

# UGBA 135: Personal Finance Lecture Notes

## Week 2: Lecture 1 (8/31)

### Fears

- Stuck in job for the money
- Never have enough money for retirement

### Key to Financial Success

- You manage your money, don't let your money manage you
- Financial Independence: no need for government assistance

### Rich

- Top 1% of households earn \$400k+ pay 40% of income taxes
- Top 5% of households earn \$160k+ pay 60% of income taxes
- Top 10% of households earn 113k+ pay 70% of income taxes
- Bottom 50% of households pay less than 3%
- 47% of households don't pay federal income taxes

### Paying off \$5,000 Credit Balance

- 18% interest
- Better to pay \$125 fixed payment instead of decreasing to pay less interest

### Who are the Millionaires?

- They are motivated by goals, spend carefully, allocate time properly
- Saving and spending wisely
- Invest in their education, businesses, and passions
- Good communicators

## Week 4: Lecture 2 Videos Credit

### Credit Scores

- Different types of credit scores, most common is FICO
- 300 - 850 range
  - 300-619: Bad
  - 620 - 660: Subprime/x Fair
  - 661-720: OK/Good
  - 721-780: Good/Excellent
  - 780-850: Best
- 50% above 712
- Need 760 for best deals

### Why

- Likelihood of loans
- Better terms and lower interest rate
- Half of employers check credit before hiring

### Credit Report

- 35% on Payment history, being late
- 30% how high credit limits vs how much you owe

- The more you owe compared to how
- 15% Length of credit history
- 10% Recently applied more inquiries will lower your credit rating

3 free credit reports per year from each company

Improve credit score:

- Check for accuracy and pay things on time
- Joint credit cards may affect both people

#### Credit Reports

- Used to calculate credit score
- Equifax, Experian, TransUnion
  - Can get a credit report every year

Report

- Read to make sure it's accurate
- Report any mistakes
- Check when making major loans like mortgages

Annualcreditreport.com

#### Personal Bankruptcy

- Fresh start
- Automatic stay - all judgements must to a stop
- Discharge - release from personal liability from change
- Unsecured debt or secured debt
- Some debts cannot be discharged: student loans, taxes, child support
- Chapter 7 bankruptcy most of your assets are sold and debts are discharged
- Chapter 13 bankruptcy: keep assets but abide by repayment plan to pay debts
- Typically
  - cost thousands of dollars

### **Week 4: Lecture 2 Credit (9/14)**

- Credit card is a loan of money
- Best time to establish credit is when you don't need it
- No risk involved with merchant for debit card
- Interest based on credit report
  - Variable rate of interest
- Balance Transfer fee: from one bank to another
- Banks have to have money in possession
- Mail in checks 5 days before due date

Credit Card Interest

- Can negotiate interest rates if high credit and above 15% interest. Excellent 13%
  - Hi, my name is ...
  - I am a good customer, but I have recently received a couple of pre approved offers in the mail from other credit card companies with lower APRs and 0 balance transfer fees.

- I want a lower rate of interest on my card or I will have to cancel my card and switch companies.

#### Credit card

- Check credit card statements
- Payroll deduction: bank gets payment before you do

#### Bankruptcy

- Goes on credit report, recognition of a problem
- All Bankruptcies handled in federal court
  - Liquidation of debts, need lawyer paid in advance
  - Financial reorganization

#### Credit Report

- [annualcreditreport.com](http://annualcreditreport.com)

### **Week 5: Lecture 3 Videos: Debt**

1. Get \$1000 in bank account security fund
2. Pay off credit card debt and keep current on loan payments and monthly bills
3. Start saving for retirement
4. Build up security fund, save 15%
  - a. 10% ira, 5% security fund
5. Home for opportunity to save, car to get to work, student loans

Pay one debt at a time while keeping current

Do not take money out of retirement fund

#### Social security

- Social security started too early first people got money without paying into it
- Claim at 70

Medicare at 65

Medicare Advantages can go to private places

- Part B costs co-insurance
- Medicare supplemental avoid risk of

Premiums are higher if you join later

### **Week 5: Lecture 3: Contract**

#### Consideration

- All parties must have considerations written or oral
- When there is a change, initial and date it

#### Notary

- Some need a notary

#### Unilateral Contract

- One party presented it, liable if they do it

A businessman had just turned off the lights in the store when a man appeared and demanded money. The owner opened a cash register. The contents of the cash register were scooped up and the man sped away.. A member of the police force was notified promptly.

A man appeared after the owner had turned off his store lights: ?

The robber was a man: ?

A man did not demand money: F

A man who opened the cash register was the owner: T [?]

The store owner scooped up the contents of the cash register and ran away: ?

Someone opened a cash register: T

After the man who demanded money scooped up the contents of the cash register, he ran away: ?

While the cash register contained money, the story did not state how much?: T [?]

The robber demanded money from the owner: ?

The story concerns: owner, demanded money, police: F

Demanded money, cash register opened, contents scooped, man dashed: T [F]

### Social Security, Medicare

- Most people pay more in social security and medicare than taxes s
- Seniors today are taking 6x more money than they did
- 40% of money goes to senior citizens (42%)
- Social security is taxable
- Social security employer and employee share equally, employer is tax deductible
- Based on earned income - wages, alaray, commission, fees, tips
- 12.4% of earned income shared equally between employer and employee (6.2% each)
- 137k dollars , pay 6.2% of total 137k no longer contribute max income keep 6.2% but raise the cap
- Work a certain number of quarters, 40 quarters over earning a minimum amount of money. Must be a citizen or lawful alien to get benefits
- 57 millison are getting benefits. Pay as you go 24k bankrupt companies

### Medicare

- 1969 Medicare consumption per person is greater
- vPart A
  - Free to all seniors 65 covers hospital bills not cover everything
  - Financed with 2.9 % payroll tax on earned income -
  - .split between employer and employee (1.45%
  - No cap
  - High income is 200k married 250k pay special tax 0.9 %
  - Unearned income: interest earned, dividends on stocks , capital gains investments
    - 3.8% on unearned
  - Part B:optional cardiovascular
  - Part C: supplemental insurance- private insurance umbrella over A and B will cover deductibles and copayments

### **Week 6: Lecture 4 Videos: Prioritizing savings**

Always save 20%

- 10% in IRA, 401k, or other retirement account
- 5% in security fund, save for a downpayment

- 5% save for something important to you

#### Security Fund

- Depends on your job
- Car breaks down or sick
- Put it in a savings account or money market account
- Keep 6 months to cope with unexpected without going into debt

#### Savings Priority

##### Saving for Wants

- Pay for them in advance buy them once you have the money
- First save for retirement then children, can get scholarships for children

#### Save early

- If you invest in market today and wait for 35 you will get large returns
- Continually reinvest, compounding interest
- Don't buy on credit

#### Retirement

- Automate savings
- Get maximum matching contribution from your employer
- Set up IRA or Roth IRA

