STUDY PROJECT

FINANCIAL ASSESSMENT FOR SENIOR MILITARY OFFICERS

BY

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Senior military officers are sensitive to assessing their professional, behavioral and physical well-being. However, their financial well-being is often given little time. This paper serves to get officers started in working on their financial well-being. The information is a practical guide to assess their financial status, analyze their net worth and spending habits, adjust any insurance policies to be more cost effective, review financial investment options and prepare a financial strategy for building a living estate. Figures have been included for officers to complete. The expected outcome after

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USAWC Military Studies Program Paper

Financial Assessment For Senior Military Officers

Individual Essay

by

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ABSTRACT

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Senior military officers are sensitive to assessing their professional, behavioral and physical well-being. However, their financial well-being is often given little time. This paper serves to get officers started in working on their financial well-being. The information is a practical guide to assess their financial status, analyze their net worth and spending habits, adjust any insurance policies to be more cost effective, review financial investment options and prepare a financial strategy for building a living estate. Figures have been included for officers to complete. The expected outcome after following the guidelines in the paper is an officer will recognize his or her current financial status and develop a strategy for the future.

Table of Contents

List of Figures

CHAPTER I

INTRODUCTION

The goal of this paper is to stimulate you, as a senior military officer, to get started in determining your financial well-being. All too often this area is neglected and put in the "too-tough" category. You seldom look at your overall status except for a cursory consideration while preparing your tax return. This paper is to serve as a practical guide to assess your financial status, analyze your net worth and spending habits, adjust any insurance policies to be more cost effective, review financial investment options and prepare a strategy to build a living estate. Naturally there are a number of books that provide an in-depth discussion of each of these financial opportunities. Several of these books are listed in the bibliography and are available at most libraries.

It is difficult to determine financial needs for the future and to predict the success of investment strategies. Thus, it is usually counterproductive to try and determine how much money is needed in the future, "guess" what the average rate of return will be over the next 10-40 years and then see how much money must be "invested" today. This usually leads to the conclusion you can not possibly put aside enough money to meet all of your future needs. Another approach is to optimize spending requirements so funds can be shifted to investments. Then, when funds are required for a new car, college expenses or a vacation, an analysis can easily be made on how this would affect your financial status. A goal should be to increase your living estate to give you greater financial security and independence.

The following outlines the approach in this paper:

1. Assessment. You should assess your financial status by analyzing all assets and determine their rate of return for the last year. This will permit you to determine which assets are the most profitable. You may decide certain assets are not

performing as expected and it is time to look at other alternatives. Also keep in mind, some assets serve two functions, such as a house, which will provide shelter as well as be an investment.

2. Analysis. You should analyze your spending habits over the past year and take a representative month and determine how your income is being spent.

3. Adjustment. You should review your insurance needs for life, auto and health to determine if it is adequate, effective and competitively priced. This may permit you to shift some income from this area to investments.

4. Alternatives. You should analyze the financial investment opportunities available. Then, you must determine if there are other options that can provide a greater return on your investment for an acceptable risk. There will also be alternatives to consider for mortgage varieties, consumer credit sources, college loans and tax-sheltered retirement plans.

5. Strategy. You should develop an investment strategy to build your living estate. This will provide a road map for you to follow as your available investment funds increase.

Naturally this is not the ultimate in financial aids. It is expected you will tailor these worksheets and tables to fit your needs. Many books have been written on financial planning, investment strategy and money management. The average book length is 400 pages. While many provide detailed information on the subject, they do not provide an easy way to comprehend the subject. Most senior military officers will not take the time to read these lengthy books. If an officer reads one, afterwards, it is difficult to summarize the alternatives and decide which way to go. And none of the books provide a method for the individual to assess the rate of return of various investment instruments and compare them to each other.

Certainly it is advisable to update your financial assessment each year, review your complete financial status and compare it to the previous years. Also, there are several reasons why it is advisable to stay current with periodicals and newspapers:

1. Changing economic outlook

2. Revisions to the federal and state tax codes

3. Decisions by the Internal Revenue Service and the Tax Courts

4. Regional financial peculiarities

In the appendix is a synopsis of financial articles from two Washington, DC area newspapers. The articles provide information on general financial and real estate questions. A cursory look at the information will highlight the importance of keeping current.

CHAPTER II

ASSESSMENT

Assessing your financial status is the first area for consideration. It is recommended the assessment be made at the end of the calendar year since this will also coincide with the collection of papers for tax preparation. Also, the assessment should be made each year so the progress of investments can be reviewed.

FINANCIAL ASSESSMENT

A worksheet has been developed to enable you to assess the performance of investments on a yearly basis and to determine the yearly value of investments. This is the Financial Assessment Worksheet, Figure 1. This worksheet uses annual information for investments with the goal to normalize each asset so they can be compared on an equal basis. Remember, this is not an exacting science and thus the level of detail needed is probably to the whole number for most values and the single decimal for the yields. Again, the goal is to obtain an overall picture of investment performance.

Once completed, the Financial Assessment Worksheet will serve as the starting point in evaluating the comparative performance of your investments. The sum of the "year-end value" of all the assets will be used later to give you a picture of your net worth. Also, it is worthwhile to compare the worksheet for each of the past few years so trends can be analyzed.

There are some general comments to aid in completing the Financial Assessment Worksheet, Figure 1. If an individual retirement account (IRA) or another type of pension plan invests in one of the instruments listed below, then a separate entry should be made for the account with (IRA) listed in parenthesis after the account. Naturally the tax consequences will be different for these accounts than for the other accounts.

The following will briefly discuss any of the headings that may not be self-explanatory. An example of a completed Financial Assessment Worksheet is provided in Figure 2.

Effective Tax Rates

The federal and state tax rate for the year being assessed must be calculated. Probably the most appropriate method of arriving at this figure is to divide the amount of "taxes paid" by the "taxable income" amount. Separate calculations should be made for each tax return that was filed. This will usually be a federal and state joint return and a return for each child if they were required to file.

Checking Accounts

The institutions are listed separately. The "begin-year value" is the balance in the checking account at the beginning of the calendar year. The "year-end value" is the balance at the end of the calendar year. The "net annual income" is the total interest earned from the checking account for the year. This amount is usually kept as a running total on the bank statement but it may have to be obtained from adding the interest earned from the monthly bank statements. The "yield" is the average interest rate received for the checking account for the year. The "tax liability" is (F/S) if liable for federal and state taxes, (F) for federal only, (S) for state only or (N) for tax exempt. The "yield after taxes" considers the impact of federal and state taxes on the average interest rate. To simplify this calculation, the "yield" is reduced by the federal and state tax rate. For example, if your federal rate is 15% and your state rate is 5% then the "yield" is reduced by 20% to arrive at the "yield after taxes" if the instrument is both federally and state taxed. If the instrument is exempt from both federal and state taxes, the "yield after taxes" will be the same as the "yield". And if the instrument is only federally or state taxed, the "yield after taxes" is reduced appropriately. If the instrument is in the name of a minor, such as a college fund, then the "yield after taxes" may be at a different federal and/or state tax rate.

Savings Accounts

Savings accounts will be handled similarly to checking accounts.

Certificates of Deposit - Treasury Instruments

Certificates of deposit, savings bonds, and treasury instruments (bonds, bills and notes) will take a little more work to estimate the "net annual income". If the instrument is purchased mid-year than the "yield" should consider the number of months the instrument has been held. The "yield" can be taken directly from the certificate form or calculated considering if the instrument has been held for the full year.

Loans Receivable

This should include all loans owed to you. In order to keep the calculation simple, the "yield" will be the "interest payments received" divided by the "beginning of the year loan balance".

Stocks

The concept with stocks will be to determine the changed value from the price of the stock over the year and the value received through dividends and income. The "price yield" will be the difference between the "beginning-year price per share" and the "year-end price per share" divided by the "year-end price per share". The "net annual income" will include all dividends, capital gains and fees. The "income yield" will be the "net annual income" divided by the "year-end value". The "total yield" will be the sum of the "price yield" and the "income yield". The "yield" calculations will consider the length of investment for that year. Thus, if a stock was purchased during the year, the "yield" will have to be adjusted to consider the number of months funds were invested.

Bonds

Bonds will be handled similarly to certificates to deposit.

