



**WSB
Financial
Foundation
Educational
Program**

W o r k b o o k

*A National Campaign for
Financial Literacy*

BUILDING WEALTH
—
ASSET
ACCUMULATION

Building Wealth

Circle the main concepts for this class:

Rate of Return

Inflation

Taxes

Mutual Funds

Variable & Fixed Annuities

Emergency Fund

Active & Passive Management

Social Security

Children's College / Future

Term Insurance

The Wealth Formula*

+		
+/-		
-		
-		
=		

**This is a concept/goal developed by World Financial Group (WFG) for illustrative purposes only. In no way does this statement offer, guarantee, or otherwise imply any financial gain or reward as a result of joining WFG. The term "wealth" is subjective and must be defined on an individual basis.*

Cost of Waiting

INVESTING EARLY VS WAITING LONGER

Mr. Start Early invests \$3,600 per year for 7 years in a 8% tax-deferred account.

Mr. Wait Longer starts investing \$3,600 per year for 17 years in a 8% tax-deferred account, 7 years later than Mr. Start Early.

**For illustration purposes only.*

MR. START EARLY		
Age	Yearly Contribution	Total Accumulation
25	\$3,600	\$3,888
26	\$3,600	\$8,087
27	\$3,600	\$12,622
28	\$3,600	\$17,520
29	\$3,600	\$22,809
30	\$3,600	\$28,522
31	\$3,600	\$34,692
32	\$ -	\$37,467
33	\$ -	\$40,465
34	\$ -	\$43,702
35	\$ -	\$47,198
36	\$ -	\$50,974
37	\$ -	\$55,052
38	\$ -	\$59,456
39	\$ -	\$64,212
40	\$ -	\$69,349
41	\$ -	\$74,897
42	\$ -	\$80,889
43	\$ -	\$87,360
44	\$ -	\$94,349
45	\$ -	\$101,897
46	\$ -	\$110,048
47	\$ -	\$118,852
48	\$ -	\$128,361

Total Contribution

MR. WAIT LONGER		
Age	Yearly Contribution	Total Accumulation
25	\$ -	0
26	\$ -	0
27	\$ -	0
28	\$ -	0
29	\$ -	0
30	\$ -	0
31	\$ -	0
32	\$3,600	\$3,888
33	\$3,600	\$8,087
34	\$3,600	\$12,622
35	\$3,600	\$17,520
36	\$3,600	\$22,809
37	\$3,600	\$28,522
38	\$3,600	\$34,692
39	\$3,600	\$41,355
40	\$3,600	\$48,552
41	\$3,600	\$56,324
42	\$3,600	\$64,718
43	\$3,600	\$73,783
44	\$3,600	\$83,574
45	\$3,600	\$94,148
46	\$3,600	\$105,567
47	\$3,600	\$117,901
48	\$3,600	\$131,221

Total Contribution

How much more money did Mr. Wait longer have to invest to catch up to Mr. Start Early? _____

The Rule of 72

Practice Example:

$72 / 2 =$ _____	$72 / 6 =$ _____	$72 / 10 =$ _____
Money doubles every _____ years	Money doubles every _____ years	Money doubles every _____ years
Age 2%	Age 6%	Age 10%
29 \$10,000	29 \$10,000	29 \$10,000
	_____	_____
	_____	_____
	_____	_____
65 _____	_____	_____

Answer the questions based on your calculations:

What is the difference between 6% and 10% at age 65? _____

What happens at 10% if I stop 7 years too soon or start 7 years too late?

What are you earning on your savings? _____

Between 10% versus 6%, what is the effect of taxes? _____

If you put \$100,000 into an account, and in 9 years it guarantees to double to \$200,000, what is your rate of return?

- a) 4% b) 50% c) 2% d) 8%

If you ignore paying the balance on one of your credit cards, and the APR is 18%, in how many years will your debt balance double?

