

H MONEY WORKS

A Common
Sense Guide
to Financial
Success



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Introduction

There is a common misunderstanding that average and ordinary folks can't become millionaires.

That couldn't be further from the truth.

The fact is, you have the power to accumulate wealth beyond your dreams. Many people who never earned a six-figure income become financially independent. How do they do it? Doesn't it take a high-level job with a big salary? Or a large inheritance? Or winning the lottery?

The answer is no. No matter what your income level, you can achieve financial security – if you take the time to learn a few simple principles about how money works.

YOU CAN get out of debt.

YOU CAN build savings.

YOU CAN get on the path to financial independence!

By applying the simple principles in this book, you can achieve financial security and ultimately reach your goals. But nobody else can make it happen.

It's up to you. You have the power to change your life forever. Ready to get started?

Take Control



Did you know one of the biggest financial mistakes most people make is dependence? Dependence on others allows "outside" factors in people's lives to control them. The secret to financial security is learning to control the things you CAN control.

1. Pay yourself first

Paying yourself first means putting yourself and your family before any other demands on your money. Paying yourself first is a form of self-respect.

Deposit a set amount EACH AND EVERY MONTH into an investment program, no matter what other financial obligations you have. It's amazing how fast your money can grow if you invest even a small amount regularly, at a good rate of return.

2. Adjust your priorities

It's been said that:

If you make \$10 and spend \$9 = happiness
If you make \$10 and spend \$11 = misery

As you begin your journey to financial independence, remember this key point: It's not what you make, it's what you keep.

3. Change your thinking

The way you think about money is everything. Your mindset is a powerful thing – especially when it comes to money.

That explains why so many of the people who win the lottery ... end up losing it all.

It helps you understand how so many millionaires are self made.

What is the difference between the two groups? It's how they think.

If you think you don't deserve to be financially secure, you'll never be financially secure. However, if you "upgrade" your self-image and believe you deserve the freedom and peace of mind that financial security provides, you'll have a better chance at doing what needs to be done to obtain wealth beyond your dreams.

4. Adjust your lifestyle

Along with setting priorities comes one tough rule of life: you can't have everything. You have to make conscious decisions about every purchase.

An important concept to understand is want vs. need.

- A need is something you have to have, something you can't do without. You "need" food. You "need" shelter.
- A want is something you would like to have. You "want" ice cream. You "want" a bigger house.

If you want to achieve financial independence, you may have to make sacrifices for a period of time and go without some of your "wants." It's not that tough, but it is very, very important to your financial health.

5. Earn additional income

If your family income is very modest, things may be so tight that it's tough to invest more than \$50 a month. If you want to make significant progress, **consider taking a part-time job to get the extra income needed to start your investment program.**

6. Re-align your assets

This is another way to take control and free up income for savings. There are two major areas in which families are not getting their money's worth that are great areas to target for adjustment:

1. **Low-interest savings accounts or accumulations with banks.**

You can take money from a 1% savings plan and invest it in an area that has the potential for higher returns.

2. **High-cost life insurance.** You can replace your outdated, expensive cash value insurance policies with term insurance and potentially save thousands of dollars in premium over time! Both of these areas are covered in more detail later in this booklet.

7. Avoid the credit trap

Credit cards are good for convenience but that's it. **Be careful to avoid the pitfalls of "plastic money."** Pay your balance in full each month and you'll not only avoid interest charges but you'll prevent your balance from escalating out of control. To keep your monthly charges under control, pay with cash. You'll probably find you spend less when you have to hand your money over.

See how many options you have? You DO have a choice about your financial future.

8. Set goals and have a plan

You can't reach your destination if you don't know what it is. Setting goals gives you two things:

1. **An incentive to make the necessary sacrifices**
2. **Benchmarks along the way to gauge your progress**

After you've set your goals, you need a road map to get you there. You need a financial game plan. Together with your goals, **a game plan is the cement that holds together your financial foundation.**

You Cannot Control

The future of Social Security

Your employer

Taxes

Inflation

Rising costs

The risk of a single investment

But You Can Control

Saving for retirement

Other sources of income

Ways to reduce your taxes

Maximizing your savings

Saving more

Diversity of your investment choices



Diversification does not assure a profit or protect against loss.

Pay Yourself First



Problem: At the end of the month, most people don't have anything left to save.
Solution: At the first of the month, before you pay anyone else, write a check to yourself for 10% of your income.
Paying yourself first may be the single most important concept in this brochure.

It's Not What You Earn, It's What You Keep

Put yourself at the head of the line. Treat your savings like any other recurring bill that you must pay each month. Dedicate the appropriate amount from your paycheck and set it aside. While most people think nothing of sending enormous amounts of money to credit card companies on a regular and systematic basis, they balk at the idea of paying themselves first! Change that mindset. Cut up your credit cards and put those payments into your own savings. Make a commitment to pay yourself first!

Calculate how much you've earned – and how much you've saved.

Average annual income (estimate):	A)	<input type="text"/>
Times number of years worked:	X B)	<input type="text"/>
Equals total amount earned:	= C)	<input type="text"/>
Amount of personal savings:	D)	<input type="text"/>
Divide D by C:	= E)	<input type="text"/> %

This equals your percentage of income saved.

The Three Accounts You Need

To have a complete savings program, most people need three types of basic accounts.

- 1. Emergency Fund:** This is your reserve fund in the event of an unforeseen emergency, job loss or an unexpected expense. A good rule of thumb: Set a goal of having three to six months' salary in your emergency fund.
- 2. Short-Term Savings:** This account is for money that you set aside for expenses you want to purchase within a short-term time frame. For example, here is where you would save for a new computer or perhaps a vacation.
- 3. Long-Term Savings/Investments:** This is where your retirement savings, college fund and other long-range savings will go. Because these savings have more of a long-term time horizon, you can use investment vehicles with potential for a higher rate of return, such as equity mutual funds.



Investing entails risk including loss of principal. Shares, when redeemed, may be worth more or less than their original value.



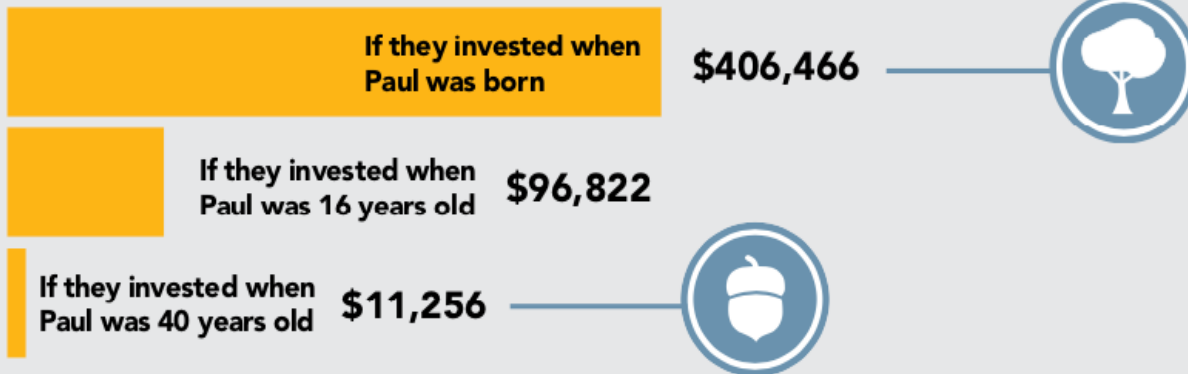
Use Time and Consistency

Someone once said that the only two things life gives you are opportunity and time. Time, combined with two other important elements, rate of return and consistency, is a powerful key to achieving financial security.

