

Safe Money SNAPSHOTS



Learn About Various Safe Money Options,
Concepts, Tools, and Products

Brendan Messenger, ChFC®, CFP®
Certified Financial Planner
Koda Insurance Group, Partner
325-695-9999 | brendan@kodainsurancegroup.com
www.kodainsurancegroup.com

KODA
INSURANCE GROUP



COMPANY BONDS

Snapshot

When you own stock in a company, you are an **“owner.”** When you own bonds of a company, you are a **“lender.”** As a lender, you are promised that the company will redeem the bonds at the end of a specified period (**the maturity date**), and in the interim, the company (**the “issuer”**) will pay you for the use of your money (**“interest”**). If the company goes bankrupt, the lenders (**“bondholders”**) have dibs (**first in line**) on any company assets up to the amount they are owed before the owners (**“stockholders”**) get paid.

Independent Rating Agencies often assess the likelihood of a bond meeting its obligations. The top four ratings – AAA to BBB – if rated by Standard &

Poor’s and – Aaa to Baa – if rated by Moody’s – are referred to as Investment Grade. Bonds with ratings below these top levels are called High Yield, Non-Investment Grade, or Junk. The lower the rating, usually the higher the interest paid on the bond. The reason why is because lower ratings mean higher risk of the bond not meeting obligations.

There are many types of bonds. Real estate or other physical assets back some bonds; if the issuer fails to pay (**“defaults”**) on these bonds, the bondholder gets back the pledged asset. Many bonds are **“debentures”** backed by the full faith and credit of the issuer instead of being secured by a specific asset. There are also **“convertible bonds”** wherein the bondholder has the right to exchange the bond for a specified number of shares of corporate stock.

Terms

A bond has a “coupon rate.” This is the rate of interest that is paid out on the \$ 1,000 bond, usually on a semi-annual basis. A coupon rate of 6% means the issuer will cut a check for \$ 30 twice a year. There are also “zero-coupon bonds” that do not pay regular interest and sell at a discount, with the par value paid at maturity. A commonly owned zero-coupon bond is a “Series EE Savings Bond.” The coupon rate is affected by the time until maturity – usually the longer the wait until the bond matures, the higher the rate. Special provisions – callable bonds typically have higher rates, and “convertible bonds” have lower coupon rates. The financial strength of the issuer is also a factor – stronger companies pay lower rates than financially weaker companies.

Yields

Bonds are generally issued in denominations of \$1,000 (par value) but are quoted as parts of a hundred. A newspaper may report, for example, that a particular bond sold at 92. What this means is the bond sold for 92% of \$1,000 or \$ 920. A bond selling for less than \$1,000 is said to be selling at a “discount.” A bond selling for more than \$ 1,000 is selling at a “premium.” Whether sold at a discount or a premium, the company will pay \$1,000 (the par value) at maturity. The issuer may redeem some bonds prior to maturity; these are “callable bonds.” A bond has a “coupon rate.” This is the rate of interest that is paid out on the \$1,000 bond, usually on a semi-annual basis. A coupon rate of 6% means the issuer would cut a check for \$ 30 twice a year. There are also “zero-coupon bonds” that do not pay regular interest and sell at a discount, with the par value paid at maturity. A commonly owned zero-coupon bond is a “Series EE Savings Bond.” The coupon rate is affected by the time until maturity – usually the longer the wait until the bond matures, the higher the rate. Special provisions – callable bonds typically have higher rates, and convertible bonds have lower coupon rates. The financial strength of the issuer is also a factor – stronger companies pay lower rates than financially weaker companies.

“Yield to Maturity” (YTM) takes into account any



difference between price paid and the redemption price, and it reflects the time value of any discount or premium. “Yield to Maturity” is not calculated by simply dividing any premium or discount by the years until maturity, adding or subtracting this amount from the coupon interest, and then dividing the result by \$1,000, because that would ignore the time value of money.

Using the previous example, the actual Yield to Maturity for the bond with a 6% coupon and ten years until maturity that was purchased for \$ 800 is 9.09%. If the same bond was purchased for \$ 1,200, the yield to maturity is 3.60%. You need to use bond tables or a good financial calculator to determine the real YTM

Coupon Rate	Current Yield	Yield Maturity	Bond Price
6.00%	6.00%	6.00%	\$1000
6.00%	7.50%	9.09%	\$800
6.00%	5.00%	3.60%	\$1200

Why Bond Prices Drop When Rates Go Up

When interest rates go up existing bonds lose value, because new bonds are more attractive (Figure 1.0). In our example, the bond has a 6% coupon rate and pays \$ 60 a year interest. If bonds with similar maturity dates and creditworthiness also had 6% coupon rates, our bond would sell for \$1,000.