- a) 2 b) 3 c) 4 d) 5

Average Cost of Living*,**

	1970s	1990s	2015
New Home	\$23,450	\$123,000	\$346,400
New Car	\$3,400	\$16,950	\$31,352
Loaf of Bread	25 cents	70 cents	\$2.31
Wages	\$9,400	\$28,960	\$44,569

TODAY'S \$100

What your \$100 will do in the next 20 years (assuming the inflation rate is 3%):

Years From Now	Purchasing Power Decrease	Increased Inflation Amount to Equal \$100
5	\$86	\$116
10	\$74	\$134
15	\$64	\$156
20	\$55	\$181

*<http://www.tradingeconomics.com/united-states/inflation-cpi>

**<http://www.thepeoplehistory.com>

The Effect of Taxes and Inflation on Your Purchasing Power

Exercise 1:

If you save	\$100
At a bank that returns 1% interest	+ _____
You pay tax at 15% (combined Federal & State tax)	- _____

Net after tax	_____
Inflation is 3%	- _____
Actual return after tax & inflation	_____

Exercise 2:

If you save	\$100
Under your mattress (0% interest)	+ _____
You pay tax at 10% (combined Federal & State tax)	- _____

Net after tax	_____
Inflation is 3%	- _____
Actual return after tax & inflation	_____

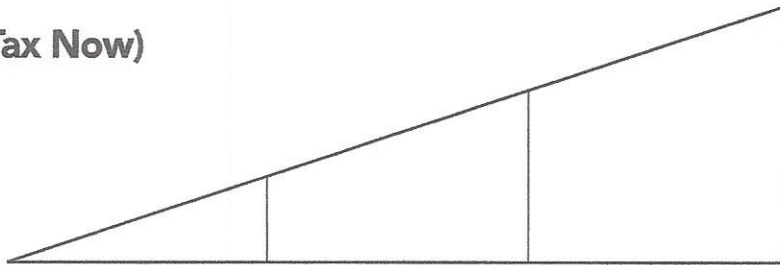
Taxes

Circle the typical tax treatment of the listed accounts.

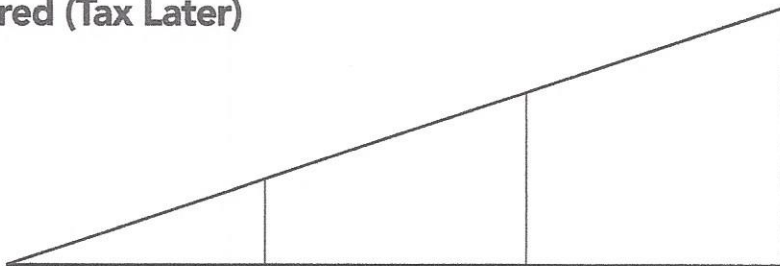
Roth IRA	Tax Now	Tax Later	Tax Advantaged
Stock	Tax Now	Tax Later	Tax Advantaged
Annuity	Tax Now	Tax Later	Tax Advantaged
401(k)	Tax Now	Tax Later	Tax Advantaged
Checking	Tax Now	Tax Later	Tax Advantaged
Cash Value Life Insurance	Tax Now	Tax Later	Tax Advantaged
Mutual Fund	Tax Now	Tax Later	Tax Advantaged
IRA	Tax Now	Tax Later	Tax Advantaged
529 College Savings	Tax Now	Tax Later	Tax Advantaged

Shade the triangle according to the tax effects:

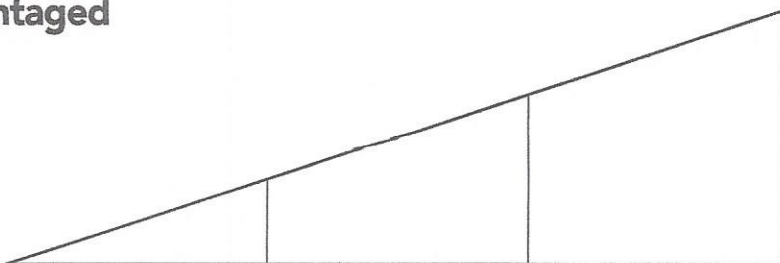
Taxable (Tax Now)



Tax Deferred (Tax Later)