Mutual Funds

Mutual funds will be handled similarly to stocks. The "net annual income" will include all dividends, capital gains and fees. The calculation for the "income yield" may become a little complicated if the annual income is reinvested into the fund or if shares are purchased throughout the year. It is suggested an average value be used.

Company Pension Funds

The next item will be company pension funds you and/or your spouse may be participating in that does not invest in one of the instruments above, but instead, invests in the company. The company should provide you with a yearly reconciliation which will indicate the amount the individual has contributed. The "net annual increase" will be the result of subtracting the "begin-year value" and and the "individual yearly contributions" from "year-end value". The "yield" will be the "net annual increase" divided by the "begin-year value".

Home Equity

The next item will be home equity. There are two ways of looking at home equity. The first is to consider the amount of equity that is available for a "home equity loan". The common practice is for banks to loan up to 85% of the appraised value. A loan for up to 90% of the appraised value can be obtained, but private mortgage insurance would have to be purchased. The "loan amount" will be the amount the bank will loan for a home equity loan. The "net value increase" will be the difference between the "begin-year value" and the "year-end value". The mortgage payments will include principal and interest. The "yield" will be the "net value increase" divided by the "mortgage payments". The aim is to determine the rate of return from a house that is appreciating considering the amount of the mortgage payments or funds invested.

The second way would be to consider the rate of return as if the house were being sold. The "net value increase" would be the "year-end value" minus the mortgage amount, closing costs and realtor's fees. In the end, the two ways are probably going to be nearly the same.

Real Estate

The next item will be real estate and will be handled similarly to Home Equity. Since it is usually difficult to obtain second mortgages on non-residential property the second way of calculating the "net value increase" will be used. The "net value increase" will be the "year-end value" minus the mortgage amount. The "yield" will be the "net value increase" divided by the mortgage payments.

Annuities

Annuities will be handled similarly to company pension funds. The "individual yearly contribution" will be the amount of the premium going towards the cash value/ annuity.

Insurance Value

The next item is insurance value for permanent life insurance policies with cash values. This will be calculated similarly to company pension funds. The "individual yearly contribution" will be the amount of the premium going towards the cash value. An easy way to arrive at this number, if it is not readily available, is to take the difference between level term insurance and the cash value policy. This will factor out the cost of insurance.

Partnerships and Business Values

Partnerships and business values will be handled like company pension funds.

Personal Property

The next item will be personal property to include vehicles, jewelry, gold coins, art collections, and any other items that have significant marketable value. This can be in as much detail as desired or it can be divided into several broad categories such as vehicles, collections and furniture. This area can be very difficult to assess each year. A more realistic approach may be to only include those items you have purchased for investment purposes.

Summary

The "year-end value" columns can be added to determine your total value of investments at the end of the year.

NET WORTH

The next assessment to complete is your net worth statement. Certainly this can be accomplished in great detail or just as a cursory look. Generally, the cursory look is adequate to provide a broad look at how assets balance against liabilities. The net worth analysis is used as a measure of the assets accumulated and are available to meet current or future goals. Thus, you should include assets you might actually be willing to sell or borrow against to obtain funds. The Net Worth Worksheet, Table 3, outlines the various categories. It is usually appropriate to prepare this at the end of the calendar year. When this is compared to the previous year, you can determine if your net worth is decreasing, increasing and keeping pace with inflation or increasing and surpassing inflation.

INFORMATION FILE

It is extremely important to consolidate in one place a listing of all your financial documents/ accounts and personal data. An Information File, Figure 4 has been developed for this purpose. This will certainly aid your survivors. Once this worksheet is completed a copy should be kept in your safety deposit box with your will and a second copy in a secure place.

FINANCIAL ASSESSMENT WORKSHEET, FIGURE 1

YEAR __________

EFFECTIVE TAX RATES **********

	Federal Taxes			State Taxes			Total
Tax Payer(s)	Taxable Income	Taxes Paid	Rate	Taxable Income	Taxes Paid	Rate	Rate
Parents	$____________	$________	____%	$____________	$________	____%	_____%
Minors	$____________	$________	____%	$____________	$________	____%	_____%
__________________	$____________	$________	____%	$____________	$________	____%	_____%

CHECKING ACCOUNTS **********

	Value		Net Annual		Tax	Yield
Institution	Begin-Year	Year-End	Income	Yield	Liability	After Taxes
________________	$________	$______	$_______	______%	_______	______%
________________	$________	$______	$_______	______%	_______	______%

SAVINGS ACCOUNTS **********

	Value		Net Annual		Tax	Yield
Institution	Begin-Year	Year-End	Income	Yield	Liability	After Taxes
________________	$________	$______	$_______	______%	_______	______%
________________	$________	$______	$_______	______%	_______	______%

CERTIFICATES OF DEPOSIT - TREASURY INSTRUMENTS **********

	Maturity	Value			Net Annual		Tax	Yield
Certificate	Date	Purchase	Maturity	Year-end	Income	Yield	Liability	After Taxes
_________________	________	$______	$______	$______	$________	______%	_______	______%
_________________	________	$______	$______	$______	$________	______%	_______	______%

LOANS RECEIVALBLE **********

	Maturity	Loan Balance		Payments Received			Tax	Yield
Name	Date	Begin-Year	Year-End	Interest	Principal	Yield	Liability	After Taxes
_________________	________	$______	$______	$______	$________	______%	_______	______%
_________________	________	$______	$______	$______	$________	______%	_______	______%

FINANCIAL ASSESSMENT WORKSHEET, FIGURE 1 (continued)

STOCKS **********

Name	-- Price per Share -- Begin-Year	Year-End	Price Yield	Year-End Value	Net Annual Income	Income Yield	Total Yield	Tax Liability	Yield After Taxes
__________________	$_________	$_______	_____%	$_______	$________	_____%	____%	_______	______%
__________________	$_________	$_______	_____%	$_______	$________	_____%	____%	_______	______%
__________________	$_________	$_______	_____%	$_______	$________	_____%	____%	_______	______%

BONDS **********

Certificate	Maturity Date	-------------- Value -------------- Purchase	Maturity	Year-end	Net Annual Income	Yield	Tax Liability	Yield After Taxes
__________________	________	$_______	$_______	$_______	$_________	______%	_______	______%
__________________	________	$_______	$_______	$_______	$_________	______%	_______	______%

MUTUAL FUNDS **********

Name	-- Price per Share -- Begin-Year	Year-End	Price Yield	Year-End Value	Net Annual Income	Income Yield	Total Yield	Tax Liability	Yield After Taxes
__________________	$_________	$_______	_____%	$_______	$________	_____%	____%	_______	______%
__________________	$_________	$_______	_____%	$_______	$________	_____%	____%	_______	______%
__________________	$_________	$_______	_____%	$_______	$________	_____%	____%	_______	______%

COMPANY PENSION FUNDS **********

Company	------- Value ------- Begin-Year	Year-End	Individuals Yearly Contributions	Net Annual Increase	Yield	Tax Liability	Yield After Taxes
__________________	$_________	$_______	$___________	$_______	_____%	_______	______%
__________________	$_________	$_______	$___________	$_______	_____%	_______	______%
__________________	$_________	$_______	$___________	$_______	_____%	_______	______%

HOME EQUITY **********

Address	-------------- Value -------------- Begin-year	Year-End	Net Increase	Mortgage Amount	Loan Amount	Mortgage Payments	Yield	Tax Liability	Yield After Taxes
__________________	$_________	$_______	$_______	$_______	$______	$_______	____%	_____	_____%
__________________	$_________	$_______	$_______	$_______	$______	$_______	____%	_____	_____%
__________________	$_________	$_______	$_______	$_______	$______	$_______	____%	_____	_____%

FINANCIAL ASSESSMENT WORKSHEET, FIGURE 1 (continued)

REAL ESTATE - SELLING VALUE **********

Address	Value: Begin-year	Value: Year-End	Value: Net Increase	Mortgage Amount	Loan Amount	Mortgage Payments	Yield	Tax Liability	Yield After Taxes
________________	$________	$______	$______	$______	$_____	$______	____%	_____	_____%
________________	$________	$______	$______	$______	$_____	$______	____%	_____	_____%
________________	$________	$______	$______	$______	$_____	$______	____%	_____	_____%