It Pays to Start Investing Early

Suppose your parents had deposited \$1,000 on the day you were born. If you left the account untouched until you turned 67, that \$1,000 would have grown to \$406,466 – without your ever having added another penny!

Amount Accumulated by Age 67



Above rate values are at age 67 and for illustrative purposes only and do not represent an actual investment. This example uses a constant rate of return. Actual investments will fluctuate in value. The illustration does not include fees and taxes that would lower results. The 9% rate of return is a nominal interest rate compounded on a monthly basis. Investing entails risk, including loss of principal. Shares, when redeemed, may be worth more or less than their original value.

Don't Pay the High Cost of Waiting

If you're like most people, you don't have a lot of money. That's why time is so critical. When you're young, you can save small amounts and still end up with thousands of dollars. If you wait to begin saving, you must save much more. If you want to be financially independent, you have no choice – you must start now, or later you must save more. One thing is certain: you can't afford the high cost of waiting.

If your goal is to save \$500,000 for retirement at age 67, look at the difference time makes:

Monthly Savings Required

Begin at	Save	Cost to wait
Age 25	\$89	
Age 35	\$224	more than 2 times more
Age 45	\$602	nearly 7 times more
Age 55	\$1,926	more than 21 times more

The sooner you begin to save, the greater the growth on your investment.

The High Cost of Waiting \$100/month at 9%

Begin saving at:	Total at age 67:	Cost to wait
Age 25	\$566,920	
Age 26	\$517,150	\$49,770
Age 30	\$357,240	\$209,680
Age 40	\$137,780	\$429,140

These examples assume a hypothetical 9% constant rate of return. Rate of return is a nominal interest rate compounded on a monthly basis. Actual investments will fluctuate in value. The illustration does not include fees and taxes which would lower results. Investing entails risk, including loss of principal. Shares, when redeemed, may be worth more or less than their original value.

Add Consistency to Time

You've seen how time can be the best friend of growth. But most people don't have \$1,000 to deposit all at once. They must depend on smaller amounts, invested on a schedule, to build wealth. If that's your situation, consistency can be the fuel that makes your investment grow exponentially.

The Power of Compound Interest

Remember the parents who deposited \$1,000 at a hypothetical rate of return of 9% when their child was born? The annual interest would be \$90. And \$90/year, when multiplied by 67 years, is \$6,030. Then how did Paul withdraw more than \$406,000 at age 67? Because of one of the most important keys to wealth you can ever learn: the power of compound interest. Here is how it works.

The first year's interest on the investment, 9%, or \$90 was credited to the \$1,000 to make \$1,090. The next year \$98 was earned on the \$1,090. The total in the account was then \$1,188. As the account grew, each year the interest payment was calculated on the total in the account, including all the past interest payments. The compounding of the interest is how \$1,000 grew to more than \$406,000. With the power of compound interest at work for you, you'll be amazed at how quickly a few hundred dollars can become a thousand.

Just a Little More Grows Even Faster

The chart on the right illustrates the difference between saving \$20 a month versus \$100 a month. While saving \$80 more a month may be a challenge financially, the increased dollar amount definitely pays off. Just \$100 a month compounding at a hypothetical 9% rate totals more than \$470,000 after 40 years.

Years	Monthly Contribution	
	\$20	\$100
10	\$3,900	\$19,500
20	\$13,460	\$67,300
30	\$36,890	\$184,450
40	\$94,330	\$471,650


This is hypothetical and does not represent an actual investment. Actual investments will fluctuate in value. It does not include fees and taxes which would lower results. Rate of return is a constant nominal rate, compounded monthly. Investing entails risk, including loss of principal. Shares, when redeemed, may be worth more or less than their original value.

Albert Einstein has often been quoted as saying "Compound interest is the most powerful force in the universe."

Do You Know the Rule of 72?

Another important concept in understanding the power of compound interest is the Rule of 72. Your money will double at a certain point determined by dividing 72 by the percent of interest.

Dividing 72 by the interest rate



equals the number of years it takes your money to double.

Years	3%	6%	12%
0	\$10,000	\$10,000	\$10,000
6			\$20,000
12		\$20,000	\$40,000
18			\$80,000
24	\$20,000	\$40,000	\$160,000
30			\$320,000
36		\$80,000	\$640,000
42			\$1,280,000
48	\$40,000	\$160,000	\$2,560,000

This table serves as a demonstration of how the Rule of 72 concept works from a mathematical standpoint. It is not intended to represent an investment. The chart uses constant rates of return, unlike actual investments which will fluctuate in value. It does not include fees or taxes, which would lower performance. It is unlikely that an investment would grow 10% or more on a consistent basis, given current market conditions.

Based on the Rule of 72, a one-time contribution of \$10,000 doubles six more times at 12% than at 3%.

The Importance of Rate of Return

There's another critical key to building financial security that's often overlooked. It's the interest rate (sometimes referred to as the rate of return). The difference of a few percentage points may seem minor, but the impact of the rate of return when combined with time is significant. You might think that if you could earn a 9% rate of return instead of 4.5%, your money would double. Not so! Remember the "power of compound interest?" That 4.5% difference adds up to much more over time – and can mean thousands of dollars to you and your family.

Rate of Return in Action

Now you can see why the rate of return you receive on your savings or investment account is so important. Your main objective in saving is to accumulate as much cash as possible. You can reach the same objective in one of two ways:

Save more  and accept a lower 

OR

Save less  at a higher 

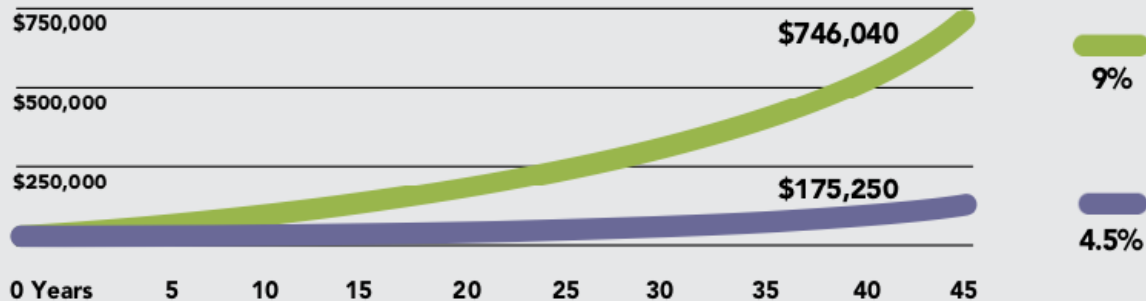
We'll use the example of Paul's parents investing \$1,000 at his birth on page 9. Let's look at their one-time \$1,000 investment with a 3%, 6%, and 9% rate of return. Look at what Paul could have withdrawn at age 67 at various rates of return.