Company Bonds

But what if new ten-year bonds were paying 7% coupon rates? No one is going to give us \$ 1,000 for a bond paying \$ 60 when they can get \$ 70 on a new one. They'd give us less than \$ 1,000 for our bond.

To produce a current yield of 7% with coupon interest of \$ 60 means our bond would be worth \$ 857.14. However, bond prices are based on the yield to maturity reflecting any discounts or premiums on par value. To earn a 7% yield to maturity on a 6% coupon with a ten-year maturity requires a price of \$ 928.94.

And The Reverse Is Also True.

What if new ten-year bonds were paying 5% interest and our bond has a coupon rate of 6%? Based on a 5% yield to maturity, our bond would be worth \$ 1,077.94. Of course, if you simply held on to the bond you would get \$ 1,000 back at maturity. The following chart reflects interest rate changes on a bond with a 6% coupon rate and ten-year maturity.

Coupon Rate	Yield to Maturity	Bond Price	Gain (Loss)
6.00%	4.00%	\$1163	16.3%
6.00%	5.00%	\$1078	7.8%
6.00%	6.00%	\$1000	0
6.00%	7.00%	\$929	(7.1%)
6.00%	8.00%	\$864	(13.6%)
6.00%	9.00%	\$805	(19.5%)

Other Factors

Since the coupon rate of most bonds usually remains unchanged and does not rise if the cost of living increases, bond prices are also affected by inflation. Long maturities subject bonds to greater inflation risk and typically require high yields to compensate.

Another major element in the price of a bond is the financial strength of the issuer. Bond buyers demand higher yields as concerns about the ability of the issuer to meet obligations increase. Higher risk demands higher yield.

If a rating agency cuts a bond's credit rating, a higher yield is needed, reducing the value of the bond, reflecting the perceived increase in risk.

Interest Rate Cycles

In periods of falling interest rates, new bonds issue lower and lower coupon rates making older bonds with higher rates more attractive. Bonds are a good place to be.

When interest rates move higher, existing lower interest bonds are worth less, and it doesn't take a lot of upward yield movement to hurt values. In our bond example, a 2% increase in rates resulted in a 13.6% loss in value.

Bonds And Fixed Annuities

Usually, if the choice is between a fixed annuity or a bond, you need to ask whether you prefer to protect your rate and let your principal float (bonds), or protect your principal and let your rate float (annuity). But many fixed annuities now offer multiple year rate guarantees, so an annuity buyer may choose to protect both rate and principal.

Another fixed annuity option is to use an index annuity where principal is also protected from market risk, but which offers the potential for index-linked interest.



FIGHTING FRAUD

It's true – senior citizens are often the targets of fraud and financial crimes. Among the reasons:

Some older people have built substantial assets (including their own home and large savings accounts), they're easy to find at home, and they can be swayed by fears of losing their financial independence. *“Also, despite the efforts of law enforcement, criminals are getting smarter and using technology to their advantage to commit fraud and other financial crimes, such as identity theft,”* says Michael Benardo, manager of the FDIC's Financial Crimes Section.

Affiliation

The following are common “cons” designed to trick consumers – especially elderly people – into giving up money, property, or valuable personal information. Strangers posing as legitimate business people, government officials, or other “trusted” individuals often commit these types of scams. The following information is based on reports from the U.S. Justice Department, the Federal Trade Commission (FTC), and other sources:

Prize and Sweepstakes Frauds:

This type of scam may involve a congratulatory phone

call or letter informing a consumer that he or she has won a prize or a large sum of money in a lottery or sweepstakes. But before any “winnings” are delivered, the consumer is told, “you must pay for fees, taxes, shipping and handling, or other charges.” Of course, the prize never comes, or if any products do arrive, they are essentially worthless.

“Prize and sweepstakes fraud is more prevalent among older consumers than among the public at large, and is particularly prevalent among consumers age 70 and older,” Lois Greisman, an Associate Director in the FTC’s Bureau of Consumer Protection, said in testimony before the US Senate Special Committee on Aging. She said that nearly 12,000 older consumers had complained to the FTC that, together, they had lost almost \$ 35 million in fraudulent prize or sweepstakes promotions, with the median loss being about \$ 2,000. “These frauds can be devastating to consumers who sometimes cash out their retirement funds to claim their purported prizes,” Greisman added.

Fraudulent Investments:

A firm or individual “guarantees” fantastic returns on investments, business opportunities, gems, and other “no-risk” deals. These “guarantees” sound attractive compared to what local banks are paying on deposits; however, at some point – after the firm or individual sends in their money – the seller takes the money and runs, leaving the investor with a big loss.