ANNUITIES **********

Company	Cash Value: Begin-Year	Cash Value: Year-End	Individuals Yearly Contributions	Net Annual Increase	Yield	Tax Liability	Yield After Taxes
________________	$________	$______	$___________	$______	_____%	_______	______%
________________	$________	$______	$___________	$______	_____%	_______	______%
________________	$________	$______	$___________	$______	_____%	_______	______%

INSURANCE VALUE

Company	Cash Value: Begin-Year	Cash Value: Year-End	Individuals Yearly Contributions	Net Annual Increase	Yield	Tax Liability	Yield After Taxes
________________	$________	$______	$___________	$______	_____%	_______	______%
________________	$________	$______	$___________	$______	_____%	_______	______%
________________	$________	$______	$___________	$______	_____%	_______	______%

PARTNERSHIPS AND BUSINESS VALUES **********

Company	Value: Begin-Year	Value: Year-End	Individuals Yearly Contributions	Net Annual Increase	Yield	Tax Liability	Yield After Taxes
________________	$________	$______	$___________	$______	_____%	_______	______%
________________	$________	$______	$___________	$______	_____%	_______	______%
________________	$________	$______	$___________	$______	_____%	_______	______%

PERSONAL PROPERTY **********

Item(s)	Value: Begin-Year	Value: Year-End	Individuals Yearly Contributions	Net Annual Increase	Yield	Tax Liability	Yield After Taxes
________________	$________	$______	$___________	$______	_____%	_______	______%
________________	$________	$______	$___________	$______	_____%	_______	______%
________________	$________	$______	$___________	$______	_____%	_______	______%

TOTAL YEAR-END VALUE: $ ____________________

COMPLETED FINANCIAL ASSESSMENT WORKSHEET, FIGURE 2

YEAR 1989

EFFECTIVE TAX RATES **********

	Federal Taxes			State Taxes			Total
Tax Payer(s)	Taxable Income	Taxes Paid	Rate	Taxable Income	Taxes Paid	Rate	Rate
Parents	$ 31,500	$ 4,900	15.6 %	$ 37,500	$ 1,900	5.0 %	21 %
Minors SON	$ 2,100	$ 250	11.9 %	$ -	$ -	- %	12 %
DAUGHTER	$ 1,000	$ 65	6.5 %	$ -	$ -	- %	7 %

CHECKING ACCOUNTS **********

	Value		Net Annual		Tax	Yield
Institution	Begin-Year	Year-End	Income	Yield	Liability	After Taxes
VALLEY	$ 2,500	$ 1,000	$ 150	6 %	F/S-21%	4.8 %
	$	$	$	%		%

SAVINGS ACCOUNTS **********

	Value		Net Annual		Tax	Yield
Institution	Begin-Year	Year-End	Income	Yield	Liability	After Taxes
VALLEY	$ 15,000	$ 17,600	$ 100	5 %	F/S-21%	4.0 %
CIRCLE-SON	$ 11,100	$ 13,000	$ 770	6 %	F-12%	5.3 %

CERTIFICATES OF DEPOSIT - TREASURY INSTRUMENTS **********

	Maturity	Value			Net Annual		Tax	Yield
Certificate	Date	Purchase	Maturity	Year-end	Income	Yield	Liability	After Taxes
CIRCLE-IRA	4/12/90	$	$	$ 9,900	$ 880	9.3 %	N	9.3 %
CIRCLE-DAUGHTER	1/3/90	$	$	$ 1,600	$ 100	6.6 %	F-7%	6.1 %

LOANS RECEIVALBLE **********

	Maturity	Loan Balance		Payments Received			Tax	Yield
Name	Date	Begin-Year	Year-End	Interest	Principal	Yield	Liability	After Taxes
JOE SMITH	6/12/97	$ 7,000	$ 6,000	$ 700	$ 1,000	10 %	F/S-21%	7.9 %
		$	$	$	$	%		%

COMPLETED FINANCIAL ASSESSMENT WORKSHEET, FIGURE 2 (continued)

STOCKS **********

Name	-- Price per Share -- Begin-Year	Year-End	Price Yield	Year-End Value	Net Annual Income	Income Yield	Total Yield	Tax Liability	Yield After Taxes
PENNZ WEST	$ 3 7/8	$ [illegible] 1/2	40 %	$ 500	$ --	- %	40 %	F/S 21%	31.6 %
	$	$	%	$	$	%	%		%
	$	$	%	$	$	%	%		%

BONDS **********

Certificate	Maturity Date	------ Value ------ Purchase	Maturity	Year-end	Net Annual Income	Yield	Tax Liability	Yield After Taxes
MUNICIPAL	6/11/97	$ 10,000	$ 10,000	$ 10,000	$ 550	5.5 %	N	5.5 %
		$	$	$	$	%		%

MUTUAL FUNDS **********

Name	-- Price per Share -- Begin-Year	Year-End	Price Yield	Year-End Value	Net Annual Income	Income Yield	Total Yield	Tax Liability	Yield After Taxes
20TH CENTURY	$ 26.2	$ 27.0	3 %	$ 7,100	$ 200	3 %	6 %	F/S-21%	4.8 %
20TH CENTURY-ICH	$ 26.2	$ 27.0	3 %	$ 2,200	$ 60	3 %	6 %	N	6.0 %
NICHOLAS	$ 27.5	$ 32.3	5 %	$ 2,100	$ 100	5 %	20 %	F/S 21%	16.0 %

COMPANY PENSION FUNDS **********

Company	------- Value ------- Begin-Year	Year-End	Individuals Yearly Contributions	Net Annual Increase	Yield	Tax Liability	Yield After Taxes
XEROX	$ 25,500	$ 30,800	$ 2,000	$ 3,300	12.9 %	N	12.9 %
	$	$	$	$	%		%
	$	$	$	$	%		%

HOME EQUITY **********

Address	------ Value ------ Begin-year	Year-End	Net Increase	Mortgage Amount	Loan Amount	Mortgage Payments	Yield	Tax Liability	Yield After Taxes
613 BIRCH	$ 284,000	$ 300,000	$ 16,000	$ 127,000	$ 255,000	$ 13,000	122.5 %	N	122.5 %
	$	$	$	$	$	$	%		%
	$	$	$	$	$	$	%		%

COMPLETED FINANCIAL ASSESSMENT WORKSHEET, FIGURE 2 (continued)

REAL ESTATE - SELLING VALUE **********

Address	Value: Begin-year	Value: Year-End	Value: Net Increase	Mortgage Amount	Loan Amount	Mortgage Payments	Yield	Tax Liability	Yield After Taxes
LOT	$16,000	$17,000	$1,000	$6,500	$0	$[illegible]	6.3%	F/S 21%	5.0%
	$	$	$	$	$	$	%		%
	$	$	$	$	$	$	%		%

ANNUITIES **********

Company	Cash Value: Begin-Year	Cash Value: Year-End	Individuals Yearly Contributions	Net Annual Increase	Yield	Tax Liability	Yield After Taxes
HANCOCK	$11,100	$12,500	$1,000	$800	7.2%	N	7.2%
	$	$	$	$	%		%
	$	$	$	$	%		%

INSURANCE VALUE

Company	Cash Value: Begin-Year	Cash Value: Year-End	Individuals Yearly Contributions	Net Annual Increase	Yield	Tax Liability	Yield After Taxes
ALLSTATE	$6,100	$6,500	$100	$400	5%	F/S-21%	4.0%
	$	$	$	$	%		%
	$	$	$	$	%		%

PARTNERSHIPS AND BUSINESS VALUES **********

Company	Value: Begin-Year	Value: Year-End	Individuals Yearly Contributions	Net Annual Increase	Yield	Tax Liability	Yield After Taxes
AMRECORP	$5,000	$5,500	$ -	$500	10%	F/S-21%	7.9%
	$	$	$	$	%		%
	$	$	$	$	%		%

PERSONAL PROPERTY **********

Item(s)	Value: Begin-Year	Value: Year-End	Individuals Yearly Contributions	Net Annual Increase	Yield	Tax Liability	Yield After Taxes
GOLD COINS	$5,700	$5,900	$0	$200	3.5%	F/S-21%	2.8%
	$	$	$	$	%		%
	$	$	$	$	%		%

