial condition.

➢ *BASIC INVESTMENT TOOLS*

- Stocks – The term “stock” and “share” both refer to a fractional ownership interest in a corporation.
  – Uses: Investors buy and sell stock for its long-term growth potential.
  – Risks: The long-term growth of a company cannot be predicted, the short-term market value of the company’s stock will fluctuate up and down.
- Bonds – While stocks represent ownership, bonds represent debt. A Bond is evidence of money borrowed by the bond issuer.
  – Uses: Bonds are typically bought by investors seeking current income or capital growth.
  – Risks: Fluctuation of the market price, selling the bond before maturity and inflation and tax risk.
- Savings Accounts: Includes both the traditional savings account as well as fixed-term certificates of deposit.
  – Uses: Often used as a reservoir for emergency funds or to generate income.
  – Risks: The potential additional interest income forgone in exchange for safety of principal
- Real Estate – A favored investment for those seeking tax benefits and a hedge against inflation.
  – Uses: long-term capital gains, long-term capital growth, tax-sheltered income and a hedge against inflation.
  – Risk: lack of expected cash flow, deflation, lack of growth, illiquid monies subject to changes in tax laws.
  – REITS and Real Estate Mutual Funds

***Investment in real estate and REITS may be affected by adverse economic and regulatory changes. Properties that incur vacancies may be difficult to sell or release. Non-traded REITS may have certain risks, including possible illiquidity of the investment and should be considered a long-term investment. Past performance does not guarantee future performance. When you sell your shares and/or units, they could be worth less than what you paid for them.*

➢ *WHAT IS A MUTUAL FUND?*

- Mutual Fund – an organization designed to pool the assets of many investors, to achieve a common purpose.
  - Professional Management: Trained, experienced investment professionals provide research, selection and monitoring.
  - Diversification: Spreads risk over many different securities.
  - Convenience: Can be started with a small amount of money. Dividends and gains can be automatically reinvested.

Mutual Fund Families

Money Market Funds		Sector Funds
• Invest in short-term money market (debt) instruments. • Yields fluctuate daily. • Taxation of dividends received depends on underlying investments. • Often used as a liquid, short-term storehouse for funds.		• Generally invest in stocks and bonds of companies focusing on a particular sector of the economy. • Typical areas might include technology, health, energy, utilities, precious metals, etc. • Income and capital gains generally taxable. • Usually appeal to investors with a concern or interest in a particular area of the economy.
Municipal Bond Funds		**Aggressive Growth Funds**
• Invest primarily in municipal bonds, or other short-term municipal debt. • Federally tax-free dividends. • Dividends may also be state tax exempt. • Dividend income may be subject to alternative minimum tax. • Typically used by high tax-bracket investors seeking current income.		• Typically invest in stocks of companies with high potential earnings growth. • Generally seek capital appreciation. • Relatively high risk/reward potential; market value can be volatile.
Bond Funds		**Growth Funds**
• Invest in bonds and debt-type instruments. • Taxability of dividends received depends on underlying investments. • Commonly used as source of current income.		• Commonly invest in stocks of companies with relatively stable potential earnings growth. • Generally seek capital appreciation. • Typically follow a more conservative investment strategy than aggressive growth funds.

- ❖ An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund.
- ❖ Redemption is at the then current net asset value which may be more or less than the original cost.

Index Funds

An index fund is a type of mutual fund, exchange-traded fund, or unit investment trust whose primary investment objective is to mimic the performance of a specified market index, such as the S&P 500 Index or the Wilshire 5000 index. To achieve this, an index fund will hold all (or a representative sample) of the securities in the chosen index, in the same proportions as those securities making up the index.

Investing in an index fund is often referred to as "passive" investing, since changes in the portfolio are generally made only when there is a change to the underlying index. Index funds owners generally believe that it is impossible to "beat" the market; the primary goal is to come as close as possible to a "market" return. Mutual funds that are "actively" managed to beat the market, often by frequently trading individual stocks or bonds.

Advantages of Index Funds

For many investors, index funds have several distinct advantages:

- **Lower management costs:** Without the need for expenses such as investment research and the costs of buying and selling, index funds typically have lower management costs.
- **Lower portfolio turnover:** With a passive investment strategy, there is less portfolio turnover in index funds than with actively managed funds. Such trading activity can generate taxable capital gains.

