Wealth Creation Today®

SESSION 1

2020 EDITION

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SECTION
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BARRIERS TO WEALTH ACCUMULATION

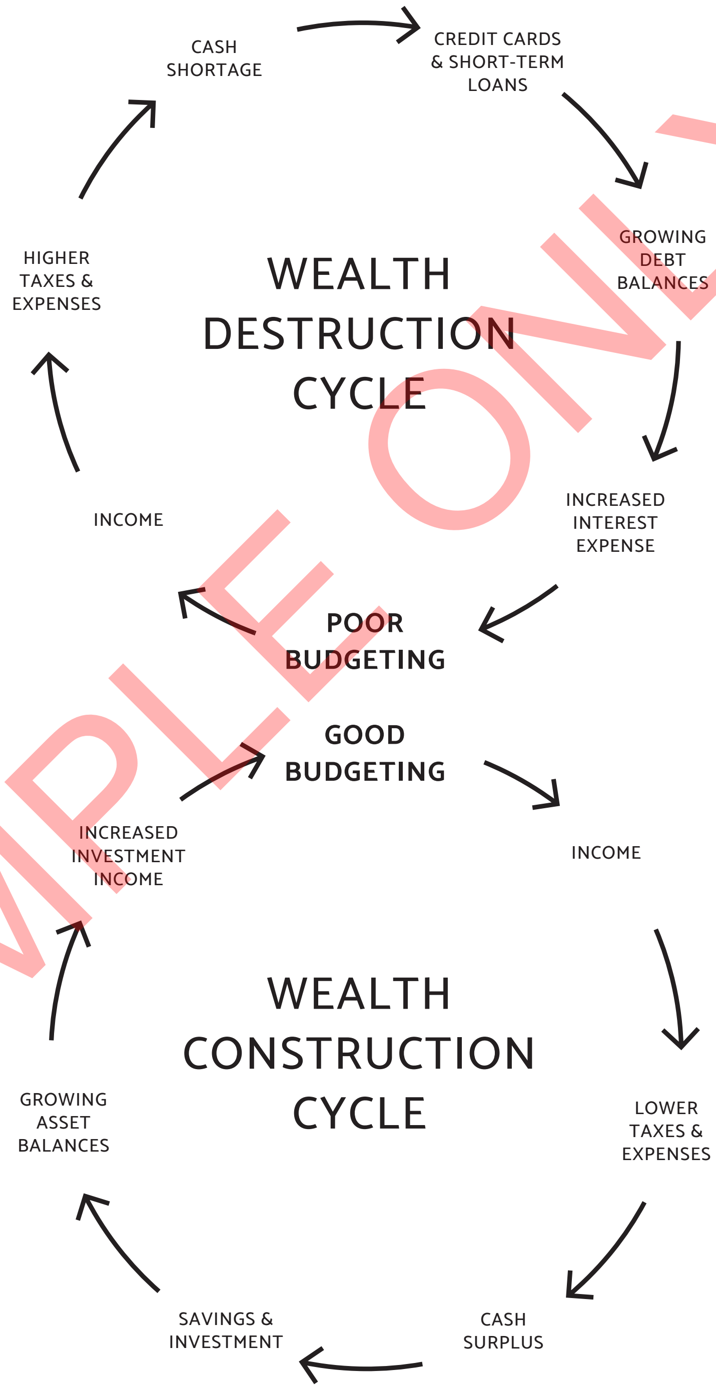
WHAT'S YOUR WEALTH ACCUMULATION FORMULA?

- There are many wealth accumulation options and strategies
- All depend on assumptions about the future
- Strategies are highly dependent on an individual's time horizon and risk capacity
- Some strategies are highly active; others are passive
- Many investors choose knowledge area-specific strategies, such as tech or real estate

YOUR WEALTH FORMULA MAY DEPEND ON THE FOLLOWING:

- Effective wealth planning and budgeting
- Debt reduction
- Tax efficiency
- Risk mitigation
- Return on investment greater than:
  - Inflation and losses
  - Distributions
  - Fees