TOTAL YEAR-END VALUE: $ 405,000

NET WORTH WORKSHEET, FIGURE 3

YEAR ____________

CURRENT ASSETS *****

Checking accounts	_______________
Savings accounts	_______________
Certificates of deposit	_______________
U.S. Savings Bonds (current value)	_______________
Life insurance (cash value)	_______________
Securities (market value)	_______________
Annuities (surrender value)	_______________
Pension (vested interest)	_______________
Real estate (market value)	_______________
Business interests (market value)	_______________
Residence (market value)	_______________
Furnishings, jewelry, autos, etc (current market value)	_______________
Other	_______________
	_______________
TOTAL ASSETS	_______________

CURRENT LIABILITIES *****

Mortgage (balance due)	_______________
Taxes	_______________
Debts (including installment loans)	_______________
Insurance premiums	_______________
Charge account balances	_______________
Charitable pledges	_______________
Other	_______________
	_______________
TOTAL LIABILITIES	_______________

Subtract total liabilities from total assets:

TOTAL ASSETS	_______________
- TOTAL LIABILITIES	_______________
	====================
= TOTAL NET WORTH	_______________

Source: 1

INFORMATION FILE, FIGURE 4

DATE ____________

FAMILY CERTIFICATES ********

Family Member	Birth Date	Birth Place	Certificates Available: Birth	Baptism	Marriage	Custody	Divorce	Death	Location of Records

FAMILY DATA ********

Family Member	Social Security Number	School Diploma	School Grades	Professional Registration	Location of Records

MEDICAL AND HEALTH RECORDS ********

Family Member	Type (Medical/Dental Military/Company)	Doctors Listing	Prescription Listing	Date of Last Examination	Location of Records

WILLS ********

Family Member	Date	Lawyer (address, phone)	Executor (address, phone)	Location of Wills

POWER OF ATTORNEY ********

Type (General, Limited)	Purpose	Date Executed	Date Expires	Grantee (name and address)	Location of Records

INFORMATION FILE, FIGURE 4 (continued)

SAFE-DEPOSIT BOXES ********

Box Number	Depository (name and address)	Owner	Person with Power of Attorney	Where Contents are Listed	Location of Keys

LIFE INSURANCE: GROUP AND INDIVIDUAL POLICIES ********

Name of Person Insured	Face Value	Insurance Company	Policy Number	Beneficiaries	Location of Policy

BURIAL PLOT ********

Family Member	Cemetery (address)	Where Documents Are Kept (deed, instructions for burial, organ donations)	Preferred Undertaker

HEALTH INSURANCE: HOSPITAL, MAJOR MEDICAL, ACCIDENT, DISABILITY ********

Person Insured	Type of Coverage	Amount of Benefits	Insurance Company	Policy Number	Location of Records

CASUALTY INSURANCE: HOMEOWNERS, TENANTS, AUTO, EXCESS LIABILITY ********

Policy Owner	Type of Coverage	Insurance Company	Policy Number	Policy Limit	Agent (phone)

EMPLOYEE PENSION, SAVINGS AND STOCK PLANS ********

Family Member	Employer	Type of Plan	Value	Date of Valuation	Beneficiary

CREDIT CARDS: BANK, MERCHANT, BROKER, GASOLINE ********

Family Member	Name of Card	Issuer	Account Number	Expiration Date	Report Loss (phone

TAX RECORDS - LAST SIX YEARS ********

Members of the Family Filing	Tax Year	Federal and State	Real Estate	Personal Property	Location of Records

REAL ESTATE RECORDS ********

	Location of				
Description of Property (address)	Purchase and Mortgage Records	Deeds and Liens	Receipts for Capital Improvements	Inventory of Contents	Property Tax Receipts

AUTOMOBILE RECORDS ********

			Title		
Make, Model, Year	Serial Number	Motor Number	Number and State	Date	Location

INFORMATION FILE, FIGURE 4 (continued)

CHILDREN'S TRUSTS ********

Child's Name	Type of Account or Trust	Where Funds Are Invested	Custodian or Trustee (address)	Trust Number	Location of Records

CHILDREN'S SAVINGS ACCOUNTS, CHECKING ACCOUNTS, CERTIFICATES AND TREASURY BILLS ********

Child	Institution	Type	Special Purpose	Account Number	Location of Records

ADULTS' SAVINGS ACCOUNTS, CHECKING ACCOUNTS, CERTIFICATES AND TREASURY BILLS ********

Family Member	Institution	Type	Special Purpose (Keogh, IRA, etc)	Account Number	Location of Records

ADULT'S INVESTMENTS ********

Family Member/ Company	Type (stock, bond mutual fund, etc)	Special Purpose (Keogh, IRA, etc)	Cusip or Account Number	Number of Shares or Units	Location of Records

INFORMATION FILE, FIGURE 4 (continued)

LOANS AND OTHER LIABILITIES ********

Lender	Amount	Date Made	Date Due	Location of Records

FAMILY LOANS TO OTHERS ********

Family Member	Debtor	Amount	Date Made	Date Due	Location of Records

MILITARY INFORMATION ********

		Dates of Rank/ Promotion:	
Service Number		Grade	Date
Commission Date			
Date Entered Active Service			
Pay Date			
Military Discharge Date			
Location of Military Discharge Certificate			

SOURCE: 2,3,4,5

ENDNOTES

1. Grace Weinstein, The Lifetime Book of Money Management, New York, New American Library Books, 1983, p. 35.

2. Robert Klein, The Money Book of Money - Your Personal Financial Planner, Boston, Little, Brown and Company, 1987, pp. 34-38.

3. Hobart Pilisbury and Robert Baldwin, Armed Forces Guide to Personal Financial Planning, Harrisburg, PA; Stackpole Books, 1987, pp. 367-372.

4. Ray Vicker, The Dow Jones-Irwin Guide to Retirement Planning, Homewood, IL; Dow Jones-Irwin, 1985, pp. 23-27.

5. Walter Yohey, Armed Forces Relief and Benefit Association Your 1989 Financial Planning Guide, San Antonio, TX; AFTAC Enterprises, 1989, pp. 5 and 63-64.

CHAPTER III

ANALYSIS

The next logical step is to determine your personal and/or family cashflow or budget. The Monthly Cashflow Worksheet, Figure 5 can be used as a guide. There has been a lot of emphasis in this area by financial planners and it can easily turn into the budget managing you instead of you managing the budget. This analysis is intended for you to get a general look at how you spend money over a typical month. You may prefer to prepare this on an annual basis versus a monthly basis. However, the monthly basis will usually allow you to see areas where expenditures may be lopsided. Then you can determine if there are avenues to reduce your expenses. This may provide additional funds for other expenses or for investments.

MONTHLY CASHFLOW WORKSHEET, FIGURE 5

INCOME *****

Salary	
Your own	_______________
Your spouse's	_______________
Bonuses	_______________
Commissions	_______________
Tips	_______________
Interest	_______________
Dividends	_______________
Rental property	_______________
Royalties	_______________
Social Security	_______________
Pension benefits	_______________
Profit Sharing	_______________
Annuities	_______________
Life insurance benefits	_______________
Other	_______________
	_______________
	_______________
	_______________
TOTAL	_______________

FIXED EXPENSES *****

Housing (mortgage or rent)	_______________
Household insurance	_______________
Medical care & health insurance	_______________
Other insurance	_______________
Taxes	_______________
Installment purchases	_______________
Savings	_______________

VARIABLE EXPENSES *****

Food, at home and out	_______________
Home maintenance and repairs	_______________
Utilities and fuel	_______________
Telephone	_______________
Clothing	_______________
Transportation	_______________
Entertainment, recreation, hobbies	_______________
Travel and vacations	_______________
Clubs and organizations	_______________
Charitable gifts and contributions	_______________

OPTIONAL EXPENSES *****

Housing (improvements or second)	_______________
Transportation (second/third car)	_______________
Extended travel (Europe, Asia)	_______________
Other (boat, recreation vehicle)	_______________
	_______________
	_______________
TOTAL	_______________

SOURCE: 1

ENDNOTES

1. Grace Weinstein, The Lifetime Book of Money Management, New York, New American Library Books, 1983, p. 31.

CHAPTER IV

ADJUSTMENTS

This chapter reviews the attributes of various forms of insurance. As with all protection instruments, you must decide how much protection is necessary. And, this question can not be answered once and for all. The amount and type of protection needs to be reviewed annually or more often if a significant event occurs, i.e. a child is born, a house is purchased, expensive jewelry acquired or spouse starts working outside the home. The purpose of the figures in this chapter is to assist you in reviewing what kind of insurance is necessary, some of the options available and deciding if adjustments should be considered.