Hypothetical percentage rates and values. Rate of return is a nominal interest rate compounded on a monthly basis. These results are not indicative of any specific investment and show a constant rate of return, where an actual investment will fluctuate in value. It does not include fees and taxes, which would lower results. Investing entails risk, including loss of principal. Shares, when redeemed, may be worth more or less than their original value.

How Doubling Your Interest Can Quadruple Your Savings

\$100 per month at 4.5% and 9%



Hypothetical percentage rates and values. Rate of return is a nominal interest rate compounded on a monthly basis. These results are not indicative of any specific investment and show a constant rate of return, where an actual investment will fluctuate in value. It does not include fees and taxes, which would lower results. Investing entails risk, including loss of principal. Shares, when redeemed, may be worth more or less than their original value.

Eliminate

Debt



Of all the threats to your financial security, none is more dangerous than debt. In every family's quest to feel good financially, debt is the most common enemy. The very fact that it is so common – who doesn't have debt? – makes it one of the biggest threats to your financial well-being.

The Bad News about Compounding

Compound interest is one of the most powerful financial forces around. When you are building savings, its power works in your favor. However, when you have debt, the power of compound interest works against you! When you pay just the minimum balance on your credit cards, interest charges are added each month to the remaining principal. Each month, your new balance is the principal PLUS the interest ... and that amount gets compounded again and again. It's easy to see how small debts grow large with compound interest.

Did you know if you made a one-time **\$3,000** purchase with no new purchases and make the minimum payments, it would take **10 years** to pay off and you would end up paying **\$2,002 in interest charges?**

$$\begin{array}{rcc} \$3,000 & + & \$2,002 & = & \$5,002! \\ \text{Purchase} & & \text{Interest charges} & & \end{array}$$

Assumes 18% APR, and a minimum payment of 3.5% of the balance or \$20 if more.

Revolving Debt vs. Fixed Debt

Credit card debt is what is known as "revolving" debt. The interest compounds daily instead of monthly which means you can pay much more in interest. Because there is no fixed amount that you pay each month, your debt can go on forever. Additionally, your interest rate could change at almost any time and there is little a consumer can do beyond paying off the entire balance at once.

Look at how revolving debt can erode your financial security:

Revolving Debt vs. Fixed Debt

Revolving Debt:

\$17,000 @ 18%
Pay \$595/month*



\$12,500 in interest paid
17 years and 2 months to pay off

Fixed Debt

\$17,000 @ 18%
Pay \$595/month fixed**



\$5,370 in interest paid
3 years and 2 months to pay off



*Assumes revolving payment (minimum) is 3.5% of the remaining balance or \$20, whichever is greater. First month's payment is shown and term assumes continued payment of minimum amount. No additional debt incurred and payments decrease over time period.

**Assumes payment of 3.5% of initial loan amount, no additional debt incurred and initial payment amount remains fixed throughout term of loan.

Debt Stacking Can Lead to Debt Freedom

If the idea of paying off your debt seems overwhelming, consider debt stacking. They say you can eat an elephant – one bite at a time. Well, the same concept works with paying off your debt! By taking into account the interest rate and amount of debt, debt stacking identifies an ideal order for you to pay off your debts. You begin by making consistent payments on all of your debts.

The debt that debt stacking suggests that you pay off first is called your target account. There are programs you can enroll in that will automatically select your target account for you using a variety of criteria to help you get out of debt faster.

When you pay off the target account, you roll that payment into the payment that you were making on the next target account. These extra dollars help you reduce the effect of compound interest working against you. As each debt is paid off, you apply the amount you were paying to that debt to the payment that you were making on the next target account.

Debt stacking allows you to make the same total monthly payment each month (in the example it is \$2,720 each month) toward all of your debt and works best when you do not accrue any new debts. You continue this process until you have paid off all of your debts. When you finish paying off your debts, you can apply the amount you were paying towards your debt toward creating wealth and financial independence!

Debt Stacking

Target Account

Extra Debt Payment Amount

Retail Card 1 \$220	+\$220				As each debt is paid off, you apply the amount you were paying to that debt to the payment that you were making on the next target account.
Credit Card 2 \$353	Credit Card 2 \$573	+\$573			
Car Loan \$551	Car Loan \$551	Car Loan \$1,124	+\$1,124		
Credit Card 1 \$303	Credit Card 1 \$303	Credit Card 1 \$303	Credit Card 1 \$1,427	+\$1,427	
Mortgage \$1,293	Mortgage \$1,293	Mortgage \$1,293	Mortgage \$1,293	Mortgage \$2,720	
Total \$2,720	Total \$2,720	Total \$2,720	Total \$2,720	Total \$2,720	

	Without Debt Stacking	With Debt Stacking
Payoff	23 years	9 years 14 years sooner
Interest Saved	\$0	\$130,643
Interest Paid	\$214,442	\$83,799
Monthly Payments	\$2,720	\$2,720

The above example is for illustrative purposes only. The Debt Stacking concept assumes that: (1) you make consistent payments on all of your debts, (2) when you pay off the first debt in your plan, you add the payment you were making toward that debt to your existing payment on the next debt in your plan (therefore you make the same total monthly payment each month toward your debts) (3) you continue this process until you have eliminated all of the debts in your plan. In the example above, when the retail card is paid off, the \$220 is applied to credit card 2, accelerating its payment to \$573. After credit card 2 is paid off, the \$573 is applied to the car loan for a total payment of \$1,124. The process is then continued until all debts are paid off. Note that the total payment per month remains constant.

The 5 most common credit mistakes

1

Not valuing your credit

Good credit is a valuable commodity in today's world. Bad credit, including a bad credit record, late payments, etc., can create a negative financial profile that can surface when you have a legitimate need to borrow.

2

Raising credit card limits

If you use credit cards, avoid raising your limit. An increased limit is merely an increased temptation to buy. If a company notifies you that they are raising your credit limit, take that as a warning signal. Chances are you've been using your credit card for more than emergencies.

3

Not monitoring your credit history

Know where you stand. Lenders and prospective employers get a snapshot of your debt repayment history with your credit report and it is important for you to know what they are seeing.

4

Not monitoring your credit score

A good credit score can determine a lot of things today: Whether you will be approved for credit, the interest rate on your loans, the cost of your homeowner's and auto insurance or whether you will be approved to rent a house or an apartment.

5

Not knowing your interest rate and fees

Fees vary widely among cards. Always make sure you know what the interest rate and annual fees are before you accept the card.