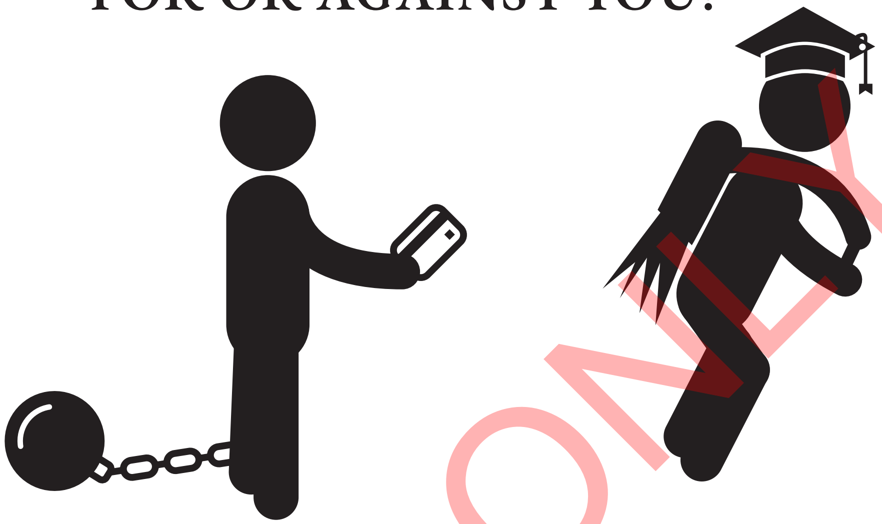
WEALTH CREATION & DESTRUCTION CYCLES



14 WEALTH PLANNING MISTAKES

1. Didn't define lifestyle goals for the future
2. Won't set financial goals that meet lifestyle goals
3. Can't make a commitment to personal financial success
4. Never sought personal finance education
5. Wouldn't regularly take a personal financial inventory
6. Failed to effectively manage credit
7. Skipped opportunities to seek financial advice and assistance
8. Wouldn't invest early or on a regular basis
9. Failed to use tax laws to full advantage
10. Can't allocate assets properly or adjust as needed
11. Failed to plan for the unexpected or insure risks
12. Won't take full advantage of employer benefit plans
13. Never chose best way to take money out of retirement plan
14. Didn't plan for the estate

IS YOUR DEBT WORKING FOR OR AGAINST YOU?



Debt With **Negative** ROI   Debt With **Positive** ROI

WEALTH-SUSTAINING DEBT

- Student or career retraining loans
- Home mortgage with deductible interest
- A small business loan to purchase a company or commercial real estate
- Consolidating home equity loan

WEALTH-DESTROYING DEBT

- High-interest credit cards or other credit lines
- Revolving personal loans
- Loan against 401(k) or other retirement plan[1]
- Financing luxury goods
- Unfunded/unneeded discretionary purchases

[1] Loans through credit cards and similar arrangements are prohibited per the SECURE Act of 2019

DEBT REDUCTION STRATEGIES

What is your debt reduction strategy? Both of the following strategies involve choosing an order for paying down debt. Sequential debt ordering means one debt is paid off at a time while minimum payments are made on all others.

Snowball Method: Builds motivation by paying off debt in order from smallest to largest.

Avalanche Method: Potentially saves money on interest by paying off debt in order of highest to lowest interest rate.

Let's look at what that may look like in practice. Let's say that Sam, Miguel, and Cindy all have the same debt profile but use different methods to pay it off. Sam will pay minimum payments only. Miguel and Cindy have a budget of $2,000 a month that they plan to put toward this debt.

- $15,000 credit card debt at 15.99%[1]
- $10,000 car loan at 3.5%[2]
- $30,000 student loan at 4.5%[3]

Sam
(No Strategy)

- Minimum payments only
- 83 months to repay debt
- $13,895.45 in total interest charges

Miguel
(Snowball Method)

- Sequentially pays off car loan, credit card debt, then student loan with $2,000/mo budget
- 31 months to repay debt
- $5,382.90 in total interest charges

Cindy
(Avalanche Method)

- Sequentially pays off credit card, student loan, then car loan[4] with $2,000/mo budget
- 30 months to repay debt
- $4,411.75 in total interest charges

[1] $300 hypothetical minimum payment maintained or exceeded

[2] $400 hypothetical minimum payment maintained or exceeded

[3] $550 hypothetical minimum payment maintained or exceeded

[4] Despite sequencing, car loan will be paid off before the student loan due to loan term and resulting minimum payments

EXAMPLES OF "GOOD" & "BAD" DEBT

RENTAL HOME PURCHASE: AN EXAMPLE OF "GOOD" DEBT[1]

- Bob borrows $350,000 at 5% APR to purchase a rental home
- Rental income offsets the cost of ownership, including mortgage payments, maintenance costs, insurance, and taxes
- The home appreciates in value and is sold for a profit
- Bob's ROI is higher than expenses (including the mortgage interest rate) and his wealth has potentially increased

YACHT PURCHASE: AN EXAMPLE OF "BAD" DEBT

- Cindy borrows $350,000 to purchase a yacht
- She does not rent or charter the vessel; the benefits to her are primarily personal enjoyment
- Annual costs of ownership are high
- The vessel depreciates and is ultimately sold at a loss
- The ROI is negative and potentially decreases Cindy's wealth

[1] Not all real estate investments generate a positive return on investment. Example for illustrative purposes only.