LIFE INSURANCE

The classic way of viewing life insurance is for life insurance to provide the difference between your living estate and your financial responsibilities. Naturally, if you have no dependents or financial responsibilities then you have little need for insurance. If you have a small living estate, but significant financial responsibilities, such as dependents, then life insurance can make up the difference. As you increase your living estate and your financial responsibilities have not increased, then you can reduce your coverage. The funds that become free can be invested to further enhance your living estate. The goal is to become self-insured as soon as possible. Life insurance premiums are paid with after-tax dollars and these premiums should be reduced as soon as possible.

Life insurance policies can provide only protection or protection plus cash surrender value which is often referred to as an investment account. Policies that contain an "investment" element have higher premiums than those providing protection only. Thus, if a set amount of dollars are set-aside for life insurance, the protection only policy will provide more coverage than the policy with "investment". In considering life insurance you must decide how much and what type of life insurance is appropriate. The Life Insurance Variations, Figure 6 outlines the various types of life insurance.

As is seen in this figure, term insurance generally provides protection only. Permanent and variable insurance provide protection and an investment account. Term insurance is the preferred way to fulfill your insurance requirements if your living estate will be sufficient in later years to provide for your family. However, if the outlook is you may have insurance requirements when you become vulnerable to illness or old age, when it may be difficult to obtain term insurance, then you may want to consider a cheap permanent insurance policy. However, it is generally recommended not to use life insurance as an investment. There are better performing and more flexible ways to provide for a college fund or a source of money to borrow. 1

Your Net Worth Worksheet, Figure 3 can be used to help evaluate how much insurance you need. A typical approach to determine the amount of insurance necessary is to sum the various needs should you die: immediate obligations, burial expenses, mortgage, education expenses, living expenses and probate/estate taxes. These expenses will vary as the family gets older. Therefore, these needs should be reviewed periodically. You must also decide if a spouse's income will be considered. When adding your insurance policies, be sure to include Government programs such as Servicemen's Group Life Insurance (SGLI), Social Security Survivors' Benefits, Survivor Benefits Plan and Dependency and Indemnity compensation (DIC). There are several organizations that serve military members with current information about survivor benefits. One of the better known is The Army and Air Force Mutual Aid Association, Arlington, VA 22211-5002 with a toll free number 1-800-336-4538 and in Virginia 1-703-522-3060.

The last word in insurance is to be a knowledgeable consumer. Before buying any term, permanent or variable insurance policy, compare the benefits, premiums and ratings of various insurance companies. As a cursory look will show, the cost for each thousand dollars of coverage for even group term policies will vary significantly. Group term policies at very attractive rates are frequently advertised in the Air Force, Army or Navy Times. The ratings of insurance companies can be obtained from "Best's

Insurance Reports", "Consumer Reports" and "Money" magazines which are available in most libraries. Policies can be changed and riders revised to meet your needs. There are several things to keep in mind about insurance.

1. Determine your life insurance needs as if you were going to die today and include an extra amount to offset inflation.

2. Every few years the life insurance industry develops new mortality tables since people are living longer. If these tables provide you with a lower rate, then consider obtaining a new policy and then redeem or cancel the old one.

3. It is usually considered that by age 65 you will or will not have accumulated a sufficient living estate to preclude the need for insurance. After age 65 your economic potential has greatly reduced.

4. Life insurance is to provide assets once you have died. Investments are to provide you assets while you are living. The two should not be combined.

5. All life insurance policies contain protection only or some form of protection and an investment usually referred to as cash surrender value.

6. Deal with an insurance company with the same regard for your dollars as you would when dealing with a bank.

7. Only a level term insurance policy with a fixed premium contains a constant amount of protection for the dollar paid. Policies that contain cash surrender value contain decreasing "insurance protection". This is because the death benefit is usually only the face value and the cash surrender value usually remains with the insurance company.

8. It is prudent to have a policy that is renewable and convertible without evidence of insurability. A waiver of premium rider is also worth considering.

9. The number of policies should be kept to an absolute minimum. But, you should certainly keep your group and unconverted Government Issue (GI) term policy.

10. Avoid participating policies. 2

11. Take a close look at separate policies for family members and riders. It is usually not prudent to purchase separate insurance policies for family members, except a spouse whose income is a significant part of the family budget or a child that may not be insurable at a later age. A family rider usually has an extremely low net payment cost. Accidental death benefits are usually unnecessary since war related deaths are not covered. Waiver-of-premium, guaranteed insurability and cost-of-living riders may be worth considering if the premiums are low and there are no military restrictions. 3

12. Avoid mortgage insurance policies. Usually a decreasing term policy that closely matches the reducing mortgage will require a smaller premium.

AUTO INSURANCE

There are six basic types of auto insurance coverage in the standard policy.

1. Bodily injury liability. Provides payment for injury or death of individuals struck by your car or riding in your car when involved in an accident.

2. Property damage liability. Provides payment for damage to other cars, telephone poles, buildings, etc., caused by your car.

3. Medical payments. Provides payment for medical expenses for you or anyone else riding in your car resulting from an accident.

4. Collision. Provides payment for damages to your car resulting from an accidental collision with a fixed or stationary object.

5. Comprehensive (fire, theft, vandalism). Provides payment to the owner of the car for damage resulting from natural disasters such as: fire, explosion, earthquake, flood, windstorm, hail, falling objects, collision with a bird or animal and from unnatural damages of theft or larceny, vandalism or malicious mischief, and riot or civil commotion.

6. Uninsured motorist and medical payments. Provides payment for medical expenses for individuals in your car. 4

Some of these coverages are essential and in most states compulsory. However, you need to review the need for the coverage, the amount of coverage and the amount of deductible. Bodily injury and property damage liability are the two coverages you should not try to economize. Bodily injury liability coverage protects you and anyone driving your car with your permission if an accident occurs and someone is killed or injured. This pays for attorney's fees, court costs and judgements against you. The property damage liability coverage pays for the damage to someone else's property. While most states require minimums, it is recommended the average driver have at least coverage for bodily injury for $100,000 for a single injury with a maximum of $300,000 for all injuries in any one accident. The recommended coverage for property damage is $50,000. Considering the high damage amounts awarded by juries, it is not uncommon for drivers to have bodily injury coverage for $500,000 for a single injury and $1,000,000 for all injuries.

But there are some areas to consider for savings:

1. Consider increasing collision and comprehensive deductibles. The savings you receive on your premium should be balanced with what you can afford to pay before the insurance starts covering the costs. You also need to consider the value of your car and what the replacement amount you would receive if the car were totaled.

2. Find a forgiving company. Ask several companies their policy for increasing premiums due to accident costs, accident frequency, speeding tickets and how they handle minors.

3. Check out the insurance rates on a car before you buy it. The rates can vary considerably depending upon the selling price, cost to repair, the size of the engine, a particular model and models that are likely to be stolen.

4. Question your need for medical payments. This coverage may duplicate your group health insurance. The only reason to carry medical coverage in an auto policy is to provide coverage not in the health policy or to protect non-family passengers.

5. Consider accepting the least possible personal injury protection. The only circumstances to consider limiting the coverage to the minimum required by the state is if your group health policy would provide adequate protection.

6. Do not reject uninsured or underinsured motorist coverage. This coverage will pay for you if you are hurt by a hit-run driver or someone with little or no liability coverage.

7. Be wary of most optional coverages. Look hard at the coverage provided as compared to the premium for such things as towing, stolen radios and for a rental car while yours is in the shop. 5

8. Look at the coverage in your homeowner's policy. This policy may duplicate some of the coverage in your auto policy and usually the homeowner's policy is cheaper.