Buy the Right Kind of

Life

Insurance



One of the most important expenditures the average family should make is life insurance. It is also one of the most misunderstood. It is absolutely critical that you make the right decision about the kind and amount of life insurance to buy. In fact, the wisdom of your life insurance purchase could make a major difference in your family's security, should you die, and your quality of life if you don't.

How much is your car worth? —————



Do you insure it?

How much is your house worth? —————



Do you insure it?

How much is your life worth? —————



**Probably a lot more than your car or your house!
You can't afford not to insure your life.**

What's its purpose?

Life insurance should really be called “death protection” because its purpose is to protect the family against the premature death of a breadwinner or a caregiver. It acts as a substitute for income. Remember when you calculated how much you'll earn in your lifetime? It was a fortune wasn't it? The potential risk of losing that earning power is what makes life insurance a necessity.

Who should buy it?

Mainly people who have others depending on them for income support. If you have a non-earning spouse and/or children, or some other significant financial obligation, you need life insurance. Your spouse may also need coverage, even if he or she doesn't work, if child care or other expenses would result from the spouse's death. If you're single, or have significant cash resources, you probably don't need it.

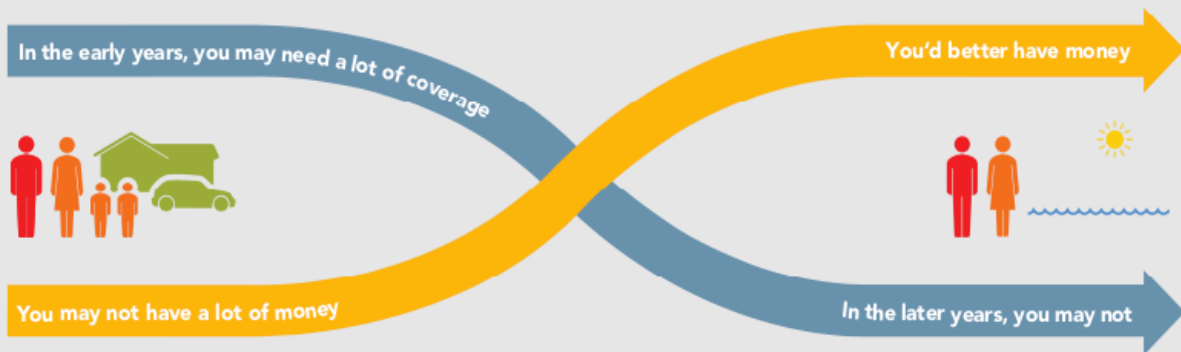
What should you buy?

Inexpensive term life insurance. A common misconception about life insurance is that it is a permanent need that each family has. This is totally untrue. Most financial experts see it as a way to simply “buy time” until you accumulate savings, not as a permanent fixture in your financial program.

How Life Works

According to the Theory of Decreasing Responsibility (illustrated below), your need for life insurance peaks along with your family responsibilities. *When you're young*, you buy low-cost death protection, term insurance, enough to protect the loss of your earning power, and put the maximum amount you can afford into a promising investment program. *When you're older*, you may have much less need for insurance coverage. If you've saved and invested wisely you should have a significant amount of accumulated cash. You've become "self-insured" and eliminated your need for life insurance.

The Theory of Decreasing Responsibility



Today

1. Young children
2. High debt
3. House mortgage

Loss of income would be devastating

At Retirement

1. Grown children
2. Lower debt
3. Mortgage paid

Retirement income needed

How Much Is Enough?

If you're like most Americans, probably more than you have! Five to 10 times your annual salary is a good rule of thumb. Whatever coverage you choose, buy only one policy, and put the entire coverage amount on that policy. Separate policies mean separate fees and could cost far more!

Consumer Tip: Buy life insurance exactly like you buy other kinds of insurance – auto, homeowners, health – for protection only.

Wouldn't you think it was silly if someone tried to sell you auto insurance that included a long-term savings plan? The same is true for life insurance. It pays to buy your insurance separately.




Remember: Never, never combine your savings with your life insurance.

Some Questions About Cash Value

When it comes to life insurance, you have two basic choices: Some form of cash value life insurance (including universal life) and term life insurance. Cash value, as a “bundled” policy, requires you to buy both your death benefit and a cash value feature. However, this doesn’t enable you to maximize the benefits of the Theory of Decreasing Responsibility. These concerns have led many leading financial writers and consumerists to direct consumers away from cash value.

Buy Term and Invest the Difference

With the “Buy Term and Invest the Difference” model, you have greater control over your benefits. Because protection and savings are completely separate, you can better control the death benefit and the investment portion.

Cash Value	Term
Typically higher premiums	 Lower premium
Includes an investment component	 No investment component (you can control your investments on your own)
Can receive your cash value OR your life insurance, NOT BOTH	 Pure death protection

Q. With cash value life insurance, how do you know what you are paying?

A. This can be hard to determine in a bundled product, especially with universal and variable life. In addition to the cost of death protection, cash value policies may have significant fees. And with the “two-in-one” approach, it’s difficult to separate the cost of insurance from the other elements of the policy. This makes it difficult to comparison shop. Any time you’re not sure what you’re paying, you risk making a bad decision!

What the Experts Say

"**Term life insurance**, by contrast, provides a larger death benefit for less money than whole life. Most families are better off using it to protect against the death of a breadwinner ..."

www.wsj.com, viewed March 25, 2009

"For most people, the right type of life insurance can be summed up in a single word: **term.**"

www.smartmoney.com, viewed March 1, 2011

"People should buy enough life insurance to equal **five to 10 times** their income."

www.post-gazette.com, viewed January 26, 2011

"Buy only cheap term insurance, not expensive whole life or anything else that builds investment value, because you can build investment value in your brokerage account with **more control and lower fees.**"

www.smartmoney.com, viewed March 1, 2011

"For most people, term life still offers the **best combination** of coverage and cost."