HOW COMPOUNDING INFLATION DESTROYS WEALTH

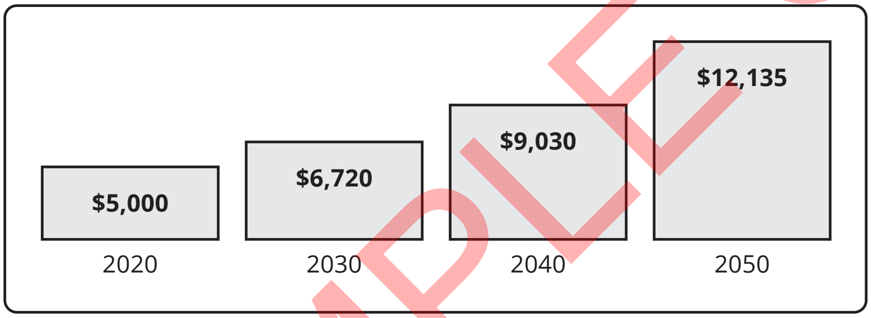
For the following exercise, let's pretend you have a fixed monthly income of $5,000. What is the relationship between a fixed income and inflation?

Purchasing Power, Equivalent Value, & the Power of Inflation[1]

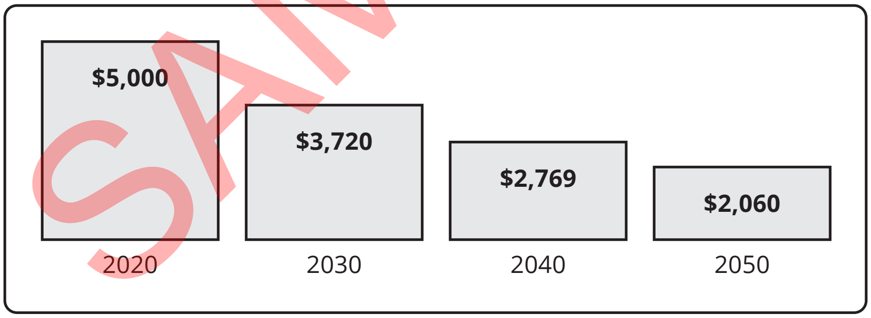
Here are other ways of looking at inflation:

- These charts reflect a hypothetical 3% annual inflation rate
- What would these charts look like at 5% annual inflation?
- What about 8%?

The Equivalent Value of $5,000 at 3% Annual Inflation



The Purchasing Power of $5,000 at 3% Annual Inflation



[1] Charts are for illustrative purposes only.

HOW INFLATION COMPOUNDS

Inflation compounds. This is an important planning consideration to take into account, especially for anyone retiring on a fixed income. The following table shows how much money would be required to equal one dollar of today's purchasing power under a number of hypothetical annual inflation scenarios.

Considering Hypothetical Future Inflation Scenarios[1]

- How does the chart illustrate inflation under varying scenarios?

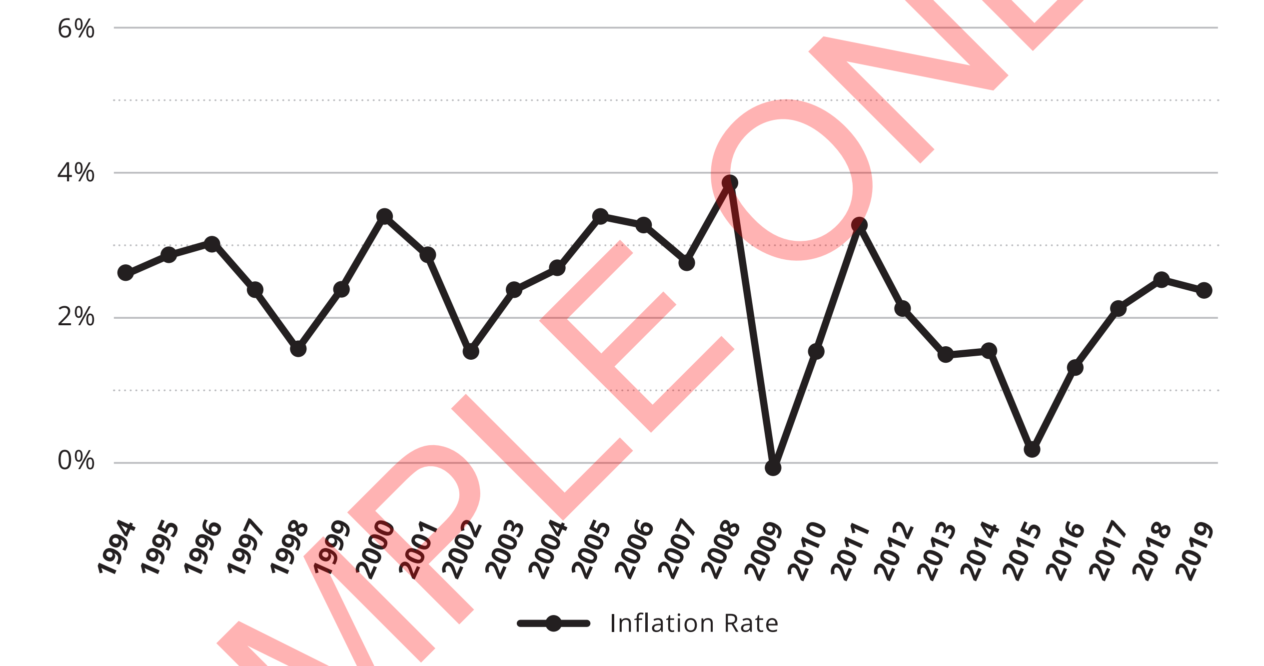
AVERAGE YEARLY INFLATION	2%	3%	4%	5%	6%
2020	$1.000	$1.000	$1.000	$1.000	$1.000
2025	$1.104	$1.159	$1.227	$1.276	$1.338
2030	$1.219	$1.344	$1.480	$1.629	$1.791
2035	$1.346	$1.558	$1.801	$2.079	$2.397
2040	$1.486	$1.806	$2.191	$2.653	$3.207
2045	$1.641	$2.094	$2.666	$3.386	$4.292
2050	$1.811	$2.427	$3.243	$4.322	$5.743