MEDICAL INSURANCE

You may find medical insurance is necessary if there is limited military support in your area. Also, with the reductions in military hospitals on the horizon and the reductions in the manning of the remaining hospitals, military families may become more dependent on CHAMPUS (Civilian Health and Medical Program of the Uniformed Services) to pay for medical care. If CHAMPUS is used, you will have to pay a portion of the medical costs. It may be desirable to consider a CHAMPUS supplemental insurance policy. Recent Federal laws have capped at $1,000 per year the share of CHAMPUS bills for dependents of active-duty members. The maximum for other beneficiaries (retirees, retirees' family, etc.) is $10,000 a year. Also, retirees will only provide a maximum of $2?5 per day for hospital stays. However, there is no protection provided for medical bills for services which CHAMPUS does not cover or for charges that are above CHAMPUS rates. These are some limitations of supplemental policies.

1. Individuals with existing health problems may only obtain limited coverage.

2. Individuals may not be covered for two years to protect the insurance firm against existing ailments.

3. "Full" coverage may not provide coverage for all medical expenses with some firms differentiating between allowable and excess charges.

4. Many plans change their coverage when a member retires. 6

Before purchasing a supplemental plan, you should read the annual "CHAMPUS, An Insurance Comparison Supplement" that is printed by the Army Times, Navy Times and Air Force Times in the February time frame. This supplement provides the latest coverage of CHAMPUS and compares the coverage and premiums of supplemental policies for many insurance companies. There are several areas you will want to consider when deciding on the value of a supplemental policy.

1. How large a premium are you willing to pay?

2. How much coverage is provided compared to the amount of the premium?

3. Is your family a high risk for certain diseases that will mount medical bills above the CHAMPUS coverage?

4. Does a member of your family have a current condition that needs coverage now?

5. Do you want coverage for only inpatient care or also for outpatient care?

6. Are you planning to have children and looking for "well-baby" coverage?

7. How old are you and when do you plan to retire?

The Health Benefits and Costs, Figure 7 compares the benefits and coverage which the Service (Uniformed Services Hospitals) and CHAMPUS provide.

HOMEOWNER'S INSURANCE

Homeowner's insurance usually provides coverage for the loss or damage of a house and/or contents and coverage for personal liability. Homeowner's insurance policies are usually structured as follows:

Declarations. Specifies the basic facts of the policy such as the policy holders, property address and dates of the policy.

Section I. Property Coverage.

Coverage A. House. Specifies the coverage for the house and any attached structures.

Coverage B. Detached Structures. Specifies the coverage for any structures on the property but not attached to the house.

Coverage C. Unscheduled Personal Property. Specifies the coverage for personal property plus borrowed items on the property.

Coverage D. Additional Living Expenses. Specifies the coverage for the cost of temporary lodging during repairs to a damaged home.

Supplemental Coverage. Specifies the coverage for general items such as yard repair, removal of debris, losses to credit cards and fire department charges.

Perils Covered Against. Specifies the list of perils which the property are insured against.

Exclusion. Specifies any areas not covered by the policy.

Conditions. Specifies general clauses such as coinsurance.

Section II. Liability Coverage.

Coverage E. Personal Liability. Specifies coverage against a lawsuit for damages caused by family members or pets.

Coverage F. Medical Payments. Specifies coverage for medical payments for injuries suffered by others on or off the property.

General Conditions. Specifies conditions for items like cancelling the policy, submitting claims and modifying the policy. [7]

The Homeowner's Insurance Types, Figure 8 outlines the standard types of policies with the corresponding perils covered and standard amounts of property liability coverage. The standard amounts of Liability and Medical Payment Coverage are : personal liability - $50,000 each occurrence, medical payments to others - $500 each person and damage to the property of others - $250 each occurrence.

There are several areas to consider to reduce your premiums or revise your coverage. Before implementing any of these, you need to analyze the potential premium changes versus the increased risk.

1. Specify a deductible amount. This will eliminate the risk to the insurance company for small losses. A minimum of $100 is often available from insurance companies, with a $500 deductible being common.

2. Specify replacement cost coverage for personal property. This will provide funds to replace the item. Typically, policies only provide funds for the depreciated value of items.

3. Purchase a floater for high-value items. This will provide coverage for items such as jewelry, furs and antiques which are valued above the usual $500 limit.

4. Specify personal liability coverage. This protection can be a part of the homeowner's policy or as a separate umbrella policy which is explained later. A minimum amount is usually $25,000 but many insurers are recommending personal liability protection up to $1 million.

5. Specify medical coverage. This provides payment for minor accidental injury to others while on or off your property. The payment is made regardless of who is at fault. This minimum amount is $500 per person, but many homeowners are increasing this amount. 8

6. Specify replacement value for the structure. This will provide coverage for the house that will keep pace with inflation. Remember, the value of the land should not be included. 9

EXCESS LIABILITY

With the extremely high damage suit awards, excess liability coverage should be given serious consideration. The limits in standard policies may not cover these high awards. The coverage on the homeowners and auto policies can be increased. But, it is often-cheaper to establish the homeowners and auto policies at the minimum coverage level that is acceptable to the insurance company. Then add an excess liability umbrella policy on top of them. The recommended level is $1 million. 10

LIFE INSURANCE VARIATIONS, FIGURE 6

These tables outline the characteristics of the major types of insurance policies. The major categories of policies are: term, permanent and variable. The general characteristics of each policy category are listed first and then the variations follow. The purpose of these tables is to provide information on alternative forms of life insurance so the officer can assess if he has the right type and mix of life insurance. Each officer must decide the type, mix and amount of insurance he needs. Naturally, insurance needs will change depending upon the family situation and lifestyle. This is a fertile area for assessing if your funds are wisely utilized to provide adequate protection. It should also serve as a means to assess if your protection can be reduced and the excess funds invested in other financial instruments.

TERM INSURANCE POLICIES ********

Type	Description	Death Benefit	Cash Value	Premium	Considerations
Term	-Lasts only a specified period	Face value	No	Low	-Virtually no policies for people over 70 -Premiums increase as get older -Protection from "premature" death not death itself
Level Term	-Face value and the premium remain the same throughout period	Face value	No	Low	-A new policy must be purchased after the term expires
Decreasing Term	-Constant premium over the period but the face value declines	Decline face value	No	Lower	-As get older, usually insurance needs are less -Used as mortgage insurance since coverage can match decreasing mortgage amount
Deposit Term	-Rewards policyholders who keep the same coverage for a long period	Face value	Yes	Lowest	-Pay a deposit as well as a premium -Deposits and interest returned at the end of the period -Deposit and interest lost if policy cancelled early
Credit Life	-Sold as part of a consumer loan	None	No	High	-Should be avoided because of its high cost -Death benefit is usually paid to the loan company -Provides insurance for the loan amount

*Alternatives: non-renewable - requires a new physical for each period and new policy (cheapest)
renewable - eliminates physical requirements (cheap)
reentry - can renew if pass physical (cheaper)
convertible - can be converted to another policy

LIFE INSURANCE VARIATIONS, FIGURE 6 (continued)

PERMANENT INSURANCE POLICIES ********

Type	Description	Death Benefit	Cash Value	Premium	Considerations
Permanent	-Premiums are paid until death, but also builds savings that accrue	Face value	Yes	High	-Premiums collected greatly exceed the expected payout for death benefit -Can borrow against accrued cash value at low rate -Death benefit is generally tax free -Cash value accumulations are tax deferred until withdrawn -Unpaid loans will reduce death benefit -The nominal guaranteed interest accumulation on the value of 3-5% is greatly reduced if policy held for less than 10 years -The longer the policy holder lives, the more of his own money is returned to survivors
Straight, Whole, Ordinary Life	-Constant premium throughout policy	Face value	Yes	High	
Modified Whole Life	-Premiums are lower than normal during the early years, usually 5 years	Face value	Yes	Average	-A combination of term and whole life -Term in the early years and then shifts to whole life
Limited Payment Life	-Provides lifelong protection but premium period is shorter	Face value	Yes	Higher	-Constant premiums for a limited number of years and then is paid-up -Payments larger the shorter the premium period -Offers less coverage for dollars spent in early years when need protection most -Usually considered poor choice in inflationary times
Endowment Life	-Guarantees a specified sum of of money available on a specific date	Face value	Yes	Highest	-Purchased by parents for children's college fund or elderly for retirement -Used as a forced investment plan -Cash value usually invested in stocks -Face value is also paid if person still alive after policy period -A forced savings that guarantees sum to beneficiary