#### Save more tomorrow

- Increase your retirement savings when you get a raise
- Start saving something

#### Save more

1. Automate savings
2. Focus on the big stuff: insurance or mortgage or refinance
3. Save first, then buy - don't buy on credit
4. Increase your income
5. Comparison shop: crucial for big item items, buy in bulk
6. Don't neglect the small stuff: small regular savings do add up, trade-offs

## **Week 6: Lecture 4: Taxes**

#### Wash sale

- If you sell stock for loss and buy it back, lost is not for tax loss

#### Taxable

- \$12,200 off for standard deduction
  - Out of pocket medical greater than adjusted gross income
  - Max for 10k , no longer deductible for house tax
- Itemized deduction can use if greater than standard deduction

#### Tax deduction vs tax credit

- If you have credit you can reduce the tax you pay
  - Credit reduces dollar for dollar
  - Adoption credit, educational credit, child credit
- Deduction can reduce taxable income

#### Example married 2 children or for single

- Income 100k
- Standard deduction 24k
- Taxable income 76k
- Tax bracket 8.7k
- Child tax credit 2k
- Total federal tax 6.7k
- Payroll deduction
  - Federal Income tax 6.7k
  - State inc or sales tax 2.5k
  - Social security 6.2k
  - Medicare 1.45k
  - Other taxes (CASDI) 1k
  - Income after deductions 82k vs. 73k
  - Monthly gross income 8.3k
  - Disposable income/Mo 6.8k vs. 6k

#### Alternative minimum tax

- Jointly over 115k single 70k regular tax and alternative minimum tax with less deductions
- Need to pay whichever one is more

#### Tax form 1040

- Deduction on side, calculator taxable income
- Schedule C for profit loss for business
- Schedule D for capital gains and losses

#### Recalculate for ALternative Minimum Tax

W4, W2

## **Week 7: Lecture 5 Videos: Stocks and Bonds**

### Stocks & Bonds

- Electra: Need \$200k to open business
- First Year profit: 120k, 30k, bankrupt

#### Winning Big

1. Stock (50% ownership) - 50k dividend, 100k capital appreciation
  - a. 150% total return 150/100k
2. Bond (20% interest) - 20k interest
  - a. 20k interest payment
  - b. 3k capital appreciation
  - c. 23% return
3. Electra - 50k
4. Company worth \$200k more

#### Scraping by (34k profit)

1. Stock : 7k
  - a. 7%
2. Bond Interest 20k

- a. 20% return
- 3. Electra - 7k

Going Broke

1. Capital lost 100k
  - a. Lost 100%
2. Invested capital 100k got back 90k
  - a. Lost 10%

Uncle Brandon is like a bond

- Long term loan to the company
- Avg return 11%

Uncle Steve bought ownership in the company like a stock

- Avg return 19%
- More risk, more frequent larger losses

### Diversification

Diversification

- reduces the volatility of your portfolio without reducing the expected return

Example

- One investment 25k or 20 investment of 1000 each
- Works out to 12.5%
- Lost \$ 1 in 4
- Eliminate huge loss and huge win

Performance depends on

- Independent factors and
- Common factors
  - Economy
- Diversification can diverse company specific risks but not common factor

Buy broad market Index Fund

- Standard & Poor (S&P) 500 represents 75% of market stocks or all market equity
- Buy Open End Mutual fund or exchange traded fund (ETF)
  - Index is broad and management fee is less

### Investing in Index Funds

- Well diversified indices and low fees
- How much in stocks and how much in bonds, international? Asset allocation

Financial investments asset classes

- Equities (stocks)
- Fixed Income (gov bonds, corporate bonds)
- Cash (money in bank accounts)
  - Have cash in bank account

Your asset allocation will depends on own financial goals

Review asset allocation every 5 years

Target Date Funds

- Choose asset allocation for you and adjust as you get older

Retirement comes from

1. Social security
  - a. Similar to gov bond
2. Pension
3. Retirement savings
4. Home investment

Can take more risk when you are young

- Less risk as they approach retirement
- Stock funds have higher avg

Safest

- Inflation protected US bonds
- Portfolio grows slowly if you are young

Recommend

- More in stocks than bonds when young
- 75% in stocks or 25%
- Bonds invested = to age

Other asset classes

- Commodities and gold aren't appropriate
- Index funds also invest in real estate

Stock portfolios

- Have larger falls and rises
- Combination of them is intermediate

Vanguard asset allocation

- 90% stock 10% bonds
- 63% US

Think about

- How portfolio doing relative to goals
- Consider other investments (pension)
- Your comfort level with risk

Deferred Income Annuity

- "Longevity" Insurance company pays back

## **Week 7: Lecture 5 Stocks and Bonds (10/5)**

The plan

- "I get paid first"
- Live off of your earned income
- Frugality = live within your means
- Manage your money and your credit score
- Invest your savings
- Goal is to save 15% of earned income

Monthly estimate vs actual

Think of yourself like a startup company

- Purchase is what you pay
- Value is what you get



- Profit is what you get

#### Rule of 72

- How long takes money to double
- $72 / \text{Percent compounded} = \text{how many years to double}$

#### Types of Business

1. Sole proprietorship
  - Owned by one person
  - Unlimited liability
  - Report to IRS: Schedule C, 1040 Tax Return
  - Profits taxed as ordinary income
  - When proprietor dies, the business ends
2. Partnership
  - Owned by two or more entities
  - Attract more talent
  - Types of partners
    - General Partner runs the business, unlimited liability
    - Limited Partnership Share in profits and losses limited liability
  - Do not pay federal income taxes
  - General partner may or may not distribute profits
3. Corporation
  - Chartered by the state or country subject to laws where chartered and operating selected due to tax laws
  - Raise money by selling shares of stock; stock is ownership (equity)
  - Shareholders limited liability
  - Corporations file tax returns and pay taxes
  - Shareholders not responsible for taxes on profits
  - Profits paid to shareholders are "dividends"
  - Dividends are taxes again to the shareholder
  - Qualified Dividends
4. SubChapter S Corporation (S-Corp)
5. Limited liability Corporation (LLC)
  - Amount of capital required
  - Limiting liability
  - Favorable tax benefits

#### Common Stock

- Enterprise formed as a corporation sells shares of stock to raise money for its business
  - Value of share may rise or fall due to the company expected performance
  - Dividends may or may not be paid but are taxed twice
  - Dividends are decided by board of directors
- Initial Public Offering (IPO) raising capital by selling first shares to the public
  - Giving away equity
  - Entitled to elect board of directors and vote
  - Seller complies with all state and federal laws and rules of exchanges (SEC)

- Secondary offering
  - More equity

#### Bonds

- Bond is a loan that must be repaid
- Obliges the issuer (borrower) to pay a specified rate of interest
- Secured by the issuer's assets, revenue
- Bonds sold in \$1000 units of face value or par
- Interest is fixed when bond is issued
- Payments made twice per year maturity date when bond repaid
- Trade at more or less than the face value based upon
  - Changes in market interest rates
  - Changes in the quality of the security

#### Purchasing a Bond

- Bond issued by corporations
  - Taxed as ordinary income
- Bonds issued by State and local government agencies (muni bond)
  - Interest free from federal income tax