[1] For illustrative purposes only. Calculations and amounts are approximate due to rounding. Inflation has been compounded annually. This table is not intended to predict or represent any actual historical period.

THE IMPACT OF INFLATION

Over time, inflation erodes the purchasing power of your dollars. Historical statistics show that inflation can be volatile and unpredictable. As we age, the types of good and services we consume change as well, meaning that one's individual spending will rarely track inflation as an overall measure.

AVERAGE ANNUAL INFLATION RATE[1]



Today's low inflation doesn't guarantee a low or even moderate future inflation

- Medical, housing, energy, and personal spending may not inflate uniformly
- The rate of inflation will not mirror your personal spending or finances

[1] Source: Consumer Price Index, 1994 – 2019.

UNDERSTANDING OPPORTUNITY COST

op·por·tu·ni·ty cost[1]

/äpər't(y)oonədē/ /kôst/

noun

1. When economists refer to the “opportunity cost” of a resource, they mean the value of the next-highest-valued alternative use of that resource.
2. If, for example, you spend time and money going to a movie, you cannot spend that time at home reading a book, and you cannot spend the money on something else.

EXCERCISE: WHAT DOES OPPORTUNITY COST MEAN TO YOU?

Step 1: Think of an example of where you made a decision between two options (A or B) on how to allocate your money.

Step 2: What were the direct costs (i.e. the dollar value of that decision) from choosing option A?

Step 3: What were the opportunity costs (i.e. the benefit you could have received from option B) had you chosen option B?

Other considerations:
How might you evaluate the risks (i.e. the possibility of loss) involved in either decision?

[1] Henderson, David R. "Opportunity Cost", The Concise Encyclopedia of Economics