Charitable Donation Scams:

Crooks disguised as charities collect donations or money for raffles. Although the victim thinks he or she is helping people in need, they are really only helping con artists pad their pockets. You should make donations only to charities you are familiar with or after consulting with the Better Business Bureau (BBB), which maintains reports on national and local charities. Contact your local BBB as listed in the phone book or check out all charities online.

Home or Auto Repair Scams:

Someone calls you or knocks at your door offering

a “super deal to fix your roof or driveway or repair your car!” After you hand over the funds, you soon discover the work hasn’t been completed, is of poor quality, or wasn’t needed in the first place. Some scammers have billed consumers for maintenance or repairs that were never performed.

Loan or Mortgage Fraud:

These types of scams typically involve unscrupulous “predatory” lenders that use false or misleading sales tactics to make high-cost loans to consumers in need of cash, including older homeowners concerned about paying their bills. Victims often can’t afford the loan, and they may be pressured to refinancing a loan repeatedly and paying high fees each time – a scam known as “loan flipping.” Borrowers who pledge their homes as collateral and can’t repay the loans could lose their homes in foreclosure!

Help for Avoiding Foreclosures:

At the local courthouse, this fraudster goes through public records listing homes facing foreclosure. He or she then contacts the homeowners and offers assistance to prevent the foreclosure from taking place. However, the homeowner is then tricked into signing some documents that, in the fine print, transfer the ownership of the property to the fraudster.

“I-Need-Your-Help” Scams:

Unlike the scams discussed above that involve selling or giving something to the victim, here the con artist is asking to receive some assistance ... and in the process ... obtains banking account information or access to victim’s funds. Example: Someone claiming to be a bank examiner, bank security officer, or police officer calls the victim asking for “help investigating a possible fraud” by withdrawing cash from your bank account or providing account information. If the trick works, the bogus investigator can walk away with the money or use the confidential information to raid the victim’s bank account.

Counterfeit Checks:

In one example, you sell an item over the Internet and the buyer sends a cashier’s check for more than the

agreed-upon price. The buyer instructs you to wire the excess funds back. If you comply, you will most likely find out that the check you received is phony and the money you wired cannot be returned to you.

How to Protect Against Financial Fraud

1. Try to deal only with businesses and other organizations that you already know or that have been recommended to you by a trusted individual. When in doubt, contact your state or county Consumer Protection office (listed in the blue pages of your phone book) or the Better Business Bureau.
2. Get key details of a significant offer in writing and thoroughly check them out before agreeing to anything. Make sure you understand your responsibilities and any potential risks before entering into any transaction.
3. “If the person making the sales pitch only focuses on the benefits or the promised return and brushes over the costs and potential risks, the seller may not be acting in your best interest and the product may not be appropriate for you,” warns Michael Benardo, Manager of the FDIC’s Financial Crimes Section.
4. Closely monitor your credit card bills and bank statements. Look at your monthly statements as soon as they arrive and report a discrepancy or anything suspicious, such as a missing payment or an unauthorized withdrawal.
5. Periodically review your credit reports for signs that an ID thief is misusing your name. Credit reports, which are prepared by companies called Credit Bureaus, summarize each person’s history of paying debts and other bills. If your credit report lists a credit card, a loan, or a lease you never signed up for, chances are a con artist is attempting to commit fraud using your identity.
6. Red Flag! Here is one of the worst: Unsolicited offers from strangers or unfamiliar companies that sound too good to be true, including mail or phone calls proclaiming an elderly person to be the “winner” of prizes or investment “opportunities.”
7. Immediately report a fraud or theft to the proper authorities.

Reprinted from FDIC Consumer News



RETURN ARITHMETIC

Rate of Return

In an attempt to compare the annual return of different investments, some people will divide the total return by the number of years involved. However, unless the investments are of equal duration, the results may lead to the wrong conclusion.

Say, for example, that Investment A returns 30% in three-years, Investment B returns 60% in six-years, and Investment C returns 90% in nine-years. If you divide each investment's total return by the number of years in the period, the answer for each one is 10%. But, the actual annual rate of return for Investment A is 9.13%; the rate of return for Investment B is 8.15%, and the rate of return for Investment C is 7.18%.

The formula to calculate the honest rate of return for an investment without irregular cash flows is this:

$$i = (FV/PV)(1/n) - 1$$

If the Present Value is \$ 10,000, the Future Value is \$ 15,000, and the number of periods is 5. The equation

would be:

$$(\$ 15,000/\$ 10,000)(1/5) - 1 = 1.500.2 - 1 = 8.45\%$$

Effective Rate

The effective rate is the actual rate you earn after taking into consideration the effects of compounding.