Disadvantage of Index Funds

By their nature and design, index funds will never "beat" the market.

Possible Risks

Shares in an index fund involve the same risks as owning the underlying securities:

- **Funds holding stock investments:** The value of a stock can fluctuate up and down. If shares purchased at a higher price is sold when the market is down, a loss will result.
- **Funds holding bonds or other debt instruments:** Market Risk – the value of a bond will fluctuate, usually in response to changes in interest rates. If a bond is sold before it matures, an investor may receive more or less than originally paid; Default Risk – the issues of a bond may not pay principal or interest when due; Inflation Risk – as fixed-return investments, bonds are subject to inflation risk – over time the dollars received have less purchasing power.

Before investing in an index fund, you should carefully read all of the fund's information, including its prospectus and most recent shareholder report.

➢ *Exchange-Traded Funds*

Many investors use open-end mutual funds as an important part of their investment tool kit. Our limitation to such funds is that they can only be brought from or sold to the issuing mutual fund and only at the net asset value (NAV) as calculated at the end of the trading day. Shares in an exchange-traded fund (ETF); however, can be bought and sold to through a brokerage firm at the current market price any time the exchange is open.

<u>How Are Exchange-Traded Funds Structured?</u>

In a regular, open-end mutual fund, individual investors buy shares in the fund directly from the mutual fund itself. The money is then put to work according to the fund's investment goals. When an investors wishes to sell his or her fund shares, the mutual fund will redeem the shares. If many shareholders redeem their shares at one time, the fund may have to sell some of its portfolio to be able to repay the departing investors.

An ETF; however, does not deal directly with individual investors. Rather, "creation units" (usually representing 50,000 shares) are "sold" to institutional investors, such as a brokerage firm, in exchange for a portfolio of securities that match the ETF's investment goals. The institutional investor, in turn, can then sell the ETF shares to individual investors in the open market. If an individual wishes to sell ETF shares, he or she can do so by selling to other individual investors in the open market. An institutional investor can "sell" a creation unit's worth of ETF shares back to the fund. To complete the redemption, the fund does not have to sell anything, but simply distributes the underlying securities to the institutional investor and then "destroys" the creation unit.

Most ETFs use an indexing approach. Some ETFs are designed to track a certain market index, such as the S&P 500. Other ETFs follow market segments (for example mid-cap stocks), individual countries, selected industries, or even commodities such as gold or oil.

<u>Advantages of Exchange-Traded Funds</u>

ETFs can have several significant advantages:

- **Generally lower operating costs:** Not having to deal with a large number of individual investors allows many ETFs to have very low annual expense ratios. In a mutual fund, the need to provide shareholder services is an additional expense.
- **Tax efficiency:** The low-turnover, buy-and hold approach of many ETFs typically leads to a high degree of tax efficiency. Individual investors will generally realize a gain or loss when they sell the shares on margin, using borrowed money.
- **Trading flexibility:** Because ETF shares are bought and sold in the open market, an investor can use trading tools such as limit or stop-loss orders, "sell short" the ETF shares, or even trade the shares on margin, using borrowed money
- **No required minimum purchases:** There are no minimum purchase requirements to buy shares in an ETF. Many mutual funds have minimum purchase requirements.

➢ *Exchange-Traded Funds*

Disadvantages of Exchange-Traded Funds

ETFs also have several disadvantages:

- **Commission Charges:** To buy or sell shares in an ETF, an individual investor must pay a commission for each transaction. Many mutual funds are no-load and do not charge a fee for purchases or redemptions.
- **Client Services:** Most mutual funds provide client services such as automatic dividend reinvestment or keeping track of average cost basis for tax purposes. For investors in ETFs, these services may be available from the broker, sometimes for an extra fee.

Exchange-Traded Funds vs. Index Mutual Funds

ETFs are often seen as an alternative to index mutual funds. Both types of investment typically use a passive, indexing investment approach. ETFs can provide trading flexibility, but at the cost of paying commission charges. Index mutual funds provide many investor services, but have a more limited ability to be bought or sold.