#### Mutual Funds

- Portfolio of stocks, bonds, or other investments professionally managed
  - Growth stocks (appreciation)
  - Income stocks (good dividends)
  - Bonds (generate interest)
  - Stocks and bonds
- Mutual Fund net asset Value (NAV) total market value of the fund's holdings at the close of the market, divide by number of fund's shares outstanding
- 1. Open-end funds
  - a. Buy shares and sell shares at NAV
- 2. Closed end funds
  - a. Sell a set number of shares to public, post the NAV
- Most mutual funds pay dividends and year-end capital gains distributions

#### Exchange Traded Funds ("ETF")

- Track index like Dow Jones and S&P 500
  - Traded as SPY
  - Instant diversification

#### Can Buy Sector Funds

- XLE is good example of investing in energy

#### Important Stock Trading terms

- "Last" - last price a stock was bought and sold
- "Bid" Highest price a buyer is willing to pay at that moment
- "Ask" Lowest price a seller is willing sell at that moment

#### Market Order

- Market order to Buy: Expect to buy at the ask price
- Market Order to Sell: Expect to sell at the Bid price

## Limit Order

- Price you set at which you are willing to either buy or sell a stock
- Limit Order to Buy: you set your top price
- Limit Order to Sell: You set your lowest price

## **Week 8: Lecture 6 Mutual Funds Videos**

Index Fund - mutual fund that tracks an index

Diversified

Types of Mutual funds

1. Open ended mutual
  - a. Vanguard Fidelity
  - b.
2. Exchange trade
3. Closed-end funds

Actively managed funds

Tries to beat S&P 500 more weight on largest companies 75% of stocks

Actively managed usually underperform

- Even skilled managers fail

Index funds over actively managed

1. Better diversified
2. Much lower fees
3. Lower trading costs
4. More tax efficient

How to invest

1. Don't focus on past performance
2. Diversification: reducing weight
3. Asset allocation: stocks and bonds

DWS S&P 500

- 4.5% commission when you buy the fund
- 0.67% annually in expenses

Vanguard 500 index fund admiral class shares low of 0.05

Buy Open end or index for good diversification

ETF pay spread

Want to sell ETF commission free

Smaller stocks may be more expensive

Don't fund

- Don't use leverage
- Don't speculate
- Make sure to diversify

Conclusion

1. Buy and hold index funds
2. As open-end mutual funds

3. Or as exchange traded funds (ETFs)
4. Pay attention to fees
5. Don't chase past performance

Looking up mutual fund fees

<https://apps.finra.org/fundalyzer>

0.09 cent for 100 in S&P 500

Advertising to Investors

Get information from advertising

Themes of ads

- You are in control
  - Risks in financial markets with no control
- Trading is fun
  - Invest to earn money to do things that are fun
- Anyone can do it

Good mood

- More spontaneous
- More creative
- Less critical decision making

Serious is opposite

Tips

- Invest for the long run
- Buy and hold
- Diversity
- Pay attention to taxes
- Pay attention to fees

## **Week 8: Lecture 6 Mutual Funds (10/12)**

Selecting stocks

Liquid volatile hedge against inflation

Types of Investors

- Growth,
  - Want stock price appreciation
  - Look ahead 5-18 months to project a trend for company/industry
  - Keep current to see if trend has changed
  - In a recession or slow growth economy, modest growth may be exciting
  - MSFT
- Value,
  - Look for stocks at bargain prices
  - Broken stocks, not broken companies
  - Research why stock is down, and will it be fixed
  - Apple, 3M, Banks
- Dividend
  - Looking for income

- A good dividend
  - Higher than interest on a 10 year treasury bond
- A reliable dividend
  - Companies earn more than their dividend
- Compare dividends to interest rates
- In down markets, stocks with good dividends tend to hold their value better
- IBM, Verizon

#### Market Cap

- Cost of buying all shares of a company
- Multiply market price of one share of stock by the total number of shares
- Mega cap: > 300 billion
- Large Cap: 10-300
- Mid Cap: 2 -10 billion
- Small cap: 300 million - 2 billion

#### Earnings

- Specifically prospect of future earnings are single most prospect of more money
- Earnings per share (EPS) Profit or loss attributable to each share of stock
- $EPS = \text{Total \$ Earnings} / \text{Total \# of Shares}$

#### Investment Analysis

- P/E Ratio
  - Price/earnings ratio
  - If stock is 10 and each share earned 1 P/E ratio is 10 or 10x
  - Price investors are actually paying for each dollar of earnings
- EPS Growth
  - EPS last year 1/share
  - Estimate this year 1.15 share
  - Rate of growth in earnings is 15%
- PEG Ratio
  - $PEG \text{ Ratio } (0.67) = P/E \text{ Ratio } (10 \text{ or } 10x) / \text{Growth } (15\%)$
  - Growing faster than market is given credit for
  - If PEG ratio is about 1.00 or lower, the shares are in a buy range
    - Earnings are growing faster than what the current market is paying for
  - If PEG ratio is about 2 or higher shares in sell range
    - Market paying more than rate of growth in future earnings

#### Comparing

- P/E ratios, growth rates, and PEGs tools for for comparing

#### Discipline

- Will not be right all the time
- NEVER borrow money to buy stocks or invest in the market
- Only invest in stocks with money you won't need for 5 years
- Do your homework, spend hr/week for each stock, multiple sources of info, investor relations
- If you don't understand an investment, don't buy it, get professional advice

- If the reason you bought the stock no longer exists, sell it (earning growth slows, sales growth, management concerns, competition increases)
- Sell a stock if it decline by a preset percentage (sell if 10% loss occurs, no exceptions, prevent big losses)
- Focus percentage gain or loss on a stock not the dollar amount
- Dollar Cost Averaging Allocate (fixed dollar amount each month buying more shares at lower prices)
- MOST IMPORTANT: Diversification: Companies, Size, Industry, Geographies, asset classes
- Stocks to Diversity: 5 stocks Takes SPY
  - Target, J&J, Wells fargo, hp, chevron
  - No more than 20% in single stock or investment
- Make S&P 500 First investment SPY

## **Week 9: Lecture 7 Value of Money Videos**

### Time Value of Money

Present value (PV) of money vs future value (FV) of money

- $FV = PV(1 + r)^T$

Annuity: Fixed cash flow for fixed amount of time

- $PV \text{ of Annuity} = C/r [1 - 1/(1 + r)^T]$

### Why it's Hard to Beat the Market

Some good companies are overvalued or others can be undervalued

Individual investors actually do worse than chance when picking stocks

Can just hold an index fund

### Investing in Risky Market

US market tumble

If you stuck with the ups and downs get rewarded

### Risk and Returns

Higher expected return = higher risk

No reward for taking unnecessary risk

- Expected return is an average of all expected multiplied by probability

Conclusion

1. Investments with high expected returns are always risky
2. Some risky investments have high expected returns some are risky
3. Market forces eliminate investments with high expected returns and low risks
4. Market forces do not eliminate investments with high risk and low expected returns