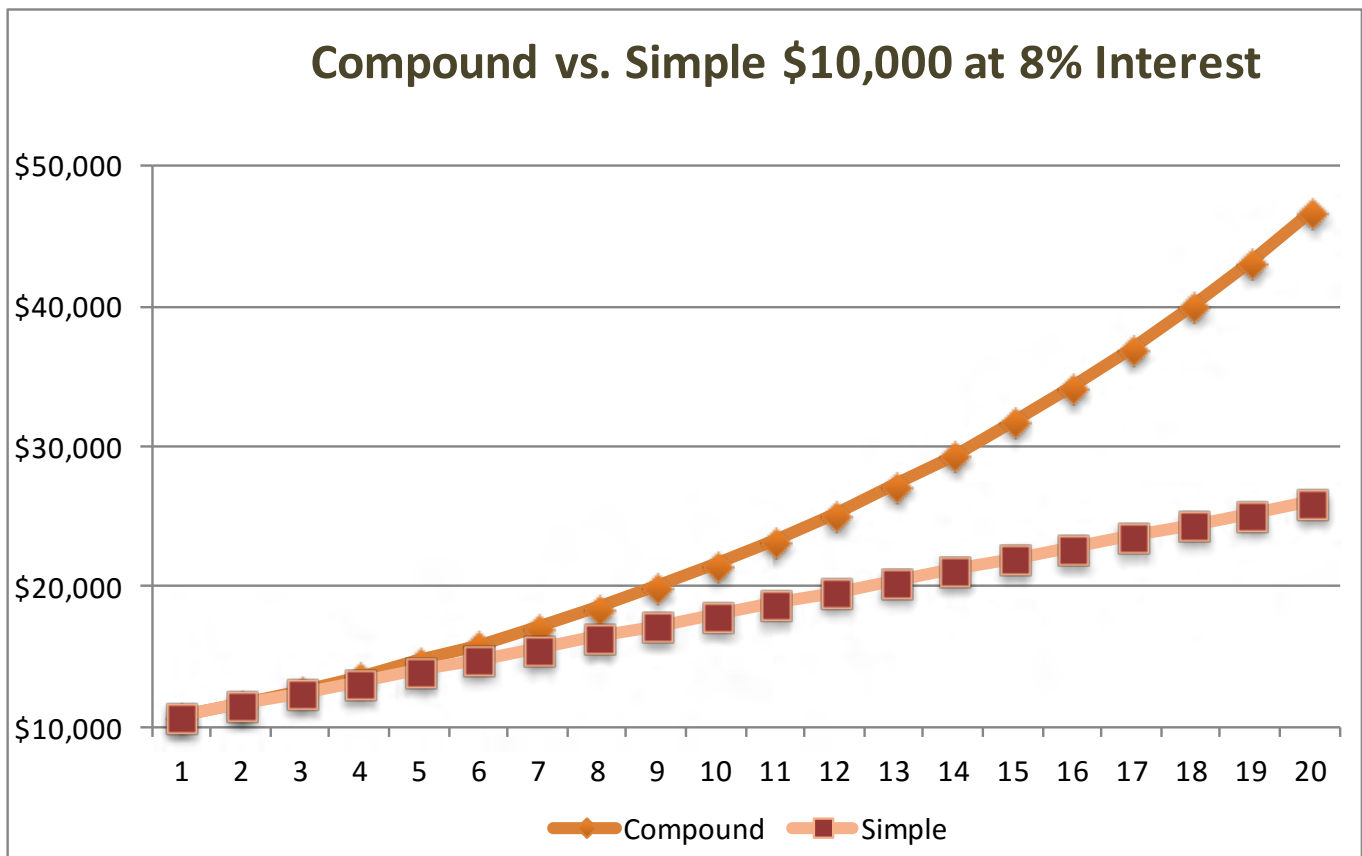
The formula to convert a nominal or stated rate into an effective rate is:

$$ER = [1 + (i/n)]n - 1$$

For instance, let's assume that you are comparing a fixed rate annuity to a certificate of deposit. The fixed rate annuity has a nominal rate of 6.1% compounded annually, and the certificate of deposit has a nominal rate of 6%, compounded monthly. Because the fixed annuity has only one compounding period, the fixed annuity's nominal and effective rates are the same — 6.1%. However, because the CD compounds monthly, there are twelve compounding periods. The CD's effective rate is 6.17% computed as follows:
 $[1 + (.06/12)]^{12} - 1 = 1.00512 - 1 = .00512$