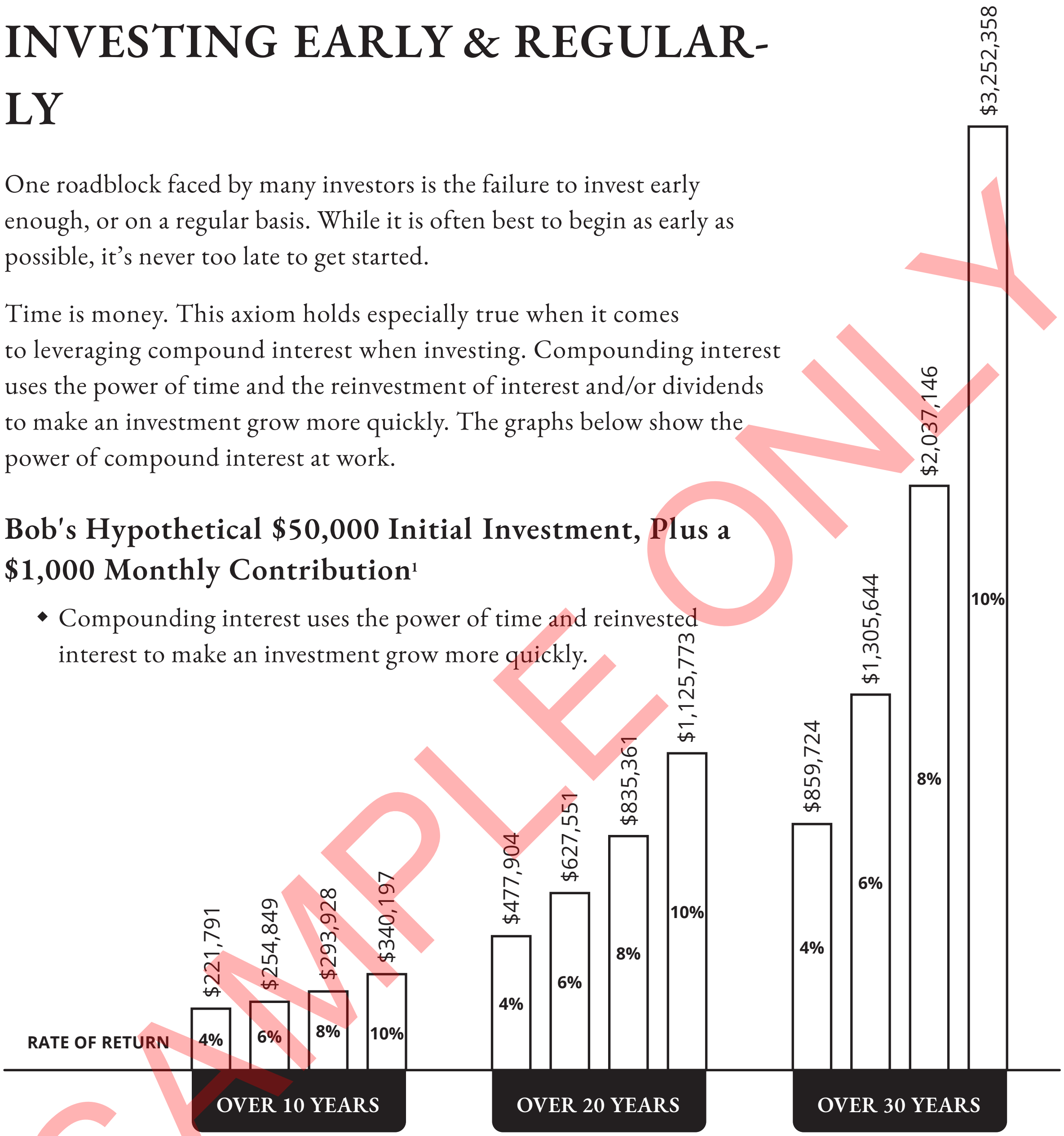
INVESTING EARLY & REGULARLY

One roadblock faced by many investors is the failure to invest early enough, or on a regular basis. While it is often best to begin as early as possible, it's never too late to get started.

Time is money. This axiom holds especially true when it comes to leveraging compound interest when investing. Compounding interest uses the power of time and the reinvestment of interest and/or dividends to make an investment grow more quickly. The graphs below show the power of compound interest at work.

Bob's Hypothetical $50,000 Initial Investment, Plus a $1,000 Monthly Contribution[1]

- Compounding interest uses the power of time and reinvested interest to make an investment grow more quickly.



[1] Each investor's results will vary from these shown as investing involves risk, fluctuating returns, and the possibility of loss. Investment results are hypothetical and are for illustrative purposes only. Calculations do not consider taxes or inflation. Figures do not represent any actual investment or strategy.

OVERCOMING COMMON INVESTMENT FEARS

"I'm afraid of losing my principal investment"

- Your risk capacity is a critical consideration for any investment
- While all investments carry some risk, certain types put your investment principal at less risk than others

"What if I don't have enough liquidity and lose my job or face a medical issue or other unplanned emergency?"

- Does your financial plan set aside enough funds to cover an emergency?
- Is your portfolio properly diversified to include shorter-term liquid investments that are less vulnerable to market downturns?

"I've heard stories about financial scams and fraud"

- Though devastating, financial fraud accounts for a very small portion of the overall financial system
- You may consider conventional investments with audited financial statements, disclosure obligations and strong regulatory oversight

OVERCOMING COMMON INVESTMENT FEARS

"I feel overwhelmed by all the financial terminology and available strategies"

- Start with your objectives, time horizon and risk profile
- This course can help you identify unknowns for future research and create a foundation for financial decision-making

"What if I time the market wrong?"

- Making one lump investment, even diversified, may not be the most effective strategy if you have market timing concerns
- Many investors choose to invest in regular installments, potentially mitigating some timing risks

"I don't trust financial professionals"

- Not all financial professionals are the same! Make sure you do your due diligence before working with one.
- You can check their background with FINRA's BrokerCheck
- Do you understand their business model? Do they receive fees or commissions, do they take a portion of assets under management?

