



UNITED STATES MILITARY ACADEMY
WEST POINT



SS201: Principles of Economics

Lesson 23: Capital Markets II

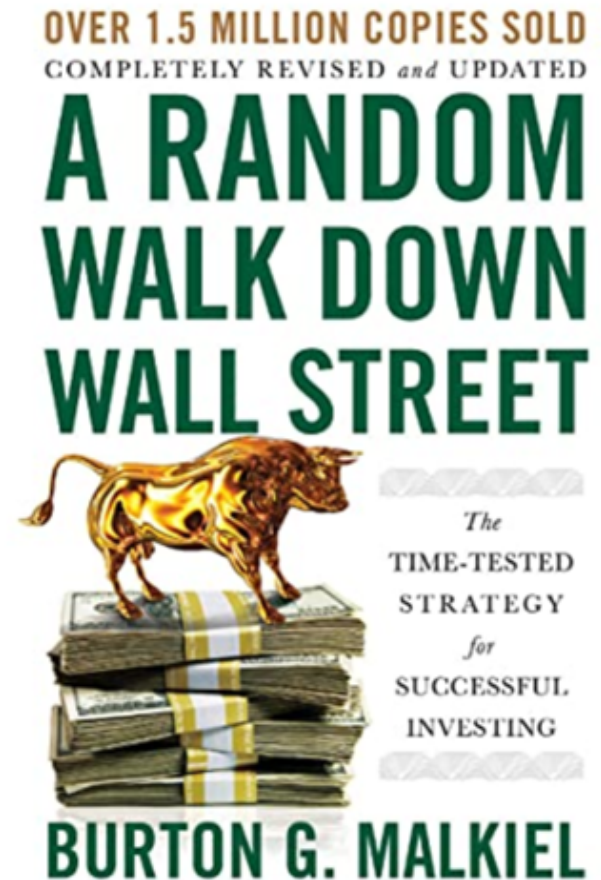
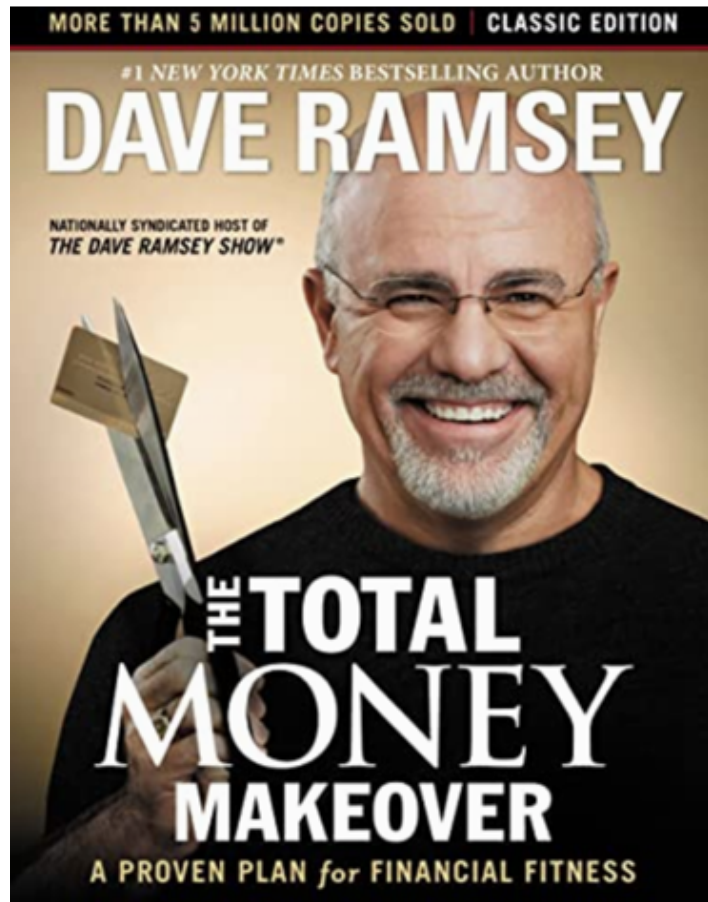
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Agenda