The Real Annual Rate of Return

Total Return / No. of Years	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
1	10.00	20.00	30.00	40.00	50.00	60.00	70.00	80.00	90.00	100.00
2	4.88	9.54	14.02	18.32	22.47	26.49	30.38	34.16	37.84	41.42
3	3.23	6.27	9.14	11.87	14.47	16.96	19.35	21.64	23.86	25.99
4	2.41	4.66	6.78	8.78	10.67	12.47	14.19	15.83	17.41	18.92
5	1.92	3.71	5.39	6.96	8.45	9.86	11.20	12.47	13.70	14.87
6	1.60	3.09	4.47	5.77	6.99	8.15	9.25	10.29	11.29	12.25
7	1.37	2.64	3.82	4.92	5.96	6.95	7.87	8.76	9.60	10.41
8	1.20	2.31	3.33	4.30	5.20	6.05	6.86	7.62	8.35	9.05
9	1.06	2.05	2.96	3.81	4.61	5.36	6.07	6.75	7.39	8.01
10	0.96	1.84	2.66	3.42	4.14	4.81	5.45	6.05	6.63	7.18



Compound vs. Simple Interest

Suppose you had one dollar and someone gave you a choice between earning 10% calculated as simple interest or 9% calculated as compound interest. Which one do you choose? The answer depends on how long you are going to leave your money at work.

At the end of one-year the simple interest method would add a dime to your initial dollar and you'd have \$ 1.10. The compound interest method would add nine cents and you'd wind up with \$1.09. If you're only looking at one period, there's no difference between simple and compound interest.

However, if you want to leave your dollar at work for two-years instead of one year, the simple interest method would add another dime to your \$1.10 giving you a balance of \$1.20. Simple interest means that interest is only earned on the original principal.

Compound interest works a little differently. Compound interest multiplies the previous balance – in this case \$1.09 – by the interest rate (9%), and then adds the two numbers together to determine a new value.

So, \$1.09 multiplied by 9% produces not 9 cents but 9.81 cents. This amount is then added to the previous balance ($1.09 + .0981$) to produce a second year total of \$1.1881. A short hand way to figure the results of compounding is to put a one in front of the interest rate ($\$1.0 \times 1.09 = \1.09).

At the end of five years the Simple Method would have produced a total of \$1.50
($\$1 + 0.1 + 0.1 + 0.1 + 0.1 + 0.1$)

But, the Compound Method generated \$1.54
($\$1 \times 1.09 \times 1.09 \times 1.09 \times 1.09 \times 1.09$)

If you are only planning to keep your money at work for a few periods, there is not much difference between the effects of simple and compound interest. However, the benefits of compound interest become proportionately greater with each passing period.

How Fast Money Doubles - Rule Of 72

A quick and easy way to see how many years it takes money to double is to divide the interest rate received into 72.

A rate of 6% divided into 72 produces an answer of 12 years, 8% takes 9 years to double, and so forth. Here a quick illustration:

Examples:

$$72 / 8\% = 9 \text{ years}$$

$$72 / 6\% = 12 \text{ years}$$

$$72 / 4\% = 18 \text{ years}$$

Or if you know the timeframe, you can determine what return you need to double your money; for example:

$$72 / 8 \text{ years} = 9\% \text{ rate needed to double money}$$

$$72 / 6 \text{ years} = 12\% \text{ rate needed to double money}$$



SAVINGS BONDS

Snapshot:

Savings Bonds are non-marketable securities issued by the U.S. Treasury Department which agents authorized by the Treasury Department may purchase or sell to consumers. These bonds earn interest monthly at a rate that changes twice a year, and the interest also compounds twice a year. Savings bond interest is exempt from all state and local income taxes. You receive the interest when you redeem the bond.

Consumers buy Series I Bonds for full face value and/or Series EE Savings Bonds at half of face value for an investment as little as \$ 25. Effective on January 1, 2012, the US Government began issuing Savings Bonds only electronically.

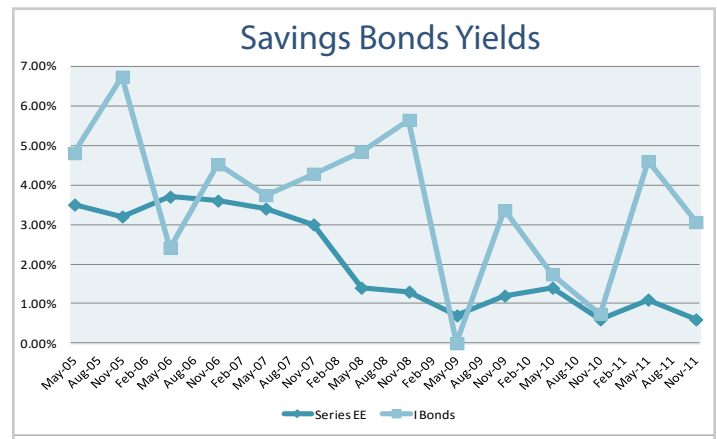
Yield

Series EE Savings Bonds issued on and after May 1, 2005, earn a fixed rate of interest set at the time of purchase. The new rate applies for the 30-year life of each bond, including a 10-year extended maturity period, unless a different rate or rate structure is announced for the extension period. Interest accrues monthly and is compounded semiannually. Series EE

bonds, with issue dates prior to May 1, 2005, continue to earn interest according to the terms in effect when they were issued.