Consider ETFs For….	**Consider Index Mutual Funds For….**
Investors who buy and hold for long periods of time. ETFs often have very low annual operating expenses.	Those who buy or sell frequently, Investors using dollar cost averaging or who make periodic purchases or sales will incur commission costs with each transaction if ETFs are used.
Those with a single, large, lump-sum to invest. Over time, the lower operating costs of ETFs can outweigh the initial cost to purchase the shares.	Those with a small amount to invest. Regardless of the amount of money invested, a commission must be paid to buy or sell ETF shares.
Those seeking trading flexibility. ETFs can usually be traded with the same ease as can other exchange-listed securities.	Investors who re-balance their portfolios regularly. Commission charges can significantly reduce the benefit of low ETF expense ratios.

Another way to approach this question is to compare the total cost of owning an ETF with the total cost of owning a mutual fund. The National Association of Securities Dealers (NASD) makes available on their website a Mutual Fund Cost Analyzer which allows you to compare the costs of different funds or share classes and estimate the impact that the various expenses and fees can have over time. This calculator automatically provides the fee and expense data for you. The calculator can be found on the internet at: http://apps.nasd.com/investor_Information/ea/nasd/mfetf.aspx

Seek Professional Guidance

The advice and counsel trained professionals can be helpful both in selecting the right investment and in monitoring the investment for any needed changes.

Exchange-Traded Funds vs. Index Mutual Funds

Exchange-traded funds and index mutual funds have similarities and differences:

Issue	Exchange-Traded Funds	Index Mutual Funds
How structured?	Creation units (typically 50,000 shares) are “sold” to institutional investors in exchange for a basket of securities matching the ETF’s investment goals. The institutional investor can then sell the ETF shares to individual investors in the open market. An individual investor wanting to sell shares can do so by selling to other individual investors in the open market. An institutional investor can “sell” a creation unit’s worth of ETF shares back to the fund. To complete the transaction, the fund distributes the underlying securities to the institutional investor and then “destroys” the creation unit.	Individual investors buy shares in the fund directly from the mutual fund itself. The money is then invested in accordance with the fund’s goals. If many shareholders redeem their shares at one time, the fund may have to sell some of its portfolio to be able to repay the departing investors.
How purchased or sold?	Through a stock broker.	Directly with the fund through a stock broker.
Any cost to purchase or sell shares?	Yes. A commission is paid to the broker. There is usually a “spread” between the bid and ask price.	For no-load funds, none. A load fund will levy a sales charge.
Trading options?	Trades are executed on the open market. An investor can use a limit or stop order, “sell short”, or use a margin account.	Purchases or redemptions are made directly with the fund itself.
What determines the share price?	Supply and demand on the exchange. Prices will typically stay near the Net Asset Value (NAV) but may by slightly lower or higher than NAV.	Net Asset Value based upon securities prices at the market close.
Average annual operating expenses	Typically (but not always) lower than that of an index mutual fund.	Low, but generally slightly higher than for an ETF.
Tax efficiency	Low portfolio turnover can provide high tax efficiency.	Usually slightly less tax efficient than ETFs
Automatic dividend reinvestment or average cost statement?	May be available from the broker, sometimes for a fee.	Typically provided free of charge by the mutual fund.
Investors whose should consider this are:	• Investors who buy and hold for long periods of time. • Those with a single, large, lump-sum to invest. • Those seeking trading flexibility	• Those who buy or sell frequently • Those with a small amount of money to invest. • Investors who rebalance their portfolio regularly.

➢ *U.S. Government Securities*

- U.S. Government Securities: Direct obligations of the federal government backed by the "full faith and credit" of the government.
  - In terms of default risk, these bonds are widely considered to be the safest debt investments available.
  - Interest income from these bonds is generally not taxable at the state or local level.

- Savings Bonds: these bonds were originally started to provide a refuge for individual savings that would be free from market fluctuation.
  - Series EE Bonds: Interest is earned by gradual increases in the value of the bond. Usually sold at banks and other financial institutions.
  - Series I Bonds: Purpose is to provide some protections against loss of purchasing power due to inflation.
  - Series HH Bonds: Pay interest to the bond holder every six months. Can only be exchanged at Federal Reserve banks.