TAX DEFERRAL EXAMPLE

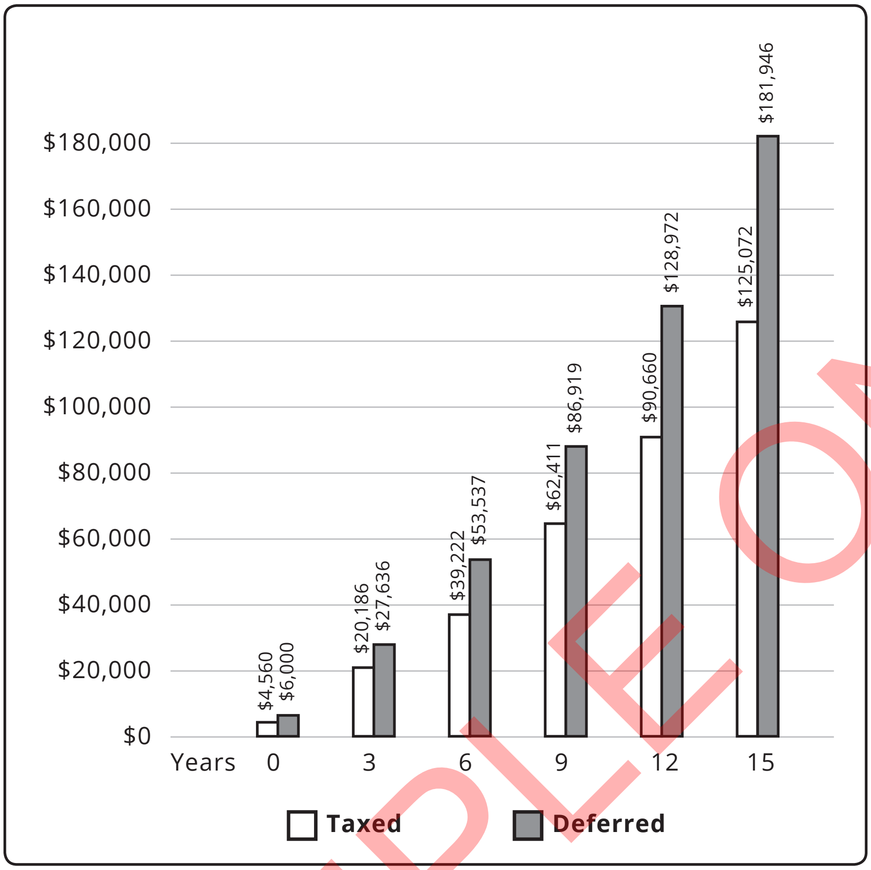
Tax Deductible/Deferred vs. Taxable Accumulation

Due to the effect of compounding interest, tax-deferred investments may grow more quickly. Let's examine the benefits of investing with an IRA with the following example:

- $6,000 initial investment and $6,000 per year over 15 years
- 24% federal income tax bracket
- Net after-tax annual contribution of $4,560 (for taxable account)
- 15% tax on qualified dividends & capital gains
- Pre-tax return of 8%
- Net after-tax return of 6.8% for taxable account
- State/local taxes not considered

In a taxable account, realized capital losses may potentially be used to offset realized capital gains, offset earned income, reduce your taxable income, or offset realized gains in future years (all subject to restrictions). This may provide a relative advantage of the taxable versus the tax-deferred account. Lower capital gains or dividend tax rates would make the return for the taxable account more favorable. Withdrawals from a tax-deferred account funded with tax-deductible contributions are subject to ordinary income tax rates on contributions and earnings. Withdrawals from a tax-deferred account funded with nondeductible contributions are only subject to ordinary income tax rates on the earnings. Withdrawals from a tax-deferred account prior to age 59 ½ may incur a 10% penalty.

BENEFITS OF TAX DEFERRAL



	Taxed	Deferred
Year 15 balance	$125,072	$181,946
Taxes owed at withdrawal	$0	$43,667
Net remaining balance	$125,072	$138,279

The hypothetical example on this page is provided for illustrative purposes only and is not a guarantee of future performance. Changes in tax rates and tax treatment of investment earnings may impact the comparative results. You should consider your personal investment horizon and income tax bracket, both current and anticipated, when making an investment decision as these may further impact the results of the comparison.