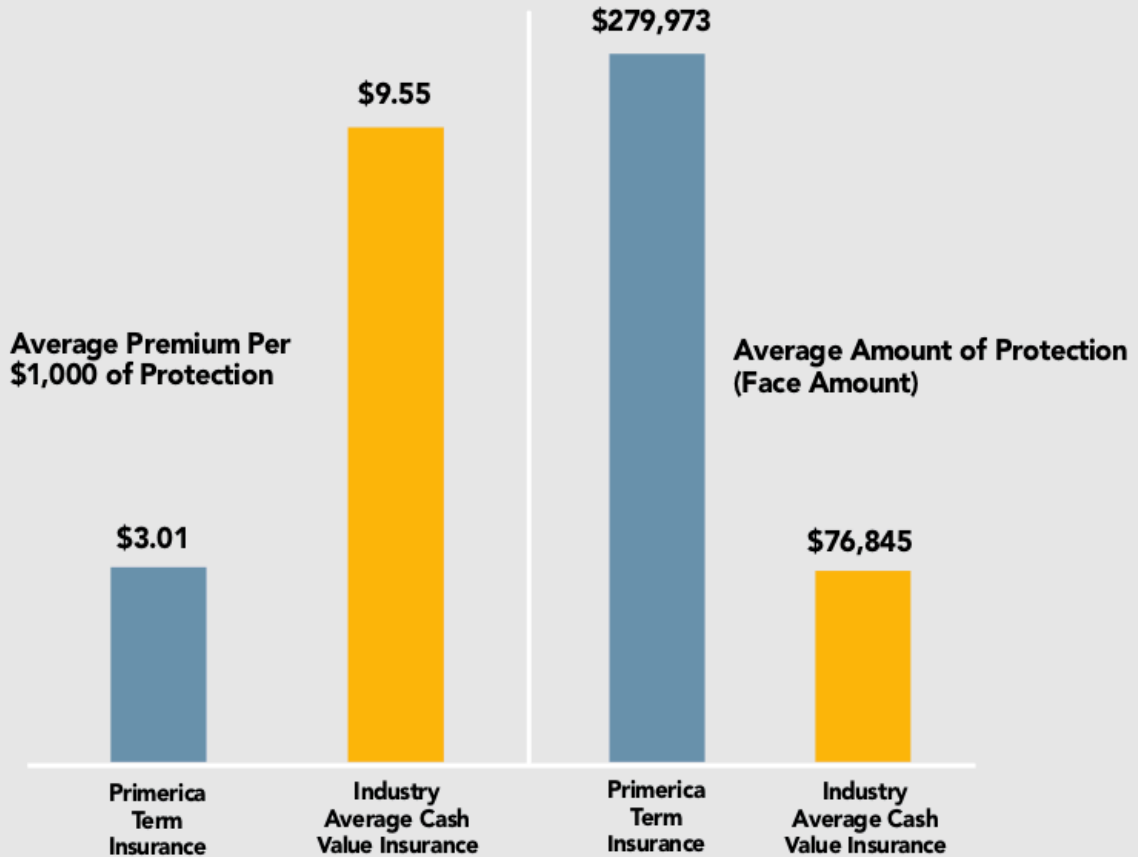
www.wsj.com, viewed May 28, 2011

"Whole life policies **hardly ever yield a reasonable rate of return** unless held for 20 years or more."

www.smartmoney.com, viewed March 1, 2011

Most Families Are Over-Premiured and Under-insured

The chart below shows the difference in the industry average premium per thousand dollars of protection between Primerica term insurance and cash value insurance. As you can see, the premium for "two-for-one" policies is drastically higher than term!



Clearly, the lower cost of term can provide a way for families to get maximum death protection for minimum dollars. Keep in mind that cash value insurance is a bundled product and may include other components, such as dividends and cash values. However, for pure death protection only, nothing beats the affordability of term insurance to protect families from financial ruin in the event of the untimely death of a wage earner.

American Council of Life Insurers, Life Insurance Fact Book (2010)

The Three "Nevers" of Buying Life Insurance

NEVER #1: Never buy any kind of "cash value" or whole life insurance, including universal life.

NEVER #2: Never buy life insurance as an investment.

NEVER #3: Never buy a life insurance policy that pays dividends.

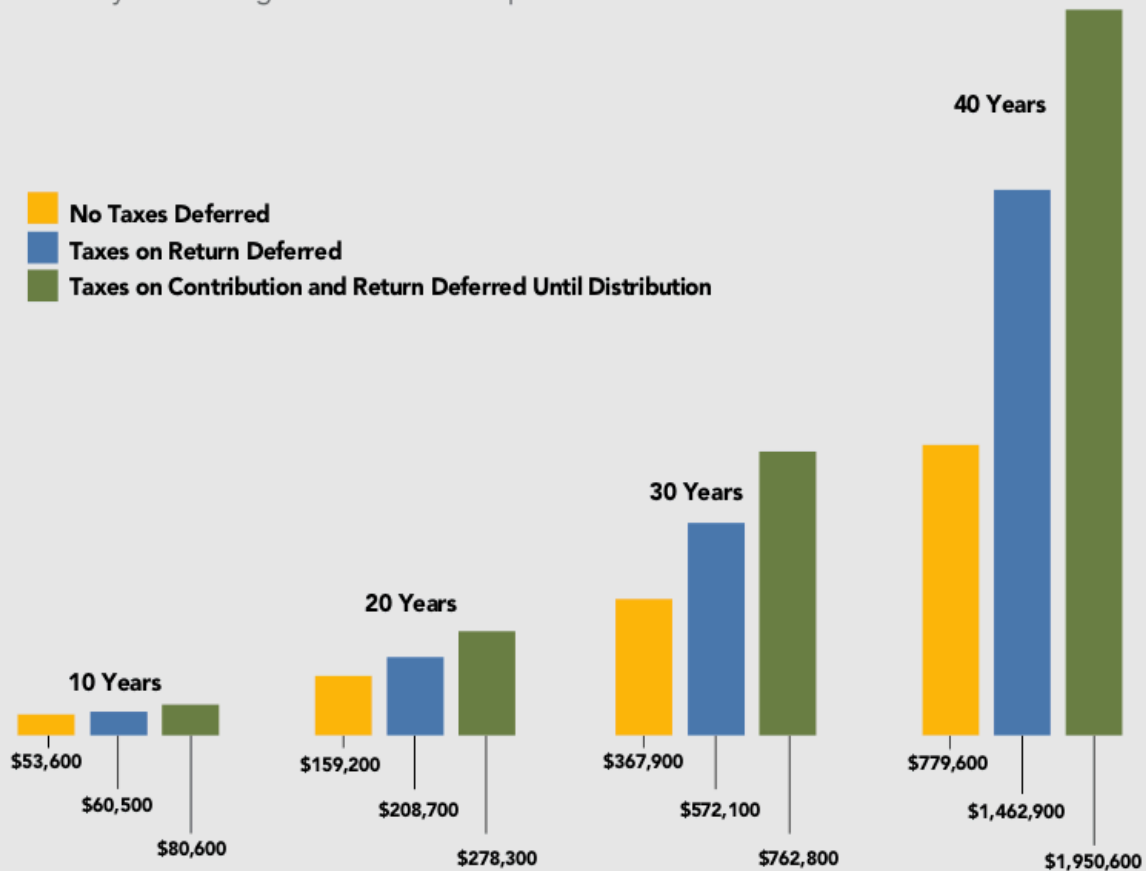
Defer Taxes



Do you have a job? Then you have a tax problem! The harder you work to get ahead and build your income, the more taxes you pay. In order to have the maximum cash at retirement, you need to find a way to minimize taxes.