- Marketable U.S. Government Securities: These bonds are termed "marketable" because they are widely traded in public markets.
  - Treasury Bills (T-Bills): Short term debt obligations. The interest is not taxable until the bill is sold.
  - Treasury Notes: Medium term debt obligations. The interest rate is fixed and is paid semi-annually.
  - Treasury Bonds: Long term (10yr) debt obligations. The interest rate is fixed and is paid semi-annually.
  - Treasury Inflation-Protections Securities (TIPS): Intended to provide protection from loss of purchasing power due to inflation.

***Treasury securities are backed by the full faith and credit of the U.S. governments as to the timely payment of principal and interest. The principal value will fluctuate with changes in market conditions. If they are not held to maturity, they may be worth more or less than their original value.*

➢ *Treasury Inflation Protection Securities*

All bond investors face the risk of inflation. Long-term bond investors in particular can lose a substantial portion of the purchasing power of their invested funds due to a gradual increase in prices. Treasury inflation-protected securities (TIPS) are one answer to the inflation risk problem.

How It Works

TIPS are marketable, book-entry debt securities issued by the U.S. Treasury. TIPS are sold by the government at a quarterly auction, in minimum amounts of $100. They carry a fixed annual interest rate, and pay interest twice a year. The inflation protection is provided by adjusting the principal amount of the security according to changes in the inflation rate.[1] The semiannual interest payment is then calculated based on the adjusted principal amount. The inflation-adjusted principal amount is paid at maturity. TIPS are issued with maturities of 5, 10, and 20 years.

Example: An investor purchases a $1,000 TIPS bond, paying 3.0% annual interest, in January. By July, when the first interest payment is due, inflation has increased 1.0%. The adjusted principal amount of the bond is now $1,010. The interest payable at that time is $15.15, calculated as ($1,010 x 3.0%) ÷ 2. If by January of the following year, when the second interest payment becomes due, inflation had run at a 3.0% level for the whole year, the principal amount of the bond would be $1,030. The second interest payment would be $15.45, calculated as ($1,030 x 3.0%) ÷ 2.

In a deflationary environment, the principal amount is adjusted downward, resulting in an interest payment that may be less than the stated "coupon" payment. If the adjusted principal amount of the bond at maturity is less than the principal amount at issue, an additional sum will be paid to return to the investor at least the original principal amount.

Income Tax Issues[2]

Interest income from treasury inflation-protected securities is treated in the same manner as interest income from other "direct obligations" of the federal government. The interest is taxable by the federal government, but is generally exempt from state and local tax.

A unique characteristic of TIPS is that any adjustment of the principal amount is considered to be currently taxable "interest" income. Thus, in our example above, the investor would have $25.15 of taxable interest income from the bond for the first year; $15.15 of interest actually received as cash, and $10.00 in the form of inflation adjustment to the principal amount.

Treasury Inflation-Protected Securities

TIPS - Market Prices and Interest Rates

Although Treasury inflation-protected securities are guaranteed against default by the U.S. government, they are also marketable securities, which means they can be bought and sold in the open market. If an investor buys a TIPS and holds it to maturity, the government is obligated to repay at least the original principal amount. If a bond is sold before it matures, however, the investor may receive more, or less, than originally paid, due to fluctuations in market value. TIPS prices in the open market can move up and down, most often in response to changes in the general level of interest rates. In general, if rates rise, the price of existing bonds will fall; if interest rates decline, the market value of existing bonds will increase.

Investment Uses

Treasury inflation-protected securities can serve as a source of periodic income, for investors seeking to meet current expenses. The inflation adjustment feature of these bonds is expected to be a prime attraction for many fixed-income investors. The currently taxable nature of the inflation adjusted principal amount may be a drawback for some. TIPS can be a useful investment in a tax-deferred IRA or other qualified retirement plan.

How to Invest

- Direct ownership: Investors can own TIPS directly, in their own names, either through an account with a securities brokerage firm or through an online account with the Treasury Department at www.treasurydirect.gov.
- Indirect ownership: Open-end investment companies, known as mutual funds, are an indirect method of owning treasury inflation-protected securities.[1] Mutual funds pool the resources of many individuals, and offer an investor access to a diversified, professionally managed portfolio.

Possible Risks

- Market risk: If a bond is sold before maturity, an investor may receive more or less than originally paid.

➢ *ROTH IRA's*

Similar to the traditional IRA, the Roth IRA differs in that contributions are never deductible and, if certain requirements are met, distributions from the account may be received free of federal income tax.