2020 FEDERAL TAX BRACKETS[1]

STATUS	INCOME	ORDINARY INCOME
Single	Up to $9,875	10%
	$9,876 - $40,125	12%
	$40,126 - $85,525	22%
	$85,526 - $163,300	24%
	$163,301 - $207,350	32%
	$207,351 - $518,400	35%
	$518,401+	37%
Married, Filing Jointly	Up to $19,750	10%
	$19,751 - $80,250	12%
	$80,251 - $171,050	22%
	$171,051 - $326,600	24%
	$326,601 - $414,700	32%
	$414,701 - $622,050	35%
	$622,051+	37%

STATUS	INCOME	QUALIFIED LONG-TERM CAPITAL GAINS
Single	Up to $40,000	0%
	$40,001 - $441,450	15%
	$441,451+	20%
Married, Filing Jointly	Up to $80,000	0%
	$80,001 - $496,600	15%
	$496,601+	20%

[1] IRS.gov

UNDERSTANDING MARGINAL TAX RATES

Example Tax on $100,000

Marginal tax rates can be a confusing concept. As a result, many people assume their tax bracket applies to the whole of their income. Let's take a moment to look beyond your tax bracket and think about how much money you're actually paying in taxes.

Maria earned $100,000 in 2020 and files as single and takes the $12,400 standard deduction. She's in the 24% tax bracket. How would she estimate her marginal tax rate?

MARGINAL TAXABLE INCOME[1]	TAX BRACKET	TAX DUE
$1 - $9,875	10%	$987.50
$9,876 - $40,125	12%	$3,630
$40,126 - $85,525	22%	$9,988
$85,526+	24%	$498
		Total = $15,103.50
		15.1% Effective Tax Rate

[1] Example does not include any other variables such as deductions, tax credits, etc.

12 STRATEGIES TO MINIMIZE WEALTH-DESTROYING TAXES

1. **Participate in your Employer-Sponsored Retirement Plan**
   - Contributions to many ESRPs are pre-tax and reduce your taxable income
   - Long-term tax benefits of tax-deferred principal and earnings growth
2. **Use capital loss rules to your advantage**
   - If capital losses exceed capital gains in a tax year, use up to $3,000 in losses to offset earned income or qualified dividends[1]
   - Losses above $3,000 can be carried forward to offset gains in future years
3. **Contribute to a Traditional IRA**
   - Long-term tax benefits of tax-deferred principal and earnings growth[2]

[1] Internal Revenue Service (2019). *Investment Income and Expenses (Including Capital Gains and Losses)* (Publication 550). Washington, DC. Updated for 2020.

[2] Internal Revenue Service (2018). *Contributions to Individual Retirement Arrangements (IRAs)* (Publication 590-A). Washington, DC. Updated for 2020.

12 STRATEGIES TO MINIMIZE WEALTH-DESTROYING TAXES

4. **Contribute to Flexible Spending Accounts**

   - Set aside pre-tax dollars for qualified health care expenses
   - Plan carefully; some funds may have contribution and carryover limits[1]

5. **Take advantage of adjustments, deferrals, and credits**

   - May include student loan interest, child/dependent care expenses, adoption, foreign taxes, and more[2]
     - *Earned Income Tax Credit (EITC):* Up to $6,660
     - *Child & Dependent Care Credit:* Up to $6,000
     - *Adoption Credit:* Up to $14,300
     - *Hope Scholarship Credit:* Up to $2,500
     - *Student Loan Interest Deduction:* Up to $2,500[3]
     - *Transportation & Parking Benefits:* Up to $270/mo
     - *Medical Savings Accounts*

[1] Internal Revenue Service (2019). *Health Savings Accounts and Other Tax-Favored Health Plans* (Publication 969). Washington, DC. Updated for 2020.

[2] 2020 amounts. You may not claim American Opportunity and Lifetime Learning credits based on the same qualified education expenses. American Opportunity and Lifetime Learning benefits may be phased out, based on adjusted gross income. Consult your tax advisor pertaining to your specific situation.

[3] For taxable years beginning in 2020, the $2,500 maximum deduction for interest paid on qualified education for taxpayers with modified adjusted gross income in excess of $70,000 ($140,000 for joint returns), and is completely phased out for taxpayers with modified adjusted gross income of $85,000 or more ($170,000 or more for joint returns). Source: IRS.gov

12 STRATEGIES TO MINIMIZE WEALTH-DESTROYING TAXES

6. **Itemize Tax Deductions**

   - Consider tracking spending and itemizing deductions instead of taking the standard deduction[1]
   - Itemizable expenses may include mortgage interest, property taxes, state/local income taxes[2], sales taxes, medical/dental expenses, charitable contributions, losses and others

FILING STATUS	STANDARD DEDUCTION AMOUNT
Single	$12,400
Married Filing Jointly	$24,800

7. **Consolidate deductible expenses**

   - Consider tax liability in 2-year cycles
   - Perform non-essential medical or dental work for the same calendar year
   - Give next year's charitable contribution at the end of the current year
   - Make your mortgage payment for January in the prior year
   - Prepay estimated state income tax balance instead of waiting for April

[1] For some higher income taxpayers, itemized deductions are phased out.