*Features:
- Automatic payment - can use accrued cash value to temporarily pay premium
- Long-term rights - if cancel policy can (1) withdraw cash value as a lump sum
  (2) pay premiums as long as cash value lasts
  (3) use cash value to purchase a paid-up policy at a smaller face value
- Cash value - accumulated interest is tax-deferred until withdrawn
- Policy loans - can borrow against cash value at relatively low interest rates
- Single premium - a single premium pays for a lifetime policy
- Paid-up - cash value builds sufficiently to start paying premium

LIFE INSURANCE VARIATIONS, FIGURE 6 (continued)

VARIABLE INSURANCE POLICIES *****

Type	Description	Death Benefit	Cash Value	Premium	Considerations
Variable	-Combination of permanent and term insurance	Min	Yes /No	Average	-Provides flexible structure designed to allow greater return on the savings portion and move between term and permanent insurance -Allows the policy holder to earn higher rates of return by choosing to put cash value into higher risk investments: stocks, bonds, money markets -The cash value performance is not guaranteed but a minimum death benefit is usually guaranteed -Policies with cash value build-up are very illiquid unless policy is cancelled or a loan taken -Cash value accumulations are tax deferred until withdrawn
Adjustable Life	-Provides complete flexibility for adjusting the policy conditions	Flex	Yes	Average	-Designed for change by raising or lowering premium, increasing or decreasing coverage, lengthening or shortening both the protection and premium periods -Flexibility is accomplished by adjusting the term portion
Universal Life	-Combines term insurance and a a cash value account that resembles a money market account	Face value + cash value	Yes	Average	-Combines insurance with a high rate of return on earnings -Extremely flexible -Often high initial charges and annual fees -Term portion may be more expensive than a separate term policy
Family Income Life	-Combination of permanent life for death benefit and declining term for monthly income	Face	Yes	Average	-The declining term is structured to match the needs for growing children

GENERAL OPTIONS FOR MANY POLICIES *****

Participating (Par policy): These policies generally have higher premiums because the premium is set high enough to cover the cost of protection, to allow the policy to build a cash value and to return a profit to the insurance company. The profit is usually shared with the policy holders in the form of a dividend. But there is only a dividend if the insurance company has a good return on their investments. The dividend can be taken as cash, premium reduction, left to accumulate with the company or buy additional insurance. This allows the insurance company to use the policy holders money throughout the year.

Nonparticipating (Nonpar policy): No dividends. Usually the recommended policy.

Typical policy riders (consider the added benefit versus the increased premium
- -waiver of premium: policy continues without premiums if the policy holder becomes totally disabled before a specific age
- -disability income: provides monthly income after a waiting period if the policy holder becomes totally disabled
- -accidental death : provides double or triple benefit if the policy holder dies by accident rather than illness
- -guaranteed insurability: guarantees the right to buy additional insurance without regard to health, up to a specified age

Group Life Insurance:
- -life insurance sold to groups
- -commonly employees of a given organization
- -members of a professional association or identifiable group
- -usually the lowest cost of a comparable individual policy
- -usually available without the requirement of a physical examination
- -meets the general needs of the group rather than the specific needs of a single member
- -usually limited to the period a person is the member of the group
- -may have limited provisions for renewing or converting

SOURCE: 11, 12, 13

HEALTH BENEFITS AND COSTS, FIGURE 7

	Active Duty			
	Service Members	Families	Retirees and Families	Dependent Parents
- Uniformed Services Hospitals				
-- Outpatient				
--- Benefits	Yes	Yes, space available	Yes, space available	Yes, space available
--- Costs	No charge	No charge	No charge	No charge
-- Inpatient				
--- Benefits	Yes	Yes, space available	Yes, space available	Yes, space available
--- Costs	Small daily fee	Small daily fee	Small daily fee	Small daily fee
- CHAMPUS				
-- Outpatient				
--- Benefits	No	Yes	Yes, unless entitled to Medicare (Part A) May need nonavailability statement	No
--- Costs	After deductible, 20% of allowable charges	After deductible, 20% of allowable charges	After deductible, 25% of allowable charges	Not eligible for CHAMPUS
-- Inpatient				
--- Benefits	No	Yes, may need nonavailability statement	Yes, unless entitled to Medicare (Part A)	No
--- Costs	Small daily fee	Small daily fee	25% of allowable charges	Not eligible for CHAMPUS
-- Handicapped Programs				
--- Benefits	No	Yes	No	No
--- Costs	No programs	Depends on pay grade of servicemember	No programs	No programs

Source: 14

HOMEOWNER'S INSURANCE TYPES. FIGURE 8

Item	Policy Type: Basic: HO-1	Broad: HO-2	Special: HO-3	Renters: HO-4	Comprehensive: HO-5	Condominium: HO-6
STANDARD AMOUNT OF PROPERTY LIABILITY COVERAGE						
House and Attached Structures	Up to 100% of replacement cost	Same as HO-1	Same as HO-1	Additions and alterations. up to 10% of personal property	Same as HO-1	$1.000 on additions and alterations
Detached Structures	10% of house amount	Same as HO-1	Same as HO-1	Not applicable	Same as HO-1	Not applicable
Unscheduled Personal Property	50% of house amount	Same as HO-1	Same as HO-1	$4,000 minimum	50% of house amount	$4,000 minimum
Additional Living Expenses	10% of house amount	20% of house amount	Same as HO-2	20% of personal property	Same as HO-2	40% of personal property
Trees and Shrubs	5% of house amount, $500 maximum	Same as HO-1	Same as HO-1	10% of personal property, $500 maximum per item	Same as HO-1	10% of personal property $500 maximum per item
PERILS COVERED FOR PROPERTY TYPES						
	-Fire or lightning -Loss of property removed from premises endangered by perils -Windstorm or hail -Explosion, riots, smoke -Aircraft, vehicles -Theft, vandalism	-All of HO-1 plus -Falling objects -Weight of ice and snow -Collapse of buildings -Damage/injury due to mechanical/ electrical systems and appliances	-Does not cover perils to Unscheduled Personal Property and Trees/Shrubs	-Covers all the perils in HO-2 for the renters property	-All of HO-2 except -Flood -Earthquake -War -Nuclear accidents -Any other specified	-Similar to HO-4 except it applies to condominium owners

SOURCE: 15, 16, 17

ENDNOTES

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8. _Ibid._, Pp. 166-169.

9. Victor Hallman and Jerry Rosenbloom, _Personal Financial Planning_, Third Edition, New York, McGraw-Hill Book Company, 1983, p. 117.

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11. Pillsbury and Baldwin, pp. 122-148.

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13. Walter Yohey, Armed Forces Relief and Benefit Association Your 1989 Financial Planning Guide, San Antonio, TX: AFTAC Enterprises, 1989, pp. 37-41.

14. Pillsbury and Baldwin, pp. 156 and 158.

15. Frederick Amling and William Droms, The Dow Jones-Irwin Guide to Personal Financial Planning, Homewood, IL: Dow Jones-Irwin, 1982, p. 261.

16. Hallman, p. 116.

17. Pillsbury and Baldwin, pp. 167.

CHAPTER V

ALTERNATIVES

As discussed earlier, a goal should be to try and shift funds to increase your living estate so you can meet future expenses such as the purchase of a car, college costs, another house, retirement, medical costs or unexpected losses. Each person needs to balance the expenditure for a current lifestyle with the setting aside of funds for future protection and financial needs. You should consider each significant financial action by its effects on the future as well as on the present.

This chapter outlines alternatives for building your living estate. The areas covered are home mortgages, consumer credit, college costs, tax-sheltered pension plans, trusts and investments.

HOME MORTGAGES

The purchase of a home will probably be your most significant decision you will make. The real estate information in the appendix from the newspaper gives you an idea of some considerations in buying, owning and selling a house. Mortgage Varieties. Figure 9 summarizes various types of mortgages you should consider when purchasing a house or refinancing an existing mortgage. The newest type of mortgage is the two-step. It is a cross between an adjustable-rate loan and a 30 year loan. The first seven years the rate is fixed at one rate. Then for the remaining twenty-three years, the rate is adjusted upward to a fixed rate. This type of mortgage is aimed at military families and people who are regularly transferred.