➢ ROTH IRA's – CONTRIBUTION LIMITS

- Limits: For 2010, a wage earner may contribute (but not deduct) the lesser of $5,000 or 100% of compensation earned for the year. The same applies for the spouse so that a married couple can contribute up to $10,000.
- Catch up contributions for age 50 and over is $1,000.00
- Contribution phase out:
  - single taxpayers with AGI of $105,000 to $120,000
  - Married couples filing jointly, $167,000 to $177,000
  - Married couples filing separately, $0 to $10,000
- Other IRA's: Contribution limits for a Roth IRA are coordinated with those of the traditional IRA.
- Excess contributions to a Roth IRA are subject to a 6% excise tax.

  ***The hypothetical investment results are for illustrative purposes only and should not be deemed a representation of past or future results. Actual investment results may be more or less than shown.*

➢ *ESTABLISHING A ROTH IRA*

- **Annual Contributions:** Can be established and funded any time between January 1 of the current year, up to and including April 15 of that following year.
- **Conversion of existing traditional IRA:** The conversion will result in a taxable event. The taxpayer, married or single must have an adjusted gross income (AGI) of $100,000 or less.
- In the year 2010 any IRA can be converted to a Roth without the AGI of $100,000. Taxes on the conversion can be paid over two years.

➢ *ROTH IRA's – TAXATION OF DISTRIBUTIONS*

- Qualified distributions from a Roth IRA are not subject to federal income tax.

Distributions are qualified if they are made:
- After a five-year waiting period
- After the taxpayer reaches age $59^{1/2}$
- Due to the taxpayer's death
- Because the taxpayer becomes disabled; or
- To pay for qualified first-time-home-buyer expenses.

CASH MANAGEMENT TOOLS - TRANSACTION-ORIENTED ACCOUNTS

- Demand Deposits (checking accounts): accounts that do not earn interest and which are payable to the owner on demand.
- Negotiable Order of Withdrawal (NOW): accounts are a type of interest bearing savings accounts with check writing privileges.
- Money Market Deposit Accounts (MMDAs): similar to the NOW but is limited to six transactions per month. Also, MMDAs usually have higher minimum balance requirements.

CASH MANAGEMENT TOOLS - SAVINGS ACCOUNTS

- Statement Savings Accounts: formally known as passbook savings, usually accept small deposits, have no fixed maturity date and pay low interest.
- Certificates of Deposits (CDs): bank liabilities which have a fixed maturity date and require certain minimum investments. Interest rate can be fixed or variable.
- Jumbo CDs: issued only in amounts of $100,000 or more.

CREDIT CARDS

Reasons to use a credit card:

- Safety: reduces the need to carry large amounts of cash.
- Opportunity: allows a consumer to deal with short-term situations.
- Facilitate transactions: allows purchases to be made via telephone or internet.
- Leverage: can provide consumer with additional leverage, in case of disputes with merchants over defective or poor quality merchandise.
- Identity: In certain transactions, credit cards have become a means of personal identification.

TYPES OF CREDIT CARDS

- Bankcards: General purpose credit cards usually issued by financial institutions. Credit is granted on a revolving basis.
- Charge cards: Also known as travel and entertainment cards. Typically, the balance must be paid in full each month.
- Retail cards: Issued by businesses with credit provided on a revolving basis with purchases limited to the specific card holder.
- Secured credit cards: General purpose cards with a specific credit limit.
- Affinity cards: Issued jointly by a lending institution and some other organization.

- ***CHECKING YOUR CREDIT REPORT***

  Information Found in a Credit Report
  - Personal data: Identifying information such as name, social security number, birth date, current address and marital status.
  - Credit history: List of current and past creditors, credit terms and limits and how well (or poorly) past debts have been paid.
  - Inquiries: List of requests for credit reports
  - Public records: Information such as bankruptcies or lawsuits.
  - Personal statement: A limited statement where a consumer can explain his or her position in any dispute with a lender.