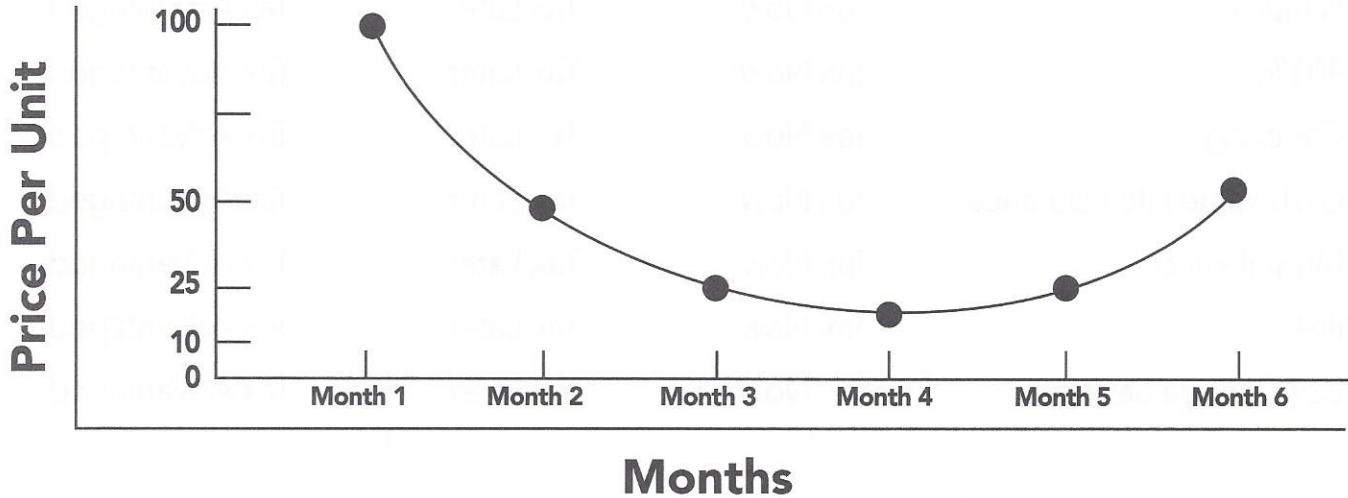


Tax Advantaged



Dollar Cost Averaging*

Alex’s mom loves him so much, she saves \$100 for him every month. Assuming she uses the Dollar Cost Averaging strategy, fill out the chart below to determine the Total Contribution, Average Price per Unit, and Total # of Units Accumulated.