The Power of Tax-Deferred Savings¹

As you begin “paying yourself first” you can invest money you’ve earmarked for your long-term goals through a tax-deferred retirement account. This allows you to postpone paying taxes on your earnings. That means more money is allowed to compound and work for you than if income taxes were taken out of each year’s earnings. Take a look at the power of tax deferral:



Note: You should consider your personal investment horizon or income tax bracket, both current and anticipated, when making a decision that could impact the results of this comparison. This chart represents a hypothetical investment and is not intended to represent the performance of any investment. Assumes a federal 25% tax bracket. Lower tax rates on capital gains and dividends would make the investment return on the taxable investment more favorable, thereby reducing the difference in performance between the investments shown. Any tax-deductible contributions are taxed and tax-deferred growth may be taxed upon withdrawal. Earnings on the investment are at 9% constant nominal rate, compounded monthly. Actual investments will fluctuate in value. The above amounts are based on monthly contributions of \$416.67 (earned income, adjusted for taxes). Investing entails risk, including loss of principal. Shares, when redeemed, may be worth more or less than their original value.

Deductibility vs. Deferrability

A **deduction** is an amount of money you can subtract from your gross income before you calculate taxes. The more you can reduce your gross income with deductions, the less the amount you’ll pay income taxes on. It **PAYS** to deduct. Remember to consult your tax advisor regarding your personal tax situation.

A **deferral** means that you can “postpone” payment of current taxes until a later date in the future, commonly at retirement. The great thing about deferring taxes to retirement is the likelihood that you will be in a lower tax bracket when you do have to pay taxes on the money.

¹ Neither Primerica nor its representatives offer tax planning services. For related questions, please refer to an appropriately licensed professional.

Which IRA Do You Prefer?

You have a few choices when it comes to IRAs. Which one works best for your situation?

Traditional IRA, Deductible

Benefit: *Tax savings now and tax deferral until retirement.* Saves you money by giving you and your spouse the potential to contribute \$5,000 each (if you meet certain requirements) off the top of your gross income, which reduces your taxable income. You postpone payment of taxes on any earnings until they are withdrawn at a date in the future, commonly retirement.

Traditional IRA, Non-deductible

Benefit: *Earnings on your IRA are tax deferred until retirement.* If you exceed certain income limits, your Traditional IRA contributions may not be deducted from your current tax bill. However, your non-deductible contributions will grow on a tax-deferred basis. So even though you weren't able to deduct your contributions, more of your money is allowed to grow and compound than if taxes were taken out of your account each year.

Roth IRA

Benefit: *Contributions are not deductible but you receive tax deferral on earnings and tax-free withdrawals later.* Contributions are made with "after-tax" money. However, when you withdraw the money from a Roth IRA, none of it will be taxed!*

*As long as the account has been open at least five years and you are age 59½ when you begin withdrawing the proceeds.

Comparing Tax Treatments

	Traditional IRA	Roth IRA
Contribution Limit (For 2012)	Up to \$5,000 (Age 50 and above: up to \$6,000)	Up to \$5,000 (Age 50 and above: up to \$6,000)
Deductibility	Deductible (income limits apply)	Non-deductible
Earnings	Tax deferred	Tax deferred
Retirement Withdrawals (After age 59½)	Taxable	Tax free if the Roth IRA is held at least five years
Distributions	Required at age 70½	No age requirement

Income limitations may restrict the amount that you may contribute to a Deductible IRA or a Roth IRA. Additionally, the amount you may contribute to a Roth IRA is reduced by contributions to other IRAs. Withdrawals before 59½ may be subject to ordinary income and a 10% tax penalty. Pimerica representatives do not offer tax advice. Consult your tax advisor with any questions.

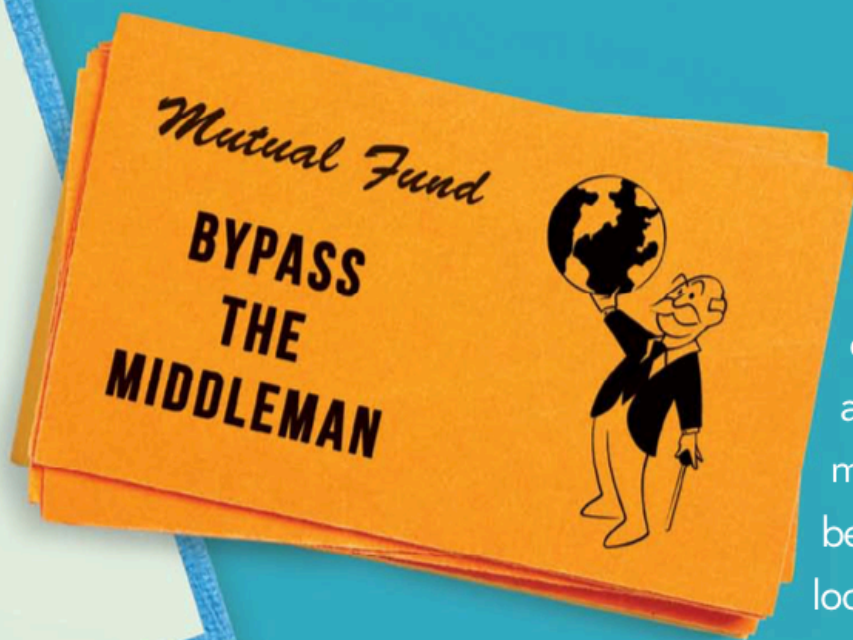
The "Time Value" of Money

It can't be stressed enough: **the sooner you start to save, the less you will have to put away.** Look at how opening an IRA today can help you secure a comfortable retirement.

		Individual A			Individual B			
		Age	Annual Payment	Accumulation End of Year	Age	Annual Payment	Accumulation End of Year	
Individual A: Started Contributing at Age 22	→	22	\$5,000	\$5,470	22	0	0	
		23	5,000	11,450	23	0	0	
		24	5,000	17,990	24	0	0	
		25	5,000	25,150	25	0	0	
		26	5,000	32,980	26	0	0	
	Individual A: Stopped Contributing at Age 29	→	27	5,000	41,540	27	0	0
			28	5,000	50,910	28	0	0
			29	5,000	61,150	29	0	0
			30		66,890	30	\$5,000	\$5,470
			31		73,160	31	5,000	11,450
		32		80,030	32	5,000	17,990	
		33		87,530	33	5,000	25,150	
		34		95,750	34	5,000	32,980	
		35		104,730	35	5,000	41,540	
		36		114,550	36	5,000	50,910	
	37		125,300	37	5,000	61,150		
	38		137,050	38	5,000	72,360		
	39		149,910	39	5,000	84,620		
	40		163,970	40	5,000	98,020		
	41		179,350	41	5,000	112,690		
	42		196,180	42	5,000	128,730		
	43		214,580	43	5,000	146,270		
	44		234,710	44	5,000	165,460		
	45		256,730	45	5,000	186,450		
	46		280,810	46	5,000	209,410		
	47		307,150	47	5,000	234,520		
	48		335,960	48	5,000	261,990		
	49		367,480	49	5,000	292,040		
	50		401,950	50	5,000	324,900		
	51		439,660	51	5,000	360,850		
	52		480,900	52	5,000	400,170		
	53		526,010	53	5,000	443,180		
	54		575,350	54	5,000	490,220		
	55		629,330	55	5,000	541,670		
	56		688,360	56	5,000	597,960		
	57		752,930	57	5,000	659,520		
	58		823,560	58	5,000	726,850		
	59		900,820	59	5,000	800,510		
	60		985,320	60	5,000	881,070		
	61		1,077,750	61	5,000	969,190		
	62		1,178,860	62	5,000	1,065,570		
	63		1,289,440	63	5,000	1,171,000		
	64		1,410,400	64	5,000	1,286,320		
	65		1,542,700	65	5,000	1,412,450		
	66		1,687,420	66	5,000	1,550,420		
	67		1,845,710	67	5,000	1,701,330		
Total Contributions		→ \$40,000			\$190,000			
Total Accumulation at Age 67		→ \$1,845,710			\$1,701,330			