  *** Obtain a free credit report at annualcreditreport.com**

- ***13 WAYS TO STOP IDENTITY THEFT***

1. Guard your Social Security number.
2. Monitor your credit report.
3. Shred all old bank and credit statements, as well as "junk mail" credit-card offers, before trashing them.
4. Remove your name from the marketing lists of the three credit-reporting bureaus.
5. Add your name to the name-deletion lists of the Direct Marketing Association's Mail Preference Service and Telephone Preference Service used by banks and other marketers.
6. Do not carry extra credit cards or other important identity documents except when needed.
7. Place the contents of your wallet on a photocopy machine. Copy both sides of your license and credit cards.
8. Do not mail bill payments and checks from home. Take them to the post office.
9. Do not print your Social Security number on your checks.
10. Order your Social Security Earnings and Benefits statement once a year to check for fraud.
11. Examine the charges on your credit-card statements before paying them.
12. Cancel unused credit-card accounts.
13. Never give your credit-card number or personal information over the phone unless you have initiated the call and trust that business.

- **The cell phone Do Not Call number is 1-888-382-1222**
- **Credit Opt Out number is 1-888-567-8688**
- **Information on how to place a credit freeze can be found on www.consumersunion.org/securityfreeze.htm**

➢ *The Personal Budget*

- The basic purpose of a personal budget is to plan how money will be spent.
- A budget is a method of managing personal cash flow, to both meet current obligations as well as provide for future spending.
- To make sure you have more money at the end of your month.

REASONS TO PREPARE A PERSONAL BUDGET

- A planning tool: A personal budget can insure that income and expenditures match, both in amount and timing.
- A yardstick to measure progress: By comparing the planned budget against actual results, an individual can see if progress is being made toward meeting specific goals.

STEPS TO A PERSONAL BUDGET

- Past income and expenditures: Record information on past cash flow, both income and spending.
- Establish goals and designate resources: Explicit goals with dollar amounts and a realistic time frame should be set.
- Maintain records: Consistently keep monthly records of income and expenditures.
- Periodic review: Compare the planned budget with the actual budget.

THE PERSONAL BUDGET

Item	Historical	Current Budget	Current Actual	Difference
Food				
Home Consumption	$____________	$____________	$____________	$____________
Outside the home	$____________	$____________	$____________	$____________
Total Food:	**$____________**	**$____________**	**$____________**	**$____________**
Clothing				
Clothing and shoes	$____________	$____________	$____________	$____________
Cleaning, laundry	$____________	$____________	$____________	$____________
Jewelry, watches, etc.	$____________	$____________	$____________	$____________
Total clothing:	**$____________**	**$____________**	**$____________**	**$____________**
Housing				
Rent or mortgage	$____________	$____________	$____________	$____________
Real estate taxes	$____________	$____________	$____________	$____________
Insurance	$____________	$____________	$____________	$____________
Furniture and furnishings	$____________	$____________	$____________	$____________
Appliances	$____________	$____________	$____________	$____________
Cleaning, repairs and maint.	$____________	$____________	$____________	$____________
Electricity, gas and heating	$____________	$____________	$____________	$____________
Water and sewer	$____________	$____________	$____________	$____________
Telephone, cable	$____________	$____________	$____________	$____________
Other housing	$____________	$____________	$____________	$____________
Total housing:	**$____________**	**$____________**	**$____________**	**$____________**
Personal and Legal				
Personal care and toiletries	$____________	$____________	$____________	$____________
Child Care	$____________	$____________	$____________	$____________
Legal and accounting	$____________	$____________	$____________	$____________
Life and disability insurance	$____________	$____________	$____________	$____________
Other personal and legal	$____________	$____________	$____________	$____________
Total personal and legal:	**$____________**	**$____________**	**$____________**	**$____________**
Medical				
Medicines	$____________	$____________	$____________	$____________
Doctors, dentists and hospitals	$____________	$____________	$____________	$____________
Health insurance	$____________	$____________	$____________	$____________
Other medical	$____________	$____________	$____________	$____________

Total medical:	**$____________**	**$____________**	**$____________**	**$____________**
Total for this page:	**$____________**	**$____________**	**$____________**	**$____________**