The Department of the Treasury will set the fixed rate administratively. The rate is based on 10-year Treasury Note yields and adjusted for features unique to savings bonds, such as the tax deferral feature and the option to redeem the savings bonds at any time after the initial holding period.

A fixed rate is announced for new issues each May 1st and November 1st.



I Bonds:

Series I Bonds combine a minimum rate with an index-linked component. The fixed minimum rate remains the same for the life of the bond while the index-linked side is adjusted every six months to track the inflation rate as computed using the Consumer Price Index (CPI). The total or “composite” rate on the I Bond is updated every six months to reflect the fixed rate in effect at purchase and the inflation adjustment announced in May and November.

Tax Advantages

Interest compounding within an I Bond or Series EE Savings Bond grows tax-deferred until it is redeemed, or until final maturity is reached in 30 years, whichever comes first (you may also elect to report savings bonds’ interest to the IRS and pay the applicable federal income taxes annually).

Tax-deferred does not mean tax-free – interest is taxed when withdrawn (and you must pay taxes on the accrued interest at final maturity, even if you do not cash in the bond). If I Bond or EE Savings Bond interest is used to pay for college tuition and fees, and your household income meets the IRS guidelines, the bond interest may be excluded from federal income taxation (the education tax exclusion is described in 26 U.S.C. 135).

Liquidity & Penalties

You cannot withdraw the money you place in savings bonds for one year from date of purchase. Furthermore, if you redeem the money within five years after the date of purchase, the penalty for early withdrawal is equal to the last three months of earned interest.

Safety of Principal

You have to ask?

Please Note: In the past you could exchange your Series EE Savings Bonds for Series HH Savings Bonds allowing you to continue deferring federal income taxes on the EE Bonds’ interest earnings for up to an additional 20 years. However, after August 2004, when the US Government discontinued HH bonds, this option went away.

Older Bonds

If you own Series A, B, C, or D Savings Bonds, they quit earning interest when Harry Truman was president and might be worth more as a collectible than through redemption at face value (The Treasury also issued Series F and G, J and K bonds, and Savings Notes, none of which still earn interest). Series E bonds were issued through June 30, 1980. Series E bonds originally issued through November 1965 finally stopped earning interest in November 2005 – 40 years later! All later E and EE bonds have a 30-year maturity.

Series EE Bonds issued before May 1995 have higher minimum guaranteed rates than those issued now. The guaranteed minimum rates range from 4% for bonds issued March 1993 through April 1995, to 7.5% for bonds issued or extended from November 1982 through October 1986. This initial minimum rate applies for a bond’s original maturity period.

Savings Bond Rates

Bonds issued May 1997 and later earn interest at the savings bond rates determined each May 1st and November 1st. Rates apply to the first semiannual earning period beginning on or after the effective date shown.

Date	I Bonds	EE- New Bonds	EE Issued 97-05
May-05	4.80%	3.50%	3.42%
Nov-05	6.73%	3.20%	3.61%
May-06	2.41%	3.70%	4.11%
Nov-06	4.52%	3.60%	4.39%
May-07	3.74%	3.40%	4.15%
Nov-07	4.28%	3.00%	4.11%
May-08	4.84%	1.40%	2.74%
Nov-08	5.64%	1.30%	2.80%
May-09	0.00%	0.70%	1.64%
Nov-09	3.36%	1.20%	2.19%
May-10	1.74%	1.40%	2.16%
Nov-10	0.74%	0.60%	1.50%
May-11	4.60%	1.10%	1.77%
Nov-11	3.06%	0.60%	1.19%



E-Banking

SIMPLIFY YOUR FINANCES

Simplify Your Life:

Simplifying your financial life makes a huge difference. For example, have your Social Security benefits, pension payments, and other income automatically deposited into your bank account each month. Also, arrange with your bank to automatically pay your mortgage, utility bills, insurance premiums, and other recurring charges. Doing so takes the hassle out of making scheduled payments and helps avoid late charges or service interruptions. You can also have automatic withdrawals from your bank account to routinely put a certain amount of money into a savings account, a certificate of deposit (CD), an annuity, or a US Savings Bond.

Telephone banking allows you to use your phone to confirm that checks or deposits have cleared, get your latest balance, or transfer money between different accounts at the same bank. And if you own a home computer, consider banking and bill paying quickly and easily over the Internet, 24 hours a day, seven days a week. Internet banking and bill paying is usually free of charge, or if not, it costs less than what you'd spend on postage.