- Saving Considerations
 - Timeframe
 - Taxes
 - Passive vs. Active
 - Diversification
- Retirement Savings
 - Blended Retirement System / Thrift Savings Plan
 - Individual Retirement Accounts
- Cow Loan Considerations

Couple Recommendations



Saving Considerations

Timeframe

- Need to know / forecast when you want the money
- Helps inform what savings vehicle you use
- Something better than nothing... inflation always happening

Annual Percentage Yield (APY)

USAA Savings

Minimum deposit to open is \$25

Daily Collected Balance	APY
Less than \$1,000	0.01%
\$1,000 to \$4,999.99	0.01%
\$5,000 to \$9,999.99	0.01%
\$10,000 and over	0.01%

Saving Considerations

Taxes

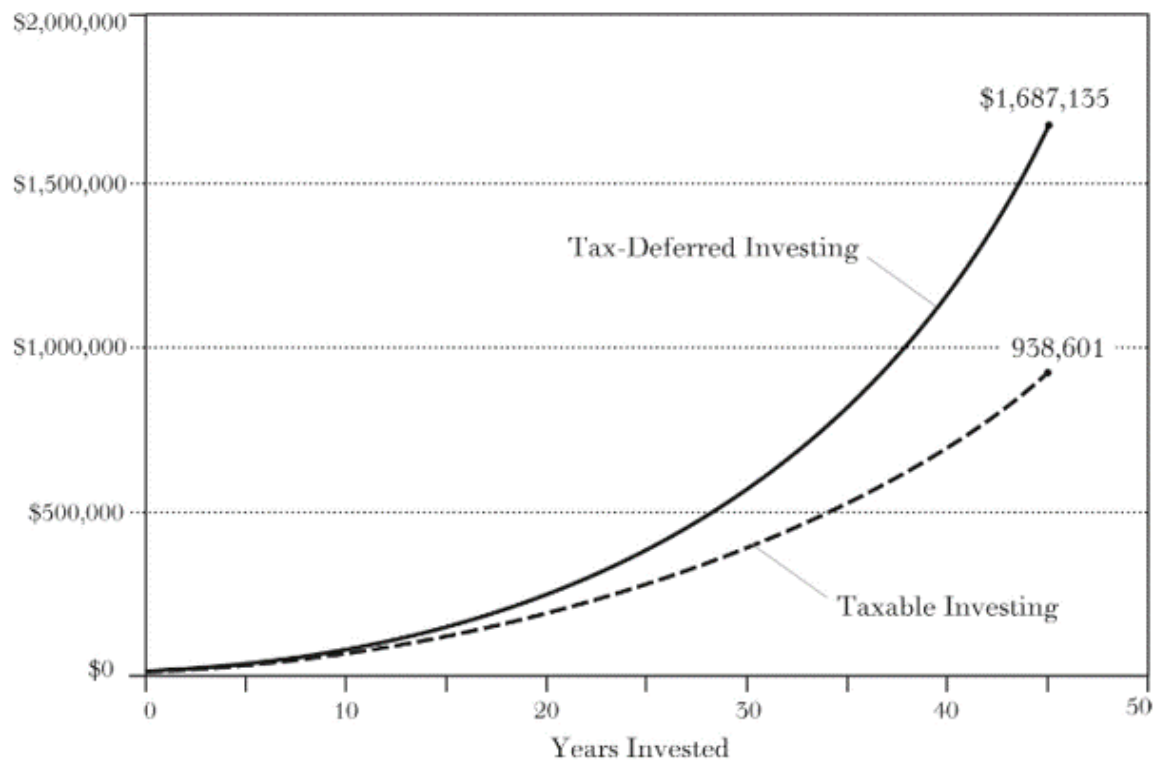
Type	Tax Rate %	Basis	Comments
Short-term Capital Gains	0 - 37	Income level	Applies to any investments you hold equal to or less than 12 months
Long-term Capital Gains	0 - 20	Income level	Applies to investments held for over 12 months and are taxed when you sell
Qualified Dividends	0 - 20	Income level	Applies to dividends from stocks held more than 60 days before and after the dividend payment and are taxed when you receive the payment
Bond Interest Income	0 - 37	Income level	When bonds are sold for a profit or loss, they also incur capital gains taxes