### Options, Future, Commodities

Options: contracts between two parties to sell by some price

Future contracts are agreement promises to buy other party promises to sell

Commodities include agricultural products gold

Zero sum games: Every game has winners and losers reducing unwanted uncertainty

Commodity sales

- Expertise and research does win

Gold

- Does not produce anything. Don't buy for investment
- Buy it for beauty

Not appropriate for most people

## **Week 9: Lecture 7 Value of Money (10/19)**

Current yield

- How much you get

Bonds

- Investment grade bonds
  - Safety of principal, secure fixed income
- Speculative Grade Bonds
  - Higher rate of interest
  - Higher rate of default
  - High yield or junk bonds

When interest rates go up, bond prices go down

When bond prices go up, interest rates go down

Municipal bonds

- States can issue, cities, school

Stock options and Restricted stock units ("RSU"s)

- Used to attract and reward employees, free
- Right to purchase shares set price
- Align the interests of employees with those of shareholders
- Exercising options are a taxable event

Gain from stock options

- Compensation and subject to federal income tax, state income tax,...
- Can total up all income and be in higher tax bracket
- If leave company, 10 days to exercise stock options

Building a portfolio

- Avoid too much concentration
- Wages, stock, stock options, diversification

## **Week 10: Lecture 8 Investment Videos**

A penny saved is a penny earned

- Want to find people are saver or spenders
- Savers more desirable
- Self control is more important

Spending for Happiness

- Science of smarter spending
1. Buy Experiences, not things
  2. Make it a treat
  3. Buy time

- a. More time to enjoy things
- 4. Pay now, consume later
- 5. Invest in others

### Financial Advisors

Investment advisors - help you choose feasible goals and strategies, stick to investment strategy

Financial advisors who don't accept commission fee only

- Charge by percent of assets
- Certificate of deposit less than 1%, can be paying more than return

Depends on what services and how much you need the services

- Can create a financial plan
- Lower chance of bad decisions and scams
- Fiduciary

### Questions for financial advisors

- Are you a fiduciary?
- How are you paid for services?
- 

## **Week 10: Lecture 8 Purchasing a House**

Mortgage - how much you own

Equity - how much would you have if you paid off rest

Market might change

Equal monthly payments we fixed interest rate

Can take Home Equity loan

Home Equity Line of Credit ("HELOC")

- Secured by the property must be repaid on default or sale

Private Mortgage Insurance

- Buy private mortgage insurance when you can't pay all of down payment
- PMI to pay back is 1% of loan

Short Sell

- Market value isn't enough to pay off loan
- Foreclosure - lender legally takes possession of the house and tries to sell the house

Lien property becomes security for lien

- When lien is paid you get a lien release

Refinancing a Mortgage with a second mortgage

- fixed mortgage same even if interest goes up

Adjustable Rate of Mortgage

- Teaser rate 1 - 5 years, interest adjusts to market rate
- Shortfall in interest from 4% is added to amount of the loan
- Bigger loan than before
- Do not use negative amortization

Conforming Loan - less payments smaller loan 10k or less

Banks get cash back for loans for federal governments

Jumbo Loans



### Pay Home Loan Example

- Instead of Monthly payment
- Bi-weekly payment pays more faster

### Joy of Leverage (OPM) Other

28% gross monthly income including insurance

43% total monthly debt loans

Credit Score: FICO Scores (3) and "Rapid Rescoring Service"

Interest based on lowest credit score

Seller pays commission and try to get 6%

Seller splits commission with broker or buyer

## **Week 13: Lecture 10 Buying vs Renting a House Videos**

How long you expect to stay

- Rent if you stay shorter

On average, investments of similar risk earn similar returns

Rent 1 year Example

- Cost 20k

Owning 1 year example

- Cost 60k with interest, property taxes, insurance, maintenance, appreciation, selling costs

Rent 10 years Example

- Cost 220k

Owning 10 years example

- Cost 171k

Buying makes more sense if you have stable income and can afford costs staying here longer

### Homeowners Insurance

How does homeowners policy work?

- Shop for your policy
- Full replacement costs is better
- Shouldn't insure for less than what the home costs
- 100% of what it would cost to rebuild
- Take a large as deductible as possible

Policy Types

- Actual Cash Value
  - Cash value of how much value used, cash value of current value
- Replacement cost policy
  - Pay full cost
- Guaranteed
  - To some amount above your policy limit

Insurance company has limit on how much they pay

- Could provide Loss of use if you move to apartment while house burned down
- Named perils coverage

Standard homeowners policy don't coverage earthquakes or hurricanes

Types of forms

- HO-2 Most basic
- HO-3 Most common
- HO-5 Most comprehensive and expensive
- Actual Cash Value, replacement, or guaranteed replacement

### Renters Insurance

What it would cost to replace everything

- Cheaper than expect
- Liability in the space you rent may cover guests

Protects against named perils

- Named perils : covers only named
- Open Perils: anything not stated
- Earthquakes and floods not covered
- May include living expenses

Shop around for best quote, highest deductible first, read policy

## **Week 13: Lecture 11 Insurance Videos**

When Trouble Strikes

- Use emergency fund, don't get into credit card debt

Types of Insurance

(Health Insurance)

- Everyone needs it everyone can get it

Homeowners Insurance, Renters insurance

- Cash value,

Auto Insurance

- State mandated minimums not enough
- Increase deductible

Life Insurance

- If someone depends upon your income, get life insurance
- Buy Term life policy

Disability Insurance

- More likely to get injured disability insurance

Don't insure the small stuff

- Don't buy small item insurance

### How Does Insurance Work

Protects us from being wiped out financially

Don't like to insure in a lot of claims at the same time (Correlated Risks)

- Correlated Risks: Like Earthquake claims
- Moral Hazard: one person doesn't care and the other takes the risk
  - Take more risk if you don't it will be 100% , leaving diamond out
  - Unemployment Insurance
  - Cover only 50% of income
- Adverse Risk: Greatest risk buy insurance and low risk don't

Insurance companies charge premiums high enough to cover claims and give some profit

### Individual Investor Heuristics

Availability Heuristic : cause to overestimate

### Overconfidence

Overconfident traders

- Trade more, earn less, under diversify, make markets volatile

Trading is hazardous to your wealth

- Overconfidence, more trading causes more losses
- Self-attribution bias : take credit for success, bad things blame others or bad luck
- Confirmation bias look for reason: Hears what you want to hear
- Too easy to trade

## **Week 13: Lecture 11 IRA (11/16)**

IRA tax deductible

Put money into account each year before paying taxes on it

Maximum annual contribution is \$6k

IRA Plan Withdraw taken as taxable income additional 10% penalty after 59.5

Roth IRA

- Put money into account each year after paying taxes on it
- Not tax deductible
- Investment income tax free, capital gains tax free, compounding

Vesting

- 100% vesting : all money is yours, match also yours
- Cliff vesting: only stay matching for 3 years, red flag
- Graded Vesting: contribute match up to 6% of annual earned income

Employer can only contribute to regular 401k cannot contribute to Roth

## **Week 14: Lecture 12 Cars Buy or Lease Videos**

Buying is better

Leasing not good

1. Leases are complicated and often contain hidden fees
2. Longer term contracts with high early termination fees
3. At the end of the lease you don't own anything
4. At the end of the lease, you get charged for tears scratches and dents
5. Charged for any extra miles you drive

### Auto Insurance

Must have liability Insurance

- Bodily Injury Liability \$15,000 per person injured, maxing out 30k
- Property damage \$5,000

How much should you have for auto insurance?