The hypothetical 9% nominal rate of return, compounded monthly, and tax-deferred accumulation shown for both IRA accounts are not guaranteed or intended to demonstrate the performance of any actual investment. Unlike actual investments, the accounts show a constant rate of return without any fees or charges. Any tax-deductible contributions are taxed and tax-deferred growth may be taxed upon withdrawal. Withdrawals prior to age 59½ may be subject to a 10% penalty tax. Assumes payments are made at the beginning of each year. Investing entails risk, including loss of principal. Shares, when redeemed, may be worth more or less than their original value.

Become an Owner Not a Loaner



Many people fail financially because they don't understand the key concept of becoming an owner, not a loaner. Most people are "loaners." They invest their money in what they consider to be "safe" investments, usually a local bank or credit union. But here's what happens.

Bypass the Middleman

The bank takes their money, pays them the current rate, maybe around 1% at this time, and then loans that money out or invests that money directly in the economy. The bank receives high rates of interest on its investments and is happy to pay you a low interest rate for the use of your money. As a general rule what you really have there is a "loaning" account, rather than a "savings" account. You are lending money to the bank and they are making a profit off your money. You have no choice but to reverse the situation, if you want to make your money work for you. You must become an "owner," not a "loaner." You must learn to "bypass the middleman."



Are You Earning a Guaranteed Loss?

Even though you may feel comfortable with the fact that investments in banks and savings and loans are "guaranteed" against loss by the FDIC, what you are purchasing with that kind of "guarantee" is something you hadn't counted on – a guaranteed loss!

You invest \$10,000 at a 4% rate of return in your local bank ...

You earn interest for the year:	\$400
But you pay \$100 in taxes on that interest at 25%	-\$100
So, your net earnings are:	\$300
Your resulting balance would be:	\$10,300
... but if inflation is 3%, your buying power would be reduced to:	\$10,000

You would have actually earned no gain!

This 25% tax rate is hypothetical. A different tax rate will change the result. Savings and CD accounts are generally FDIC insured up to \$250,000. This limit expires December 31, 2013.

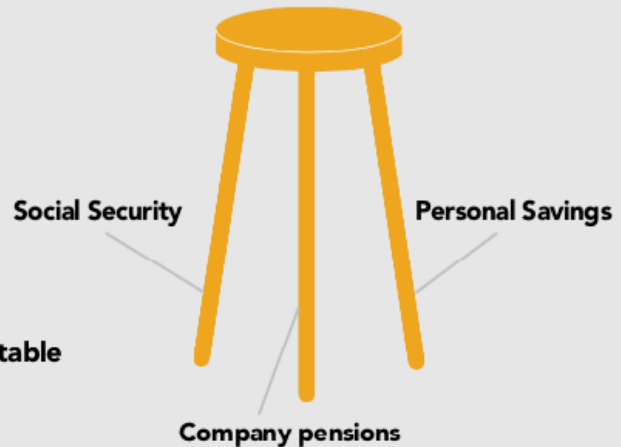
The Three-Legged Stool Theory

For years, financial experts used the analogy of a three-legged stool to demonstrate the primary sources that provide retirement income. Gone are the days when you can count on a pension from your employer: Only 21 percent of all private-sector workers have access to a traditional pension plan and the number of employers providing pensions continues to decline every year. (*U.S. News and World Report*, June 1, 2009)

Plus, Social Security doesn't seem so "secure" anymore: The following is from the 2010 Social Security Statement: "Without changes, by 2037 the Social Security Trust Fund will be exhausted and there will be enough money to pay only about 76 cents for each dollar of scheduled benefits." It also states: "... but Social Security was never intended to be your only source of income when you retire. You will also need other savings, investments, pension or retirement accounts to make sure you have enough money to live comfortably when you retire."

Simply put, it's up to you to fund your retirement!

All together, these three "legs" represented a stable source of income but not anymore!



Don't Just Save, Invest!

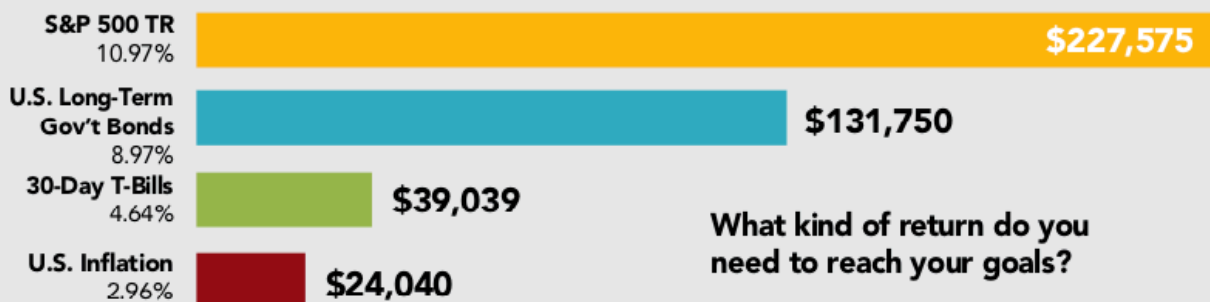
With the problem of low returns in "safe" investments, where can you go to have the opportunity to get the kind of rate of return you need to keep ahead of the savings game? The answer: Equity investments (the stock market).

Investing in the market takes you out of the "savings" mode and into the "investing" mode. Are stocks guaranteed? No. There is always a potential for loss, as well as gain. But for a greater potential rate of return, many investors are willing to accept a greater degree of risk. Remember what you've learned about being an "owner" versus a "loaner." If you want a "guarantee" on your money, be willing to accept a relatively low return. That return then has the potential to be further lowered by the effects of inflation. In many cases, it may be wise to assume some level of risk in exchange for the potential of significant returns that can build your house of financial security.