Protect Your Important Documents:

Make sure your bank and brokerage statements, insurance policies, Social Security and company pension records, and other personal and financial papers are in a safe place and easy to get to. As the victims of recent disasters have learned, it's wise to

take extra precautions with essential records. For the most important original documents, such as wills, passports, and birth certificates, seal them in airtight and waterproof containers to prevent water damage. Make backup copies and consider giving duplicates to loved ones — or at least let them know where to find your records in an emergency.

Consider renting a safe deposit box at your bank for certain papers that could be difficult or impossible to replace, such as birth certificates. However, don't put into a safe deposit box anything you might need in an emergency, such as your passport or medical-care directives, in case your bank when you or a loved one needs those papers, such as on a weekend! They may encounter complications accessing your will in a safe deposit box after you die, for example, and remember that copies of wills aren't valid. Perhaps the best approach is to ask your attorney for guidance. For the most important papers you keep at home, consider an inexpensive but durable home safe.

Take Precautions with Old Accounts:

For the benefit of your heirs, either dispose of proof of old bank and brokerage accounts, life insurance policies, and other assets you no longer own (again, assuming you don't need the documents for tax or other purposes), or clearly mark them as being sold or cashed in. Otherwise, loved ones could waste a lot of time and effort researching these mystery accounts when there is no money or property to be claimed.

On the other hand, people do lose or forget about money or property. That's why it's important to keep records of your finances, noting which accounts have been closed or cashed in, and making sure your financial institutions and others who owe you money have your current address.

In most cases, after a certain number of years of being "unclaimed," assets are transferred to the state government where the rightful owners (you or your heirs) still can claim them. You also can begin a search for assets of any sort that have been sent to a state by going to the website of the National Association of Unclaimed Property Administrators (www.unclaimed.org).

Beware of frauds involving companies offering to "find" your unclaimed property for you. Some companies may charge fees up-front based on misleading claims or for services you could easily perform on your own.

Update Your Will & Other Legal Documents:

Who will inherit your property when you die? Who else should have access to checking accounts to pay bills if you're hospitalized? What kind of medical treatments do you want to receive or avoid if you become critically ill? Your answers to these questions may require actions involving important legal documents and how you set up various bank accounts.

Some matters may be handled as part of your will. Others may involve having or updating a "Durable Power of Attorney" (authorizing someone to handle your finances or other personal matters if you become mentally or physically incapacitated), a "living will," or a "Health Care Power of Attorney" (designating a family member to make decisions about medical treatment). Having these health-related directives can prevent unwanted and potentially costly medical procedures. You may want to hire an attorney specializing in elder law or estate planning.

Your Bank Records: What to Keep, What to Toss, and When

1. We can't tell you when it's safe to throw away certain financial documents — that's for you to decide, but we can tell you that it's important to develop a plan for managing all this paperwork.
2. Federal tax rules require you to have receipts and other records that support items on a tax return for as long as the IRS can assess you additional tax. "Under most circumstances," says Rick Cywinski, an FDIC tax policy manager, "the IRS can assess a tax up to three years from the date you filed your tax return, but it's six years if the IRS suspects you under-reported income by more than 25 percent."
3. Canceled checks: Those with no long-term significance for tax or other purposes probably can be destroyed after about a year. But you should probably hold canceled checks that support your tax returns, such as charitable contributions or tax payments, for at least seven years. And, keep indefinitely (for other tax reasons) any canceled checks and related receipts or documents for a home purchase or sale, renovations or other improvements to a property you own, and non-deductible contributions to an Individual Retirement Account.
4. Deposit, ATM, credit card, and debit card receipts: Save them until the transaction appears on your statement and you've verified that the information is accurate.
5. Credit card and bank account statements: Save those with no tax or other long-term significance for about a year, but save the rest for up to seven years. If you get a detailed annual statement, keep that and discard the corresponding monthly statements. Be sure to mark closed deposit accounts as such, so your heirs don't waste time wondering what happened to the money.
6. Credit card contracts and other loan agreements: Keep for as long as the account is active, in case you have a dispute with your lender over the terms of your contract.
7. Documentation of your purchase or sale of stocks, bonds, and other investments: Retain these while you own the investment and then for seven years after that.



FIXED ANNUITIES

Snapshot:

An annuity is usually defined as, “ ... an arrangement in which the individual hands over cash, called the premium, and the insurance company promises to pay the individual a regular income for a set period of time, or as long as the individual lives, or whichever is longer.

This type of arrangement offers certain benefits. The biggest benefit is that the individual can set it up so that he doesn't outlive his money. There's nothing more frustrating than failing to die on schedule and thus running out of cash! Annuities can ensure that income is always available to you.