- Keep liability insurance at least as high as your assets

Fault vs No Fault

- Fault : person at fault has to pay everything
- No fault: responsible for own injuries

#### Additional Car options

- One of 7 drivers is not insured
- Uninsured motorist: covers drivers no insurance, stolen
- Underinsured Motorist: person with little money or minimal insurance
- Collision insurance: pays for damage to own car
- Comprehensive insurance: damage from things other than collisions
- Medical payments coverage: covers medical insurance for yourselves

If you cannot afford makeup payment of book value of car, pay highest deductible

If minimum liability coverage, look at increasing

Make a plan and know what you actually need

Shop around for best discounts

#### Disposition effect

Selling winners and holding losers

Can't pay attention to everything

Choose stocks that catch their attention

Individual were on buy side for stocks with more attention

#### Chasing performance

39% new money went into top 10% for performance

- Deterministic event or random event
- Very costly to see patterns that aren't real and to trade on those patterns

#### Fees

Ignore annual expense of mutual funds

Investing mistakes can be costly

When individual put in more money market did worse

Individual investor trades actively

- Invest for the long run
- Buy and hold
- Diversity
- Pay attention to fees
- Pay attention to taxes

### **Week 15: Lecture 13 Other Insurance Videos**

Do you need life insurance?

- If someone else depends on your

Types of Life Insurance

- Term Life Insurance
  - Buy for length of time have to buy another policy
  - Much cheaper and simpler
  - Commissions are lower
  - Fixed term for number of years
  - Too sick if renew

- Cash Value Life insurance
  - Insured for entire life, payment when you die
  - Tax sheltered investment pay later in life
  - Complicated, more
  - Ask agent about their commission
- Separate life and retirement savings
- Life insurance
  - Term for sale
  - Smoking has big effect
  - Buy from company that has good reliability, financial strength

### Disability Insurance

- Disability insurance protects your income if you get sick or hurt and can't eat

### Types of Disability Insurance

1. Short term disability
    - a. Could be funded by company
  2. Long-term disability insurance
    - a. Lasts until 65
- Enough to cover basic monthly expenses
  - Workers compensation in case of hurt on the job
  - Social Security Disability sick to work any job

### Factors influencing

- Age, gender, healthy, coverage, occupation, smoking
- Get quotes from different companies

### Wills, Advance Directives, Trust

#### Advance health Care Directive

- Every adult needs one, what medical treatments you want if you can't communicate
1. Appoint a health care agent
  2. State your wishes about health care

#### Wills

- Every adult
- Who gets your possessions and assets
- Nominate guardian for your children
- Direct assets to be held in trust for beneficiaries

#### Revocable Living Trust

- Makes management of your assets easier

#### Power of Attorney Relating to Property

- Engage in financial transactions on your behalf

### Financial Decisions as we age

#### How can we protect against own

Older people had lower understanding but greater confidence

Unaware of loss

Acknowledge could somehow unfit to make decisions

Could have kids manage

## Final Review

### Credit

Top 1% earn 400k pay 40% of income taxes

Top 5% earn 160k pay 60% of income taxes

Top 10% earn 113k+ pay 70% of income taxes

Bottom 50% of households pays less than 3% of income taxes

47% pay no federal income taxes

**Millionaires** do not earn over 100k per year, 50% self employed or own a business, savers and investors

- *Bring frugal, not cheap but value oriented is the cornerstone of their wealth*
- Want to be financially independent, ability to communicate and sell their ideas
- **Credit card** unsecured line of credit, based on good faith and credit history, best time to establish credit is when you don't need it
- **Debit card** is secured bank card that takes money out of your bank account immediately, does not help establish credit since bank is taking no risk
- **Charge card** store credit cards can have high rates of interest
- **Prepaid card** many fees such as activation, inactivity, to load money
- **Fixed rate of interest, Adjustable rate of interest, variable rate of interest**
- **Revolving credit, default rate, balance transfer fee, grace period stop payment (23)**

### Taxes

- 
- Taxes on interest (CD, money market funds, corporate ) taxed as ordinary income
- **Adjusted Gross Income**
  - Subtract from total income deductions such as contributions for retirement plans, student loan interest, tuition and fees, health savings,
  - Modified adds back tax exempt interest, foreign income student loan
- **Capital Gains Tax**
  - Tax on profit or loss from sale of an asset, capital gains or losses from stocks, bonds, real estate, assets
- 
- **Capital Losses**
  - Offset capital gains for tax purposes, apply short term losses against short term gains, long term losses against long term gains
  - Can use capital losses in excess of gains to reduce taxable ordinary income by \$3k a year

- **Wash Sale Rule**
  - Cannot declare a loss on a security if you purchased identical 30 days before or after the sale, not tax deductible
- **Alimony**
  - Pre 2019 remain tax deductible to the payer, and taxable income for the recipient
  - After 2019, payments required are not tax deductible to payer, receive alimony no longer report money as taxable income
- **Tax Brackets**
  - Maximum federal individual income tax of 37% of taxable income
- **Marriage Tax Penalty**
  - Additional taxes if combined income exceeds 400k
- **Gift Tax**
  - Lifetime exemption of 1 million give up to 14k to as many people as you like free of gift tax
- **Federal Estate Tax**
  - To collect additional taxes from wealthy individuals if no will, state determines what to do
  - 20 states have **estate inheritance tax** paid out of estate before distribution paid by heirs
- **Excise Tax**
  - Tax on specific products or activities luxury tax
- 
- 1. What is the difference between earned and unearned income
  - a. **Unearned interest:** Taxable interest, ordinary and qualified dividends, business profits or losses, capital gains or losses on investments, pension receipts, certain tax refunds, Social Security benefits, unemployment compensation, individual retirement account distributions, real estate activities and partnership income.
  - b. **Earned income:** wages, salary, bonuses, commissions, royalties, tips, other
- 2. Difference between tax avoidance and tax evasion
  - a. **Tax evasion:** concealing income or information from tax authorities illegal
  - b. **Tax Avoidance:** legally reducing your taxable income
- 3. What is **20% pass through deduction?** (pg 66)
  - a. 20% tax deduction of business income from a proprietorship, partnership, limited liability corporation (LLC) or S corporation. Only 80% is taxed at taxpayer's marginal rate (up to 37%)
- 4. Difference between short term and long term capital gains?
  - a. **Short term Capital Gains:**
    - i. 12 months or less, profit added to income with max of 37%
  - b. **Long term Capital Gains:**
    - i. Over 12 months, max tax of 20% for singles above 425k or married above 479k and below is 15%