THE PERSONAL BUDGET

Item	**Historical**	**Current Budget**	**Current Actual**	**Difference**
Transportation				
Auto payments	$____________	$____________	$____________	$____________
Repairs and maintenance	$____________	$____________	$____________	$____________
Insurance	$____________	$____________	$____________	$____________
Gas, oil and tires	$____________	$____________	$____________	$____________
Public transportation	$____________	$____________	$____________	$____________
Other Transportation	**$____________**	**$____________**	**$____________**	**$____________**
Total transportation:	**$____________**	**$____________**	**$____________**	**$____________**
Miscellaneous				
Books, magazines and newspapers	$____________	$____________	$____________	$____________
Vacations	$____________	$____________	$____________	$____________
Entertainment and clubs	$____________	$____________	$____________	$____________
Charitable	$____________	$____________	$____________	$____________
Education	$____________	$____________	$____________	$____________
Other miscellaneous	$____________	$____________	$____________	$____________
Total miscellaneous:	**$____________**	**$____________**	**$____________**	**$____________**
Debt, savings and investment				
Credit and charge cards	$____________	$____________	$____________	$____________
Other installment loans	$____________	$____________	$____________	$____________
Education fund	$____________	$____________	$____________	$____________
Retirement	$____________	$____________	$____________	$____________
Other savings goals	$____________	$____________	$____________	$____________
Other	**$____________**	**$____________**	**$____________**	**$____________**
Total debt, savings and investment:	**$____________**	**$____________**	**$____________**	**$____________**
Total for this Page	**$____________**	**$____________**	**$____________**	**$____________**

Totals from previous page:	$___________	$___________	$___________	$___________
Grand totals:	$___________	$___________	$___________	$___________

The Rule of 72 and the Rule of 115

How Long will it Take to Double or Triple Your Investment?

Rate of Return	***1%***	***2%***	***3%***	***4%***	***5%***	***6%***	***7%***	***8%***	***9%***	***10%***	***11%***
Years to Double	*72*	*36*	*24*	*18*	*14.4*	*12*	*10.3*	*9*	*8*	*7.2*	*6.5*
Years to Triple	*115*	*57.5*	*38.3*	*28.8*	*23*	*19.2*	*16.4*	*14.4*	*12.8*	*11.5*	*10.5*

Rate of Return	***12%***	***13%***	***14%***	***15%***	***16%***	***17%***	***18%***	***19%***	***20%***	***21%***	***22%***
Years to Double	*6*	*5.5*	*5.1*	*4.8*	*4.5*	*4.2*	*4*	*3.8*	*3.6*	*3.4*	*3.3*
Years to Triple	*9.6*	*8.8*	*8.2*	*7.7*	*7.2*	*6.8*	*6.4*	*6.1*	*5.8*	*5.5*	*5.2*

➢ *Accumulating One Million Dollars*

How long does it take to accumulate $1,000,000?

The answer depends on three things.

1. How many years are available to accumulate the fund,
2. The after-tax rate of return, and
3. The method of contribution: One lump sum, or monthly contributions.

The table below shows how long it takes to accumulate $1,000,000 under varying circumstances. The results shown are hypothetical.[1] The actual growth will depend on a number of factors.

Annual Rate of Return (after taxes) [2]

Years	Annual Rate: 6%		Annual Rate: 8%[3]		Annual Rate: 10%[3]		Annual Rate: 12%[3]	
	Lump Sum	Monthly	Lump Sum	Monthly	Lump Sum	Monthly	Lump Sum	Monthly
5	$741,372	$14,333	$671,210	$13,610	$607,789	$12,914	$550,450	$12,244
10	$549,633	$6,102	$450,523	$5,466	$369,407	$4,882	$302,995	$4,347
15	$407,482	$3,439	$302,396	$2,890	$224,521	$2,413	$166,783	$2,002
20	$302,096	$2,164	$202,971	$1,698	$136,462	$1,317	$91,806	$1,011
25	$223,966	$1,443	$136,237	$1,051	$82,940	$754	$50,534	$532
30	$166,042	$996	$91,443	$671	$50,410	$442	$27,817	$286
35	$123,099	$702	$61,378	$436	$30,639	$263	$15,312	$155
40	$91,262	$502	$41,197	$286	$18,622	$158	$8,428	$85

❖ For illustrative purposes only. This does not reflect the performance of any specific scenario.

Example: If you contribute $1,698 per month to an investment which returns 8% after taxes, you should accumulate $1,000,000 in 20 years. Likewise, if you currently have $202,971 invested at 8% (after-tax) for 20 years, it will grow to $1,000,000 without any additional contribution.