Most People Don't Annuitize An Annuity

Converting an annuity's value into an income is called annuitization; however, most people don't convert the money they've built up in their annuity into a guaranteed income stream. Instead, they treat the annuity value they've accumulated as any other asset, and usually they pass the annuity values onto their heirs in a big lump sum; they do not turn the annuity value into an income stream for themselves.

Most people aren't using annuities to do what they were originally intended for – to guarantee an income

stream for their retirement years. Furthermore, our research shows that, today, people are purchasing more annuities than when they were buying them solely to provide that kind of income stream. The obvious question is: why do people like annuities so much today?

Just a quarter century ago people began looking at annuities as retirement accumulation vehicles rather than retirement income vehicles. The reason was that though an annuity would provide an income you couldn't outlive, the annuity also offered guarantees of principal, guarantees of interest, and tax-deferral. Sure, you could also annuitize the accumulated value down the road and turn the annuity value into an income, but perhaps the real value of an annuity was building assets on a tax-advantaged basis.

Fixed Annuities

Fixed rate annuities provide a competitive alternative to other traditional savings vehicles, but unlike, say, bank accounts, the interest earned is not taxed until withdrawn from the annuity and used. In addition, fixed rate annuities don't expose the principal or interest to investment risk and are backed by the full faith and credit of the insurance company.

Fixed & Variable Annuity Differences

When the media talk about annuities, they are almost always talking about variable annuities. The differences between variable and fixed annuities are huge. Variable annuities can best be described as mutual funds inside an annuity wrapper. In a variable annuity, the insurance company typically offers separate accounts invested in a wide variety of stocks and bonds. Unlike fixed annuities, the investment risk in variable annuities is borne by the annuity owner. Variable annuities are considered securities and require appropriate securities registration.

Fixed annuities can best be described as savings instruments insurance companies offer. Fixed annuities provide a minimum guaranteed return. If the insurance company believes they can pay extra interest from their general account above and beyond this minimum guarantee, they will declare a fixed rate of interest and pay the annuity owner a stated interest rate. Or, in the case of a fixed index annuity, they could use the extra interest to link the earning of interest to the performance of an external index. The major difference between a fixed rate annuity and a fixed index annuity is in the crediting of excess interest above the minimum guarantee.

Yield & Minimum Interest Guarantees

The only Safe Money Places™ we're aware of guaranteeing a minimum return are savings bonds and fixed annuities. Fixed annuities guarantee payment of a minimum rate of interest and the potential for additional interest. Fixed annuities have often offered higher interest rates than other Safe Money Places™, like Certificates of Deposit. Many fixed rate annuities declare a new interest rate each year; others lock-in a rate from two to ten years. Although rates will fluctuate, they will never be less than the guarantee.

An index annuity is a fixed annuity that also earns a minimum rate of interest and offers the potential for additional interest linked to the performance of an index. People say they purchase an index annuity because they don't have the time or temperament for the stock market and simply don't like the idea of possibly losing principal, but they do like the idea of having the potential to earn more interest than they might receive from bank instruments, fixed rate annuities, or savings bonds.

Tax Deferral

Interest inside an annuity is not subject to income tax and grows on a tax-deferred basis. However, tax-deferred does not mean tax-free. Interest withdrawn from the annuity is subject to income taxes in the year it is received, and upon death of the annuity owner, all interest earnings are taxable (the IRS assumes that taxable interest is always withdrawn first from an annuity; principal is not taxed). In addition, interest withdrawn from an annuity before age 59½ is subject to an additional IRS penalty, unless the distribution meets certain exceptions. Taxes or penalties do not apply on the principal.

Surrender Cost

Almost all tax-deferred annuities charge a surrender cost if you cash in the policy prior to the end of the specified period. Depending on the policy selected, surrender periods vary in length from one to over twenty years. Surrender costs do not usually apply if the policy is cashed in due to death of the owner or if the policy is annuitized. Why are there surrender costs? There are expenses involved in issuing an annuity, and the insurance company wants to ensure that these costs are recovered if the annuity buyer cashes in. The surrender penalties and liquidity provisions should match your liquidity needs.

How Safe Is My Money

Independent Rating Agencies examine and assign ratings based on insurance companies' financial strength, and each state in which the insurance company does business examines the books on a regular basis.

Tax-Free Exchanges

If you already own an annuity and would like to make a change, Section 1035 of the Internal Revenue Code says that one annuity may be exchanged for another annuity without causing a taxable event. You can trade a fixed rate annuity for another fixed rate annuity, swap a fixed rate annuity for a variable annuity, cross a variable annuity for a fixed index annuity, or even get more creative. As long as you let the insurance companies handle the transfer, no current income taxes are due. Consult your tax advisor for your situation.