5. Difference between ordinary dividends and qualified dividends
  - a. **Qualified stock dividends:**
    - i. taxed at maximum rate of 20% for singles with taxable income in excess of 425k
    - ii. Taxed at maximum of 15% for others before this amount
    - iii. Some can get 0 % tax rate
  - b. **Non qualified dividends (ordinary dividends)**
    - i. Held less than 61 days, taxed as ordinary income at individual tax rate
6. What is tax credit vs tax deduction (pg 68)
  - a. **Tax Deductions**
    - i. Expenses you are permitted to subtract from taxable income to reduce taxes
    - ii. Standard deduction: no questions asked single 12k married 24k
    - iii. Itemized Deduction: More than standard deduction can itemize on schedule form 1040 and deduct, need records (state local taxes, medical expense, home mortgage, charity, home equity loan)
  - b. **Tax Credits**
    - i. For special situations and eligible amounts directly subtracted from tax liability, *tax credits worth more than tax deductions*,
    - ii. Tax deductions reduce taxable income , tax credits reduce tax you owe dollar for dollar
    - iii. Ex: Dependent tax credit, child tax credit, alternative energy, education
7. Salt tax deduction
  - a. State and local tax
8. Dollar deduction for salt limit
9. Alternative minimum tax
  - a. To impose taxes on high income people who were paying little income tax
  - b. Forces recalculation by adding normal deductions
  - c. Taxable income over 70k for single or 109k married recalculate tax using AMT and pay high of regular or AMT 26-28%

## Investment Vehicles

- **Common Stock** share of ownership in a corporation entities its owner all risks and reward of enterprise limited liability, when corporation sells stock to public is **Initial Public Offering (IPO)**
- May pay dividend to shareholders paid quarterly out of after tax net income decided by Board of Directors, elected by shareholders, not tax deductible to corporations, taxable to shareholder taxed twice
- Can use shares to buy other companies or parts of businesses
- **Municipal bonds** from state and local gov secured by assets, taxes, revenue, or assessments, interest from municipal bonds issued by state and local gov is free from federal income tax, can be free from state income tax ,



- Know equivalent yield comparison between taxable interest and nontaxable interest
- US bonds from US treasury guaranteed by the federal gov, safest investment in the world
- *When interest rates rise, existing bonds decline in market value, When interest fall, existing bonds rise in market value*
- **Mutual Funds** professionally managed portfolios which have stocks bonds divided into shares , defined investment strat
- DOn't buy mutual fund shares in December until after the year end distribution for capital gains has been made required to pay tax on distribution
- **Money market funds (MMF)** mutual funds which invest in short term debt pass on interest received to shareholders , offered by brokerage firms to earn current market interest,
- FDIC does not insure or guarantee MMFs
- **Credit Unions** Nonprofit that have surplus earning of credit unions

10. What is proprietary (91)

a. **Sole Proprietorship**

- i. Owned by one person, if owner dies business dies,
- ii. Proprietor has unlimited personal liability and limited ability to raise money
- iii. Separate schedule to file with individual form 1040 tax return to report profit or loss from business to IRS, real business,
- iv. Profits taxed at ordinary individual tax rates, losses can be used to reduce taxable income

11. What is partnership

- a. **Partnership** enterprise jointly owned by two or more entities
- b. Partnership does not pay federal income taxes, obligation of each individual partner for his own share of total profits or losses on individual tax return
- c. Can make annual cash distributions, reinvest,
- d. Receive a Forma K1 which states financial info to be filed with partner individual tax return provided to IRS for checking

12. What is general partner vs limited partnership

- a. **General partner** : manages and runs the partnership has unlimited liability and purchases insurance to cover liability risk
- b. **Limited partners** : invest in business limited liability, limited to amount of their investment, survives death of a partner

13. What is a corporation

- a. **Corporations** chartered by the state, can raise large amount of money and provide limited liability to owners/shareholders,
- b. File their own tax returns, survives death
- c. **Dividends** are part of earnings of a corporation distributed to shareholders declared by corporation board of directors and paid out of after tax profits, distributed quarterly to shareholders, taxed again to shareholder

- d. Dividends taxed twice, at corporate and shareholder level
  - e. **Charter Corporation (C - Corp)** chartered by state owned by shareholders who purchase shares and can vote on receive dividends file own tax returns at corporate rate, shareholders not responsible for taxes on profits, responsible for personal taxes, shareholders limited liability
  - f. **Subchapter S Corporation (S Corp)** S Corp chartered by state, limited liability for shareholders, do not pay dividends, profits and losses are passed through to shareholders on own individual tax returns, limited liability and lower taxes
  - g. **Limited Liability Corporation (LLC)** : chartered by state shareholders limited liability, do not pay dividends, profits losses passed through to owners and accounted on own individual tax returns, single owner, limited liability and have tax benefits
14. How are corporate earnings expressed
- a. Dividends? Passing profits/losses to shareholders
15. What is depreciation
16. What is PEG rate
17. How many times are corporate dividends taxed
- a. Corporate dividends taxed twice at corporate level and individual tax level
- Sales are profit or earnings revenue is money coming in
18. What is the most important factor for stock going up in the future?
- a. Diversification
19. What is a closed mutual fund?
- a. **Closed mutual end funds** pooled investment portfolios which raise money by issuing and selling set number of shares in IPO, share listed on exchange and publicly traded, NAV published daily, shares trade higher or lower based upon supply and demand, management fees lower than open end funds pay broker commissions
  - b. **Open end funds** pooled investment portfolios open to investor with money to make minimum initial purchase, issues new share to accommodate purchases outstanding shares when they are sold, based upon NAV various sales fees, management fees, admin expenses,
    - i. Sold with prospectus, doc of disclose of investment policy strat, pas performance
20. When looking for financial advisor standard advisory vs fiduciary
- a. **Fiduciary** looks out for your best interest
21. Stock disciplines
22. Purchasing shares of stock bid vs ask
- a. **Ask or offer:** lowest price a seller is willing to sell at that very instant in time
23. What is market order vs limit order
- a. **Market Order:** Best available price at that instant in time for immediate execution or filling of an order
  - b. **Market order to buy:** buy at ask price
  - c. **Market order to sell :** sell at bid price

- d. **Limit order:** specific price you set at which you are willing to either buy or sell a stock no more/less does not limit losses
- e. **Limit order to buy:** highest price you are willing to buy
- f. **Limit order to sell:** lowest price willing to sell

24. Difference between exchange traded fund vs mutual fund

- a. **Exchange Traded Funds (ETFs)** securities that track an index but trade on exchange like a stock "index funds" bundle of stocks with instant diversification of category, buys and sells same investments in the same ratio as index, low expenses pay quarterly dividends which are taxable (S&P 500)

### Stocks

" an investment operation is one which upon thorough analysis, promises safety of principal and an adequate return"

Value of an investment is a function of your monnon sense, your analysis, the price you pagey, and the goal you seek to achieve.