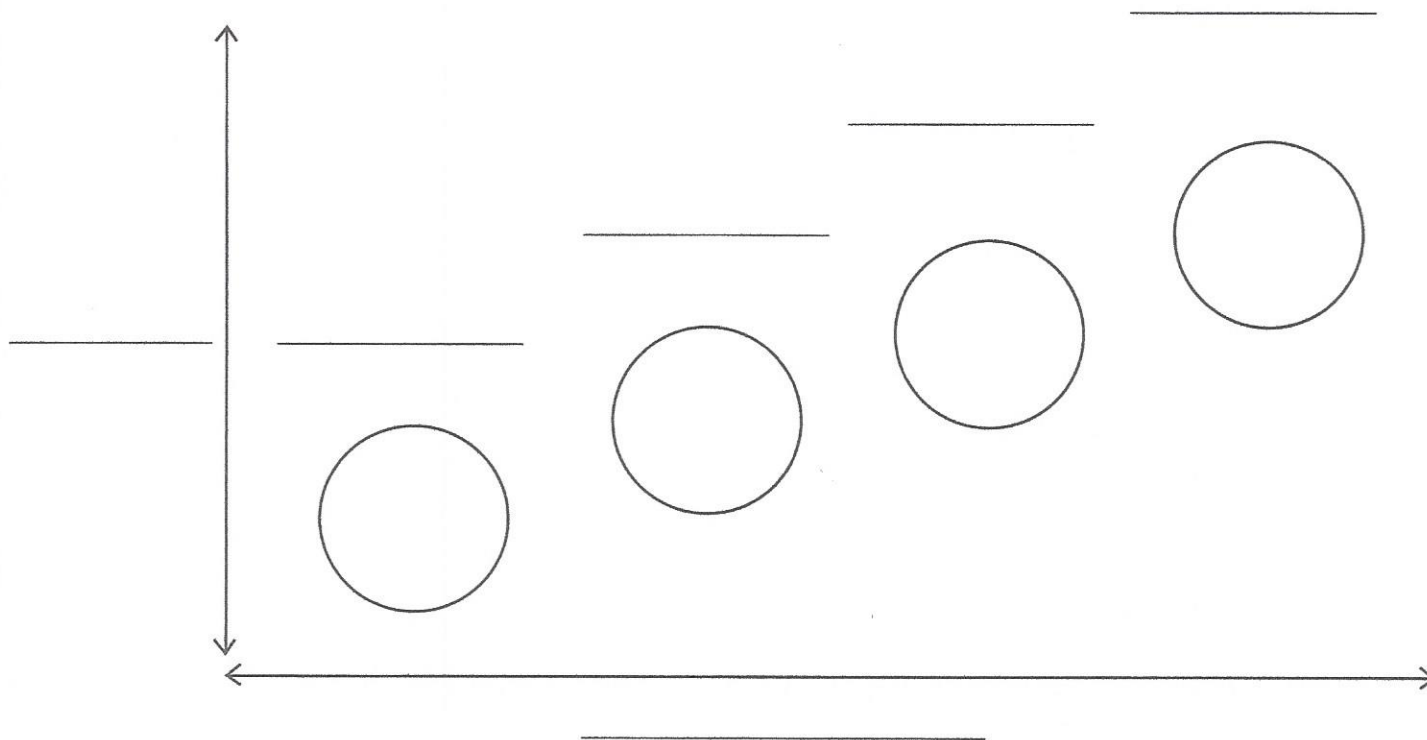


	Monthly Contribution		Price Per Unit		# of Units Accumulated
Month 1		÷			
Month 2		÷			
Month 3		÷			
Month 4		÷			
Month 5		÷			
Month 6		÷			
	Total Contribution		Avg. Price Per Unit		Total # of Units Accumulated

*These graphics depict a mathematical model of Dollar Cost Averaging. This is a hypothetical example for illustrative purposes only and does not reflect an actual investment in any product, nor does it reflect risks, expenses or charges associated with any actual investment. Actual results may vary substantially from the figures in the example. Dollar cost averaging is a long-term strategy which does not assure a profit nor protect against a loss in a declining market. Investors should carefully consider their ability to continue regular purchases through periods of low price levels.

Examples of Asset Allocation

Fill in the chart below:



Can You Handle the Loss?

Fill in the right side of the column:

Potential Portfolio Investment Loss	Gain Required to Get Back to Even
-10%	
-20%	
-30%	
-40%	
-50%	
-60%	

Mutual Funds

What is a Mutual Fund?

A _____ of money invested for you by an investment firm.

Mutual funds invest in a variety of instruments like _____, _____,
or government securities.

A mutual fund hires someone to _____ the money.

Mutual funds potentially _____ the risk by purchasing a diversity of stocks,
bonds, and other assets.

How do you calculate Net Asset Value?

Emotional investing most likely leads to:

a) Higher returns b) Lower returns c) The same returns d) None of the above

Passive vs Active Management

Circle which strategy the description is associated with:

Buy and hold strategy	Passive	Active
Holds assets in response to the market and economic conditions	Passive	Active
Holds assets for an extended period of time	Passive	Active
Holds assets regardless of market condition	Passive	Active
Generally has higher costs and fees	Passive	Active
In theory, defends against down markets	Passive	Active
Generally has lower expenses and tax efficiency	Passive	Active

Saving For Your Children’s Education

Do you know the costs of raising a child until 18 years of age?*

Average _____

What are the costs to send a child to college?***

Type of Tuition	4 Year Tuition in 2013	Tuition & Fees in 2031
Private	\$129,700 (US only)	_____
Public	\$38,300 (US only)	_____

College debt reached \$1.2 Trillion, surpassing credit card and auto debt totals. In 2015, the average student graduated with over _____ in student loans.***

If the tuition at a Private University in 2015 costs \$40,000 a year, assuming tuition currently increases by 6% every year, how much will one year of tuition cost in the year 2033?