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Saving Considerations

Taxes

THE ADVANTAGE OF INVESTING THROUGH AN IRA TAX-DEFERRED VS. TAX-ABLE INVESTING OF \$5,500 A YEAR



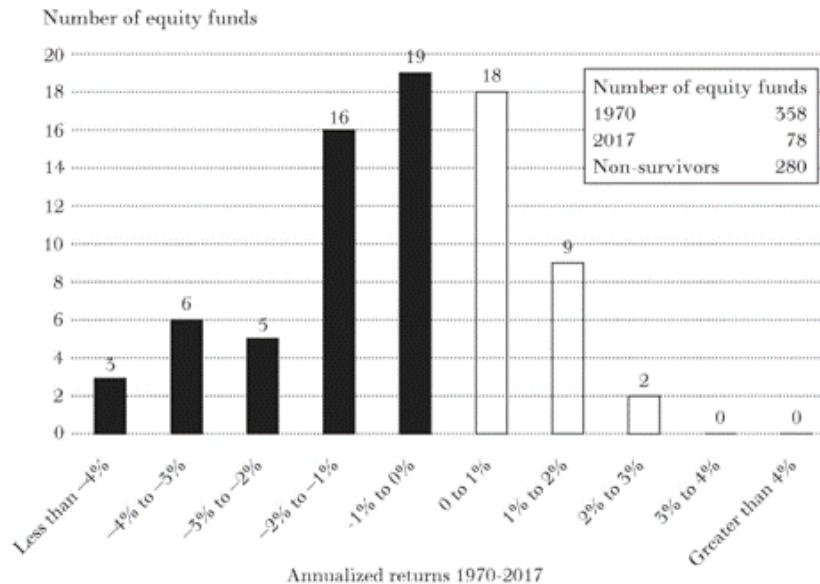
Saving Considerations

Passive vs. Active

- Some people think they can beat the market
- Others (economists) are a little more realistic...

THE ODDS OF SUCCESS: RETURNS OF SURVIVING FUNDS

Mutual Funds 1970 to 2017—Compared with S&P 500 returns



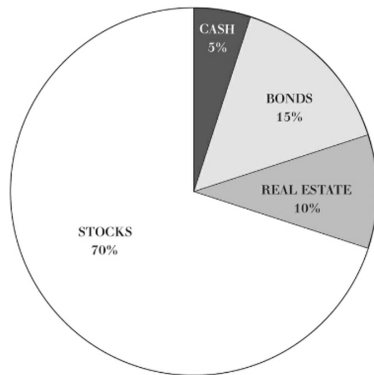
Saving Considerations

Diversification

- With more time, you can tolerate more risk and experience larger gains (on average)
- As you approach the time when you need the money, you need safer assets

Age: Mid-Twenties

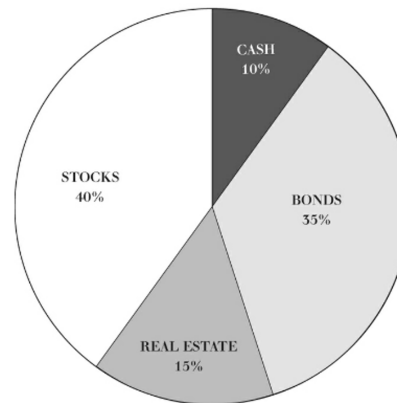
Lifestyle: Fast, aggressive. With a steady stream of earnings, capacity for risk is fairly high. Need discipline of payroll savings to build nest egg.



- CASH (5%): money-market fund or short-term bond fund (average maturity 1 to 1½ years).
- BONDS AND BOND SUBSTITUTES* (15%): no-load high-grade corporate bond fund, some Treasury inflation-protected securities, foreign bonds, dividend growth stocks.
- STOCKS (70%): one-half in U.S. stocks with good representation of smaller growth companies, one-half international stocks, including emerging markets.
- REAL ESTATE (10%): portfolio of REITs.

Age: Late Sixties and Beyond

Lifestyle: Enjoying leisure activities but also guarding against major health costs. Little or no capacity for risk.