### Types of Investors

- Growth investor Looking for strong companies to grow sales and earnings, grow 15% or more
- Value investor: looking for stocks at bargain prices, broken stocks not broken companies
- Dividend Investor: want income more than growth stocks, that pay above average dividends
- **Market Cap** total value investors are placing on the company at a moment in time, multiplying the market price of a single share of stock by total number of shares outstanding

25. What is equity in stocks

26.

27. What is an above average dividend

- a. What is it greater than
- b. "Good" dividend is one that provides current yield greater than the interest rate on a 10 year treasury bond

28. What is PE ratio and what doe sit mean

- a. **Earnings** are single most important factor for investors
- b. **Earnings per share (EPS)** profit or loss attributable to each share
- c. **Price Earnings ratio (PE ratio)** : Price of single share divided by the earnings of a share if 10 times earning P/E ratio 10
- d. What market is currently paying for each dollar of earnings
- e. **Growth** percentage rate of increase of earnings over a period of time
- f. **Rate of growth** EPS last year \$1, estimate for this year \$1.15, annual growth rate 15%, earnings expected to increase 15% compare current quarter to last year quarter
- g. **PEG Rate** to decide is buy or sell, comparing how much investor to pay for each dollar of earnings to expected growth rate of future earnings, compares current price/earnings ratio (P/E) to growth rate of earnings (G) ,

- i. Ex selling for 10 times of share earnings 15%  $PEG = PE/G = 10/15 = 0.67$

29. NAV : net asset value

- a. **Net Asset Value (NAV)** is total value of fund's holdings (including cash) divided by number of fund's shares outstanding at the time, posted once a day after market close

**Bond**

30. Difference between revenue and profits

- a. Sales are profit or earnings revenue is money coming in

31. What is current yield

- a. Bonds BB+ or lower are high yield or junk bonds
- b. Bond issued at face value or principal called par issuer promises to pay interest (coupon) twice a year typically must be paid back by maturity date
- c. **Yield** return earned by an investment in bonds
- d. **Current Yield** : annual interest payment divided by market price of the bond, coupon (interest paid) stays the same but changes in market price of bond change current yield either up or down, coupon yield at 4%, bond at 950, current yield 4.21 (40/950)

32. What is coupon yield

- a. **Coupon Yield (Nominal Yield)** fixed percentage rate of interest based upon the par value of bond, does not vary 4% = 40

33. What is yield to maturity

- a. **Yield to maturity** how much you will receive in the future if you hold the bond to maturity, sum of all cash flows from both coupon payments and repayment of face value, if purchased at discount yield to maturity higher than coupon

Rule of Fred: " I get paid first"

- **Bonds** loans obligate issuer to pay specified amount of interest for specified period of time , interest paid twice a year, to borrow money and pay interest for the time you expect to need it
  - b. Bonds from corporations secured by corporate assets , tax deductible to corporation as an expense taxable to bondholder as ordinary income
- Bonds rated to quality (AAA< AA, BB) investment grade with lower the quality the higher the interest rate must be to attract investors (AAA - BBB-) good

34. Interest on municipal bonds is free from federal tax

35. If interest goes up, prices of bonds go down

- a. *When interest rates rise, existing bonds decline in market value, When interest fall, existing bonds rise in market value*

36. If selling at premium, more than par, less is a discount

37. Inflationary period everything goes up and cost of money bond goes down

**Stock Options and grants**

- Right to buy a stock at a set price in period of time, increase in price options have value and in the money else out of the money , if not exercised by expiration date, they terminate
- Stock options granted by board of directors, sets the price at which employee can purchase stock
- Options are free and no taxable event as long as options are exercised
- When sold, there is capital gain or loss
- **Stock grants** gifts of stock , made to executives and managers maybe be restricted or vested, need to be qualified

### 38. Private mortgage insurance (PMI)

### Houses

- **Mortgage** pledges a piece of property to lender as security for repayment of loan by borrower, repayments comprised of principal and interest
- **Collateral** property you pledge as guarantee you will repay the loan, if default and do not prepay the loan, lender can take possession of the property and sell it get its money back
- **First mortgage** first claim on property in even of a default or sale of property
- **Second mortgage** additional loan taken against the same property which is riskier has a higher rate of interest and shorter term (150)
- *Most important factor is location*

### 39. What is a short sale

- a. **Short Sale** if value of house declines to the point where the amount of the loan is greater than the market value of the house, even is sold, not enough to repay, if short sale does not occur house will go into foreclosure

### 40. What is a notary public

### 41. Title insurance?

- a. Guarantees clear ownership of a property to buyers and lenders, don't buy from part who doesn't own the house, this is protection 25% titles need cleaning up

### 42. Escrow?

- a. Neutral third party which holds documentation and money involved in transaction until transaction is completed and distributes the funds and executes the instructions, escrow company charges a fee for service

### 43. What is rapid rescoring (156)

### 44. What is a lien

- a. **Lien** is process whereby property becomes security for the payment of a debt but filer does not have power to force the sale or take possession, make improvements
- b. **Second lien** second mortgage home line equity must approve any transaction

### 45. What are points of a home loan

### 46. What is tax break after living in 2 if single or double

### 47. What is foreclosure

- a. **Foreclosure** when bank or secured lender legally repossess a house after the owner failed to comply with loan agreement, lender can sell the property and keep proceeds to apply toward its loan and legal costs to satisfy liens
- 48. What is equity
  - a. **Equity** Difference between current market value and owned on mortgage
  - b.
- 49. What is benchmark loan
- 50. Real estate transaction who pays sales commission
- 51. What is difference between annual rate of interest and APR which one is higher
  - a. Interest rates are quoted advertised as annual rate and annual percentage (APR), APR includes fees that you are required to pay, 3% is to get attention 3.3 is what you pay
- 52. Why do people refinance their home loans
  - a. Replace existing mortgage with new mortgage negotiation for new loan or moving to new lender and paying off loan.
  - b. Lowering interest rate for monetary payment or changing the term of the loan
- 53. What is negative amortization
  - a. Homeowner sends monetary payments but loan amount is actually increasing when market teaser interest rates are used to entice people, interest rate increases to prevailing market rate, doubling or tripling the monthly payment
- 54. What is home equity loan
- 55. What is home equity credit
- 56. Homeowners insurance policy 4 parts
  - a. Structure of your home : pays to repair or rebuild if it is damaged or destroyed by fire hail, lightning , other disasters
  - b. Your personal belongings: furniture, clothes sports, stolen destroyed by fire 50-70%
  - c. Liability protections: worldwide against lawsuits for property damage that you cause to other people
  - d. Additional living expenses: covers additional costs of living away from home hotel bills, rental housing, meals and incidentals,

### **Rental property**

- 57. Why do people get involved with rental property?
  - a. Not tied to location, flexible, no down payment or long term mortgage, location
- 58. Is the rental agreement a contract enforceable by law
  - a. Yes, Make certain to fill in all the blanks
- 59. Residential property vs Commercial property both depreciate on straight line interest
- 60. Tax differentiates between investing and owners are different
  - a. Real estate is full time job with the business taxed as businesses, people passive investing owns office building but makes passive income
- 61. What is 1031 exchange
  - a. Unique real estate opportunity to trade a property and defer taxes on capital gains by exchanging or replacing that property with another property, instead of

selling it outright and paying the capital gains tax, defer your tax payment, keep that money, leverage it, compound it, and invest it