[1] The calculations shown assume monthly compounding. Monthly contribution amounts are calculated on an end-of-month (ordinary-annuity) basis.

[2] The rates of return used in the illustration are not indicative of any actual investment and will fluctuate in value. An investment will not provide a consistent rate of return; years with lower (or negative) returns than the hypothetical returns shown may substantially affect the scenario password.

[3] Seeking a higher rate of return generally involves a greater degree of volatility and risk.

➢ ***Personal Property and Casualty Insurance***

Protecting What You Own:

– Property and Casualty (P&C) is the term used to describe insurance designed to protect from loss or damage to physical assets.
– Many P&C policies also provide liability protection.

TYPES OF POLICIES

- Automobile insurance: typically cover repair of physical damage, payments for medical expenses and liability protection.
- Homeowner's insurance: provides protection for both the home and its contents.
- Condo unit owner's insurance: coverage is provided primarily for the contents.
- Renter's insurance: provide coverage for the personal property of an individual renting.
- Earthquake insurance: normally offered as an endorsement and provides protection against loss caused by earthquakes.
- Flood insurance: provided through a separate policy. The federal government stands as the ultimate guarantor for flood policies.
- Watercraft insurance: cover loss and liability for personal use.
- Umbrella liability: excess or catastrophic protection to the basic liability protection offered with most other P&C policies.

➢ ***General Purposes of Life Insurance***

Uses for Life Insurance

– Create an estate: life insurance can create an instant estate.
– Pay death taxes and estate settlement costs: these costs can vary from three to fifty percent of the estate and are due nine months after death.
– Fund a business transfer: business owners often agree to buy a deceased owner's share from his or her estate after death.
– College fund: Cash value increases in a policy and can be used to accumulated funds for college.
– Pay off a home mortgage: a decreasing term policy is used, which decreases in face amount as the mortgage is paid down.
– Business protection: key employees are difficult to attract and retain. Their untimely death may cause severe financial strain.
– Supplement retirement funds: could be a way of accumulating additional funds through competitive returns.
– Replace a charitable gift: Gifts of appreciated assets to Charitable Remainder Trusts can provide income and estate tax benefits.
– Pay off loans: Personal or business loans can be paid off with insurance proceeds.
– Equalize inheritances: life insurance can give an equal amount to children who have not been passed the family business or other assets.

- Accelerated death benefits: provision that allows "terminally-ill" individuals to receive benefits on their own life, income tax free.
- Pension maximization: helps to provide a death benefit to the surviving spouse.

➢ *Types of Life Insurance Policies*

- Decreasing Term: policy with a level premium, decreasing coverage, no cash value (example: mortgages or amortized loans).
- Annual Renewable Term: policy with an increasing premium, level coverage and no cash value (ex: income for minor child).
- Long-Term Level Premium Term: policy with level premium, level coverage and no cash value.
- Whole Life: policy with level premium, level coverage and cash value (ex: income needs, estate liquidity, death taxes or retirement).
- Universal Life: policy with level or adjustable premium and coverage and cash value (ex: estate growth, estate liquidity, death taxes or retirement).
- Variable Life and Variable Universal Life: policy with level or adjustable premium, level coverage and cash value (ex: for estate growth and death tax liquidity).
- Single Premium Whole Life: entire premium is paid at purchase, level coverage and cash value (ex: protection and asset accumulation vehicle).

➢ *Flexible Spending Accounts (FSAs)*

If you're an employee who works for an Executive branch agency or an agency that has adopted the Federal Flexible Benefits Plan ("FedFlex"), you can elect to participate in the Federal Flexible Spending Account Program (FSAFEDS).

FSAFEDS offers three different flexible spending accounts (FSAs): a health care flexible spending account, a limited expense health care flexible spending account, and a dependent care flexible spending account.

Eligible employees can enroll in FSAFEDS each year during the Federal Benefits Open Season (the November/December timeframe). Open Season enrollments are effective January 1 of the following year. Current enrollees must remember to enroll each year to continue participating in FSAFEDS. Enrollment does NOT carry forward year to year.

New and newly eligible employees who wish to enroll in this program must do so within 60 days after they become eligible, but before October 1 of the calendar year.

For further information, visit www.FSAFEDS.com or call 1-877-372-3337. TTY 1-800-952-0450.