- CASH (10%): money-market fund or short-term bond fund (average maturity 1 to 1½ years).
- BONDS AND BOND SUBSTITUTES* (35%): no-load high-grade corporate bond fund, some Treasury inflation-protected securities, foreign bonds, dividend growth stocks.
- STOCKS (40%): one-half in U.S. stocks with good representation of smaller growth companies; one-half international stocks, including emerging markets.
- REAL ESTATE (15%): portfolio of REITs.

*BONDS AND BOND SUBSTITUTES: If bonds are held outside of tax favored retirement plans tax-exempt bonds should be used.

Retirement Savings

Private Options

- Individual Retirement Accounts (IRA)
- Thrift Savings Plan (TSP)

Employer Options

- Blended Retirement System (BRS)
- 401K

Can't access until age 59.5!!

Retirement Savings

Private Options

Individual Retirement Accounts (IRA)

- Brokerage account with contribution limits
 - Currently at \$6,500 / year
- Two Types
 - Traditional (Pre-Tax)
 - Roth (Post-Tax)
- Managed through most financial institutions (i.e. Schwab, Wells Fargo, etc.)

Thrift Savings Plan (TSP)

- Federally ran mutual funds
- Less diversity for investments, lower costs, higher contribution Limits (\$22,500 / year)
- Two Types
 - Traditional (Pre-Tax)
 - Roth (Post-Tax)
- Managed through TSP / MyPay

Retirement Savings

Employer Options

401k

- Most civilian entities offer these
- Basically a retirement savings account with matching contributions
 - Ex. You contribute 10% of pay to savings and employer will match 5%
- Can have this and TSP if you transition from military to civilian

Blended Retirement System

- DOD Changed to this policy in 2019
- Defined Benefit
 - 20 YOS = 40% for life
 - Can take lump sum option
- Defined Contribution
 - 1% Given, 4% Match
- Continuation Pay
 - Between 8-12 Years
 - Anywhere from 2.5x - 13x monthly base pay

Cow Loan Consideration

Overview

- It's a good deal if you need it
- NOT FREE MONEY
- Frontloading consumption now as opposed to later

Normal Unsecured Loan

- 14.79% interest rate
- \$1,143.83 monthly
- \$32,629.60 in interest

Cow Loan

- 0.75% interest rate
 - \$620.75 monthly
 - \$1,244.80 in interest
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Cow Loan Consideration

Budget Comparison

Amount	Category	Amount	Category
\$ 3,637	2LT Base Pay	\$ 3,637	2LT Base Pay
\$ (500)	Food	\$ (500)	Food
\$ (700)	Insurance, Gas, Phone Etc.	\$ (700)	Insurance, Gas, Phone Etc.
\$ (727)	Taxes (@20% Total)	\$ (727)	Taxes (@20% Total)
		\$ (620)	Cow Loan Payment
\$ 1,710	Remaining after Expenses	\$ 1,090	Remaining after Expenses
\$ (181)	BRS (TSP) (5%)	\$ (181)	BRS (TSP) (5%)
\$ (360)	Roth IRA (10%)	\$ (360)	Roth IRA (10%)
\$ (150)	Savings Goals (Emergency Account, etc.)	\$ (150)	Savings Goals (Emergency Account, etc.)
\$ 1,019	Remaining after Savings	\$ 400	Remaining after Savings

Cow Loan Consideration

Things to Think About

What do you need the money for and when do you need it?

- Car
- Furniture
- Engagement Ring
- Class Ring
- Uniforms
- Retirement Savings
- Trip to Celebrate Graduating

MAJ Homme's Cow Loan	\$35,000.00
Credit Card Debt	\$500.00
Speeding Ticket	\$150.00
Roth IRA	\$10,000.00
Emergency Fund	\$1,000.00
Truck	\$12,500.00
Uniforms/Clothing	\$1,000.00
Apartment Starter Kit	\$3,500.00
Apartment Lease	\$1,500.00
Christmas	\$1,000.00
Iron Man Race	\$2,500.00
Spring Break Trip	\$1,050.00
Valentine's Day/ Anniversary	\$200.00
Kayti's B-Day	\$100.00