62. Repairs and tax deduction

- a. Most successful investors say buying is more important for investing than selling

63. Want building codes and inspection of property, zoning

64. Get a use permit

65. Can deduct interest but not the loan deduct appreciation is an expense lower taxes

- a. Rental income to pay off mortgage and increase ownership,

66. Know what triple trust

- a. **Real Estate Investment Trusts** publicly managed pools of money looking to profit in real estate
- b. Equity REIT own and operate income producing real estate
- c. Mortgage REIT finance property
- d. Hybrid REIT may own and finance property

67. What what real estate investment trust

- a. Can participate in real estate without being a landlord

68. Pay out at least 90% of income

69. Pay no tax at the corporate level

## **IRA**

**Traditional IRA:** money you contribute is tax deductible in the year it is contributed but the money you withdraw is fully taxed as ordinary income, all income and earnings within the account are tax sheltered

**Roth IRA:** money you contribute is after tax dollars, but money you withdraw is tax free, maybe not be taxed

70. Your IRA is your responsibility to manage

71. Can't contribute more than earned income

72. Roth IRA is not tax deductible when take out

73. IRA Contribution not tax deductible but pay tax when taking out

74. Spousal account IRA

75. What is the maximum you can contribute to IRA in a year

- a. 2020 is \$6,000
- b. Cannot contribute more than your earned income

76. After 59.5 you can withdraw IRA tax + 10% penalty

- a. At 70.5 you must begin yearly withdrawals using IRS required minimum distribution schedule
- b. Roth IRA can take out after 59.5 without no tax and penalty if opened for at least five years

## **401k**

77. What are 3 parties that can contribute to 401k

- a. You, employer, uncle sam

78. What is investing what the 3 types of vesting

- a. **Vesting** when you will actually own your employers contributions since your employer does have right to put conditions around getting your contributions if you leave terminated
  - b. **100% vesting** you own 100% of contributions and your employers matching funds , you can take even if you leave
  - c. **Cliff Vesting** you take ownership of a given year's annual matching funds all at once but only after you have worked t company for specified period ftime, 3 years max, couldn't take it with you
  - d. **Graded Vesting** take ownership of percentage of employers match each year,  $\frac{1}{5}$  of employer's contribution per year for 3 years but 20\$4 over five years
79. If income too high may not be able to contribute to 401k or roth IRA
80. When transferring money from 401k to IRA have it done directly firms do it between accounts
81. 401k taken out of paycheck
82. Can roll it into roth ira
83. Account to account
84. If nonprofit can have 401b
85. Partially invested, leave, you leave without having done
86. Need traditional employer can only put in traditional IRA
87. Employee going to 401k can only contribution to regular

Car

88. Know what the MSRP is
- a. **Manufacturer's suggested retail price** on stick in car's window dealer's starting point
  - b. **Invoice price** manufacturer's price to dealer before various rebates
89. Insurance on Car: liability coverage,, uninsured motorist insurance (someone else crashes and they have no insurance)
- a. **Liability coverage** protects you from claims resulting from injuries cause to another person or car if you are at fault, covers defending you in legal actions, mandatory in all states
  - b. **No fault insurance** medical coverage that comes in opaly when it is unclear who is to blame, lower cost of auto insurance minor medical expenses paid
  - c. **Collision coverage** pays for damage to your car when the accident was your fault or unable to collect from other party who was at fault optional coverage, deductible of \$500
  - d. **Uninsured motorist** covers you and your family members who live with you if hurt by an uninsured driver while in your car, walking or bicycling
  - e. **Comprehensive** covers from fire theft and nature
90. Waste as much time at the sales
91. Best days to buy is last few days of month
92. Buying or leasing is better to have carfax report on car
93. Can get a warranty buying from individual is better than dealer
94. Don't let them have a trade in



95. Car Lease: what is capital cost and what is residual cost

- a. **Capitalized cost (Cap cost)** price you and the dealer agree upon for the car to be valued at the time of the lease, lower the cap cost lower the monthly payments
- b. **Residual value** predetermined value and purchase price of the car at the end of the lease, market value of the car when the lease terminates, as important as the capitalized cost of the vehicle, not negotiable
- c. Pay less for the one that loses the least value during the lease term one with highest residual value will lease for less money

96. Need to do maintenance, You still need to pay sales tax

Healthcare reform act (ACA)

97. Co insurance

- a. **Co payment or coinsurance** share of the bill that you pay after you have met your deductible, insurance paying the rest up to policy limits

98. Deductible

- a. **Deductible** amount you pay each year before the insurance company makes any payment at all, higher the deductible the lower the cost of the policy

99. Stipulated maximum

- a. **Stipulated max (cap)** no matter how the bills, pay no more out of pocket than this stipulated max in any one year
- b. **High Deductible Health plan** higher annual deductible than typical health plans

100. Differences between insurance providers

101. HMO, PPO, Health savings account (HSA), Flexible savings account

- a. **Health Maintenance Organizations (HMO)** non profit orgs tax benefits from IRS pay flat monthly fee to HMO for coverage regardless of usage, goes to outside provider, have to pay all or large part of bill, doctors are paid a salary no matter how many patients they see or services they provide, pick your primary physician, keep costs low by keeping members healthy and fewer treatments and procedures annual checkups for free
- b. **Preferred Provider Organizations (PPO)** allow you to choose from a group of providers who have their own contracts with your insurance company to provide services at a predetermined price, must accept these amounts as full payments, pay some amount for care when it is received, copays coinsurance, more flexibility in selecting doctor
- c. **Health Savings Accounts (HSA) Flexible Savings Accounts (FSA)** plans allow you to set aside pre tax dollars to pay out of pocket medical expenses tax deductible, tax sheltered

102. Money in HSA or FSA is tax deductible

103. 90% of hospitals have gross overcharges

Disability insurance

104. Replaces income for employees

105. Definition of disability

- a. Some define as inability to do your job or a similar job
- b. Others as inability to do any job for which you may be qualified
- c. Inability to do any job
- d. **Benefits** are subject to ordinary income tax, disability benefits are not taxed if you pay premium
- e. Non cancelable policy means you have right to renew the policy without an increase in premium
- f. Guaranteed renewable means you have right to renew but rate may go up

#### Life Insurance

##### 106. Term insurance vs entire life insurance

- a. **Term insurance** strictly death insurance, if the insured person dies while policy is in force, besides suicide, premiums for term insurance based upon age, health, gender, lifestyle, occupation, lower the cost the younger most protection for your money
- b. **Whole life insurance** combines cost of death or term insurance with cash value which is amount accumulated builds up tax free and compounds in your account, mightier due to forced savings and higher commissions, premium stays the same throughout the period of the policy can borrow your policy's accumulated cash value from savings