- a) \$80,000 b) \$100,000 c) \$120,000 d) \$240,000

*<http://money.cnn.com/2014/08/18/pf/child-cost/>

**The College Board (www.savingforcollege.com)

***<http://blogs.wsj.com/economics/2015/05/08/congratulations-class-of-2015-youre-the-most-indebted-ever-for-now/>

How Much You Need to Save

FINRA's College Savings Calculator helps you determine how much you need to save for college depending on your rate of return. For example, if you have 18 years to save for a college that costs \$25,000 a year today, with inflation at 3%, how much would you need to save per month and per year to reach your goal?

Rate of Return	Annual Contribution	Monthly Contribution
2%		
5%		
8%		

U.S. 529 Savings Plan

Circle the correct answer:

Advantages:

Earnings and withdrawals to pay for college **will / will not** be taxed.

You, the donor, **stays in / lose** control of the account. This is different from **UGMA/UTMA** where the **parent / child** takes control of the asset once he or she reaches legal age.

Contributions up to **\$14,000 / \$28,000** per individual per year (**\$28,000 / \$56,000** for married couples filing jointly) will qualify for the Annual Gift Tax Exclusion. Up to \$70,000 (if made over a 5 calendar year period) would qualify for an Estate Tax reduction.

Disadvantages:

Contributions **are not / are** tax deductible.

Early withdrawals for any reason are allowed but earnings will be subject to

capital gains / income tax plus a **5% / 10%** penalty.

529 Assets will be **counted / excluded** on the FAFSA (Free Application for Federal Student Aid) form.

College Funding

Financial Aid Formula:

Cost of Attendance (COA)	_____
– Expected Family Contribution (EFC)	_____
= Need	_____

Find the college terms and circle them in the box:

C	O	L	L	E	G	E	A	X	Y	T	E	G	H	W
M	I	R	E	D	V	C	A	Q	S	A	F	R	G	Y
Z	X	C	V	B	N	G	M	A	S	D	F	J	L	Q
W	E	R	T	Y	U	R	I	O	P	M	Z	X	C	V
B	S	C	H	O	L	A	R	S	H	I	P	S	N	M
A	A	S	D	F	G	N	H	J	K	S	L	Q	W	E
P	R	T	Y	U	I	T	O	P	A	S	D	F	L	K
P	J	H	P	O	I	S	U	Y	T	I	R	E	P	W
E	U	O	L	J	G	D	A	Z	C	O	B	M	R	Q
A	T	E	Q	N	V	X	S	F	H	N	K	Q	E	A
L	Z	F	W	S	X	E	D	C	R	F	V	T	P	G
B	Y	A	H	N	U	J	E	M	I	K	L	O	A	P
U	Y	F	M	T	N	R	V	S	T	X	W	Z	R	Q
L	I	S	O	P	A	Q	A	Z	S	X	S	W	A	E
Y	N	A	H	T	B	G	R	E	V	A	C	D	T	F
J	M	K	U	I	L	P	O	A	Q	B	Y	N	I	Y
D	F	C	O	I	W	E	V	B	F	H	U	M	O	T
S	K	I	L	L	A	S	S	E	S	S	M	E	N	T

ADMISSION

APPEAL

FAFSA

GRANTS

ESSAY

SCHOLARSHIPS

SKILL ASSESSMENT

PREPARATION

COLLEGE

Homework: #3

- ❖ Sit down with your Trainer to understand how you can implement these concepts.
- ❖ Meet a College Consultant with your son or daughter to learn what you both can do to prepare for college.
- ❖ Read pages 6 to 21 and 51 to 68 of *Saving Your Future*.
- ❖ Who are 3 to 5 people who could benefit from our training?
 1. _____
 2. _____
 3. _____
 4. _____
 5. _____
- ❖ Commit to introduce one person this week: _____