Rate of Return Is the Key

Growth of a \$10,000 Investment

(December 31, 1981 to December 31, 2011)



Source: Morningstar. Past performance is no guarantee of future results. This chart is for illustrative purposes and does not represent an actual investment. Further, the returns do not reflect the past or future performance of any specific investment. All investments involve risk including loss of principal. The figures in the chart above assume reinvestments of dividends. They do not reflect any fees, expenses or tax consequences, which would lower results. Because these indices are not managed portfolios, there are no advisory fees or internal management expenses reflected in their performance. Investors cannot invest directly in any index. The figures represent an initial investment of \$10,000. The Standard & Poor's 500® is an unmanaged group of securities, is considered to be representative of the stock market in general. Bonds are represented by the Barclays Capital Aggregate Bond Index is an intermediate term market capitalization — weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented. Municipal bonds and treasury inflation-protected securities are excluded, due to tax treatment issues. The index includes treasury securities, government agency bonds, mortgage-backed bonds, corporate bonds, and a small amount of foreign bonds traded in U.S. The U.S. 30-Day T-bills are government backed short-term investments considered to be risk-free and as good as cash because the maturity is only one month and are represented by the IA SBBBI US 30 Day TBill TR index. Treasury Bills are secured by the full faith and credit of the U.S. Government and offer a fixed rate of return, while an investment in the stock market offers no such guarantee. Inflation history is represented by the IA SBBBI US Inflation index. Investors cannot invest directly in any index.



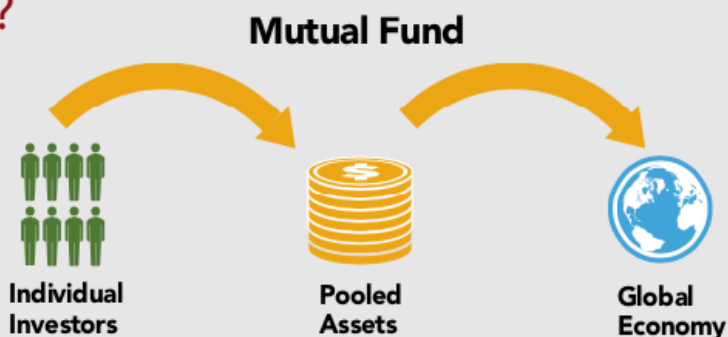
Invest with Professional Management

Mutual funds are a great way to “become an owner, not a loaner.” They give average families the advantage of investing in the economy, with the opportunity to minimize risk with professional management and diversification. There’s no doubt that there is some risk – after all, you’re buying a little piece of the economy, and the economy is influenced by many factors. But, as you’ve learned here, in exchange for that risk, you have the potential for a rate of return that few other investments offer.

What Is a Mutual Fund?

A mutual fund is an opportunity for you, together with many other investors, to pool your money.

Professional money managers invest the “pool” for you, keeping the investments under constant supervision. The money managers use their knowledge of securities and changing market conditions to invest the pooled assets in many different companies within a variety of industries.



The Three “Ds” of Investing

A good way to keep your focus on your goals is to remember the three “Ds” of investing: Dollar-Cost Averaging, Discipline and Diversification.

Dollar-Cost Averaging

Dollar-cost averaging means investing a certain fixed amount each month, regardless of what’s happening in the stock market. This eliminates having to predict when to invest as you will be able to take advantage of the market highs and lows – by purchasing fewer units when the prices are high and more units when the prices are low.

While dollar-cost averaging can’t assure a profit or protect against loss, it does show how a systematic investing plan, sustained over a period of time has the potential to pay off, relieving your worries about whether the market is up or down.

Discipline

By staying focused and staying invested through all market activity, you can increase your long-term potential because missing even a handful of the best-performing days in the market over time can considerably diminish your returns. Experts say market “timing” is

a bad way to invest. The key is to maintain a long-term view and stay focused on your goals.

Diversification

Because there is no single, perfect investment, take advantage of the next best thing which is to build your portfolio by balancing a variety of investments. Together these investments help you achieve your goals and reduce your portfolio’s risk. This may also work to increase returns by offsetting losses in one asset class with an opportunity for gains in another. Diversification does not assure a profit or protect against loss.

Investing entails risk including loss of principal. Shares, when redeemed, may be worth more or less than their original value.

Systematic Investing

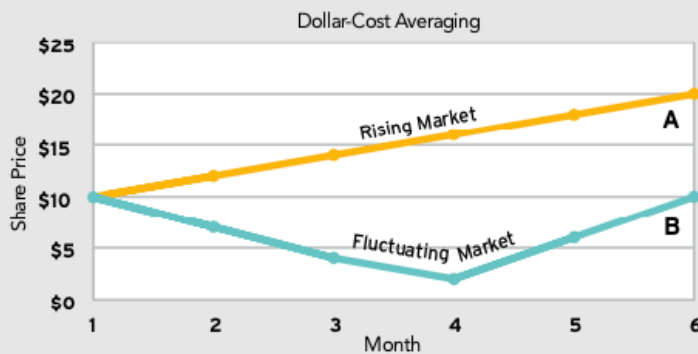
Who Do You Think Earned More Money?

Investor A began purchasing his shares as the market soared. Right after Investor B started purchasing his shares, the market fell and then recovered to where it was at the beginning of his investment period.

If you picked Investor A, you’re wrong! Investor B was able to take advantage of the downturn in the market and use his \$100 monthly investment to purchase shares at a lower price, which meant more shares purchased. With his \$600 investment he purchased 125.95 shares at an average price of \$4.76 per share.

Investor A’s \$600 investment purchased 42.28 shares at an average price of \$14.19 per share. **In a fluctuating market, Investor B was able to accumulate more shares at a lower price than Investor A did in a rising market.**

That’s the power of dollar-cost averaging!



	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Number of Shares Accumulated
Investor A							
Invests \$100/month	Per share: \$10.00	\$12.00	\$14.00	\$16.00	\$18.00	\$20.00	
	# of shares: 10.00	8.33	7.14	6.25	5.56	5.00	42
Investor B							
Invests \$100/month	Per share: \$10.00	\$7.00	\$4.00	\$2.00	\$6.00	\$10.00	
	# of shares: 10.00	14.29	25.00	50.00	16.67	10.00	126

	Amount Invested in 6 months	Number of Shares Accumulated	Avg. Cost Per Share
A	\$600	42.28	\$14.19
B	\$600	125.95	\$4.76

Dollar-cost averaging is a technique for lowering average cost per share over time. Dollar-cost averaging cannot assure a profit or protect against loss in declining markets. Investors should consider their ability to continue to invest in periods of low-price levels. These values are hypothetical and not intended to reflect any specific market period.

You Can Do It!

At first glance, achieving financial security may seem an overwhelming task.

But, as you've seen in these pages, the path to financial independence starts with understanding a few basic concepts – and implementing them in your life.

Winning the financial "war" is the result of winning tiny battles day to day. Something as seemingly insignificant as choosing a glass of water over a 75¢ soda, or saying "no, thanks" to an impulse purchase, can add up faster than you could ever imagine.

The basic concepts of money management aren't obscure or difficult to understand. They're based on common sense, and can put financial success within your reach.

While it may be tempting to hope for a financial miracle, it's much wiser instead to bet on a sure thing, and follow the proven principles that have already worked for so many families.

Most of all, whatever your present situation, it's important to get started today. If you put together a simple plan and follow it, you'll be amazed at the progress you can make.

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