[2] State and local tax deductions limited to $10,000 (2018-2025)

12 STRATEGIES TO MINIMIZE WEALTH-DESTROYING TAXES

8. Know when to convert your IRA

- Converting some or all of an IRA to a Roth IRA at the right time can save on taxes in the following circumstances:
    - More itemized deductions than you can use to lower your liability
    - You're in a "low-earning" year due to job loss, sabbatical, or other reason
    - You have the opportunity to "top off" an advantageous tax rate

9. Use tax-advantaged accounts for active trading[1]

- 401(k), IRA, and other tax-advantaged accounts can reduce impact of capital gains from actively-traded securities
- Returns may be re-invested tax-deferred or growth may be tax-exempt
- Avoids higher ordinary income tax categorization

[1] Please consult your tax advisor regarding your specific situation

12 STRATEGIES TO MINIMIZE WEALTH-DESTROYING TAXES

10. Time purchase/sale of mutual funds (in non-advantaged accounts)

- Purchase a mutual fund after distribution to avoid taxation on distribution

11. Withhold or pay estimated tax payments

- Estimated taxes (or withholdings) are due quarterly
- Failure to pay quarterly taxes on time may result in a 4% penalty on owed funds
- This penalty may be waived under specific circumstances

12. Purchase a home instead of renting

- Take advantage of real estate tax and home mortgage interest deductions
- Potential of up to $500k in tax-free capital gains

TAX EXCLUSION FROM HOME SALE GAIN

If you sell your home for a profit, you may be able to exclude the following from federal income tax:[1]

- Up to $250,000 of gains
- Or up to $500,000 of gains for a married couple filing jointly

However, you must pass several tests to be eligible:

- **Ownership test:** During the five-year period ending on the date of the sale, you must have owned the home for at least two years.
- **Use test:** During the same five-year period, you must have used the property as your primary residence for at least two years.
- **Previous sale test:** During the two-year period ending on the date of the sale, you did not exclude gains from the sale of another home.
- **Joint-filer test:** To be eligible for the $500,000 joint-filer exclusion, at least one spouse must pass the ownership test and both spouses must pass the use test.
- If you don't meet all the qualification rules, a reduced gain exclusion may be available when you sell your home due to specific reasons, as specified by the IRS.[2]

[1] Internal Revenue Service (2018). *Selling Your Home* (Publication 523). Washington, DC.

[2] You may not be eligible for this exemption if your home was acquired through a like-kind exchange (also known as a 1031 exchange) during the past five years.

UNDERSTANDING THE ALTERNATIVE MINIMUM TAX

The Alternative Minimum Tax (AMT) is Almost an Entirely Separate Tax System. Do You Currently Pay the AMT?

Deductions are designed to reduce your tax liability. But what if it reduces that liability "too much," at least from the perspective of the government? This was the question that lead to the minimum tax, or Alternative Minimum Tax (AMT) laws of 1969 and 1982, which were targeted at high-income persons who were able to employ a large number of deductions and exemptions to reduce (or in some cases, even eliminate) their federal income tax burden. In a highly simplified sense, the AMT eliminates many popular deductions and establishes a relatively flat minimum taxation rate for higher-income taxpayers and for those who would otherwise pay a lower tax rate under our standard taxation system.

But if the AMT was designed to capture wealthy individuals with many deductions, why should you care? The AMT was not indexed to inflation until 2012, meaning that this supplemental income tax captured more taxpayers each year, including an increasing number of upper middle-class individuals.

COMMON ALTERNATIVE MINIMUM TAX TRIGGERS

Capital gains: If a large portion of your income came from capital gains, this may trigger the AMT.

Exercising incentive stock options: Exercising incentive stock options (ISOs) or restricted stock units (RSUs) may trigger the AMT.

ALTERNATIVE MINIMUM TAX BASICS

The Alternative Minimum Tax is almost like an entirely separate tax system, whoever prepares your taxes—whether it is you or a tax professional—must calculate your tax liability under both standard taxation laws and AMT and then pay the higher of the two.

This secondary tax system is a highly complex and often misunderstood topic. Though popular off-the-shelf tax preparation software programs typically calculate AMT tax liability automatically, a tax professional may be able to best help you navigate these waters and plan ahead.[1]

AMT EXEMPTION & PHASEOUTS FOR 2020[1]		
	Exemption	**Income Exemption Phaseout Minimum**
Single or Head of Household	$72,900	$518,400
Married Filing Jointly or Qualifying Widow(er)	$113,400	$1,020,600

[1] IRS News Release IR-2019-180, October 25, 2016. Updated for 2020.