While the purchase of a house is satisfying your housing needs it is also building equity. The assumption is the house will appreciate in value. This needs to be one of the considerations when you purchase a house and evaluate if the house will appreciate. If the outlook is unfavorable, you may want to consider renting a house. But, if the house appreciates and the equity is building, you will have several alternatives in later life: sell the house and cash-in on the equity, establish a reverse mortgage or leave the house to your heirs.

Since reverse mortgages are a fairly new concept, it will be discussed in further detail. Typically, a financial institution either buys the home or loans money against the home. The seller often guarantees the occupant lifetime occupancy. The homeowner can also structure the arrangement so they receive a lifetime monthly stipend or annuity. In most plans, the financial institution, not the estate, will gain possession of the residence at the death of the owners. Write Home Equity Conversion Project for more information. These are different than a home-equity or home-improvement loan. 1

Reverse mortgages have been structured in the last ten years. The idea is to provide a monthly income to homeowners using the equity in their home as collateral. To qualify the home must be free and clear of any mortgages or loans. The mortgages are tailored to the elderly so they can live out their golden years in more comfort and security at the expense of their estate. Here are the various types of reverse mortgages and where they are available.

Fixed-term Reverse Mortgage. This was developed for retirees who need additional monthly income for a limited period of time, usually 3 to 12 years. Monthly cash advances cease at maturity and the loan plus accrued interest must be paid to the lender - usually requiring sale of the home. Loan limits vary but can be as high as $250,000 or 80% of the home's appraised value. These loans are available in Arizona, California, Connecticut, Indiana, Massachusetts, Minnesota, New Jersey, New York and Wisconsin. Additional information is available from National Center for Home Equity Conversion, 110 E. Main, Madison, WI 53703.

Split-term Reverse Mortgages. This provides monthly loan advances for 10, 15, or 20 years, but repayment is deferred until the borrower dies, moves or sells the home. These loans are available in Connecticut and Rhode Island. Additional information is available from the Connecticut Department on Aging, 175 Main St, Hartford, Conn. 06106, or phone (800) 443-9946. Also, information is available from the Rhode Island Department of Elderly Affairs, 79 Washington St., Providence, RI 02903 or phone (401) 277-6552.

Line-of-credit Reverse Mortgage. This is designed more for coping with unexpected expenses than meeting regular monthly bills. The repayment of the loan and the accrued interest can be deferred until the borrower dies, moves or sells the home. These loans are available in Maryland and Virginia. Additional information is available from the Maryland DHCD-CDA, Attn: Ms. Bronwyn Belling, 45 Calvert St., Annapolis, MD 21401 or the Virginia Housing Development Authority, Attn: Robert Adams, 13 S. 13th St., Richmond, VA 23219.

Shared-appreciation Reverse Mortgage. This guarantees monthly loan advances for as long as the borrower continues to own and live in the home. In exchange, the owner(s) surrenders some of the home's future appreciation. The size of the monthly loan advance is based on the home-owners life expectancy, the home's value and the percentage of the home's future appreciation that is to be shared. These loans are available in Connecticut, Delaware, Maryland, Ohio, Pennsylvania, New Jersey and Virginia. Additional information is available from the American Homestead Mortgage Corp., 305 Fellowship Rd., Mt. Laurel, NJ 08054 or phone (609) 866-0800.

Additional information, advice and clearing house services are provided by the American Association of Retired Persons (AARP). They also publish several free manuals on the subject, including a helpful 44-page "Consumer's Guide to Home Equity Conversion". Contact AARP, Home Equity Information Center, 1909 K St. N.W., Washington, DC 20049. 2 Information on lenders around the country offering reverse mortgages may be obtained by sending a self-addressed, stamped envelope to the National Center for Home Equity Conversion, 1210 E. College Drive, Suite 300, MN 56258. The Housing and Urban Development (HUD) Department has launched a pilot program for reverse mortgages. Information may be obtained by writing to HUD, Single Family Development Division, 451 Seventh Street, SW, Washington, DC 20410. 3

CONSUMER CREDIT

There is a wide variety of interest rates from various sources for consumer credit. Consumer Credit Sources, Figure 10 summarizes the available firms. Of the five sources listed, life insurance companies generally provide the lowest cost source of credit if interest rate is the only thing considered. However, you are borrowing against your own money and in the long run it may be an expensive line of credit. Credit unions are generally the next least expensive with banks and savings and loans a little more expensive. The most expensive in the table are consumer finance companies. Loans may be obtained from a variety of other sources: sales finance companies, pawnshops, remedial loan societies, mail order loans, friends and relatives and loan sharks. 4

COLLEGE COSTS

Most officers consider college cost as an inevitable expense. With the total cost for in-state colleges and universities averaging $25,000 for four years, prior planning is prudent and usually necessary. This is especially true if you have more than one child. These costs can vary drastically depending upon the school chosen, the number of trips home, the amount of spending money and the living accommodations. The amount of money parents have to provide can also vary if:

1. Scholarships are available,

2. The student works during the summer and/or part-time during the school year,

3. A Service academy is selected.

4. A Reserve Officer Training Corps (ROTC) scholarship is considered,

5. A ROTC scholarship is accepted, does the school also provide free room and board,

6. Student loans are utilized and

7. A home equity loan is considered.

Cost information on 3,500 colleges is available in "The College Cost Book", published by College Board, 888 Seventh Avenue, New York, NY 10106. The College Board's Early Financial Aid Planning Service will analyze your eligibility for scholarship aid for a small fee. For additional information, write to Early Financial Aid Planning, PO Box 2843, Princeton, NJ 08541. For information on federal scholarships write to Student Guide, Department DEA-84, Public Documents Distribution Center, Pueblo, CO 81009 and ask for a free copy of "The Student Guide: Five Federal Financial Aid Programs". If you have questions about federal programs you may write Student Financial Assistance, PO Box 84, Washington, DC 20044. Your state may also offer financial assistance. *There are many books available on the subject. Two of which are* "Don't Miss Out: The Ambitious Student's Guide to Scholarships" and "Loans" by Octameron Associates, PO Box 3437, Alexandria, VA 22032 and Financial Aids for Higher Education by William Brown, 2460 Kerper Boulevard, PO Box 539, Dubuque, Iowa, 52001. 5

The following are a few programs available to reduce the cost of college.

1. Accelerated Programs. College credits can be obtained for Advanced Placement courses and examinations completed in high school. This may account for a full college year. Diligent students can complete a four year program in three or substitute a summer semester for a mid-year semester.

2. Cooperative Programs. A student will alternate semesters between the school and a company. Usually the salary from the company will pay for the school. This is usually structured as a five year program.

3. Attending an In-State School. The in-state tuition is usually cheaper especially for public institutions. Also, there are home state grants, scholarships and loans for residents attending in-state schools.

4. Teaching Programs. Many states will provide free tuition to state schools for students who agree to teach in the public school system in the state for a certain number of years after graduation.

5. Community Colleges. Students can attend the first two years at a community college and receive an associates degree. They can then transfer to a four year school to complete work for a bachelor's degree. However, be sure all the credits are transferable prior to embarking on this course. Usually state schools will accept all the credits from in-state community colleges. The community colleges are cheaper and students often live at home.

6. Employer-Paid Plans. Many companies provide generous tuition benefits. These range from the company funding night school classes to sending employees full-time.

7. Military. The Service academies (West Point, Annapolis and the Air Force Academy) are free but highly competitive. Also available are the Reserve Officer Training Corps (ROTC) scholarships, educational benefits for joining the Reserves or the National Guard, and educational programs for enlisted men and women.

8. Correspondence Courses. Students can take inexpensive correspondence courses from an accredited school that can be accepted for transfer to a community and/or four year school.

9. Special Programs. Some schools reduce tuition for students of alumni and students with good grades. There are also special programs for women and minorities.

10. Early Payment. Some schools are reducing tuition if the entire college costs are paid in advance. Some schools are even allowing parents with new born children to pay for the child's college costs at today's prices.

11. Veteran's Dependents. There are some educational benefits available to dependents of deceased or disabled veterans. Some may be eligible under benefits of the GI Bill. Others may be able to attend service academies without competing.

12. ConSern Program. The ConSern program of the U.S. Chamber of Commerce has a virtually unlimited pool of funds to use for loans. Additional information can be obtained by telephoning 1-800-505-LOAN.

13. Other Sources. Military officer, enlisted and service associations offer college assistance funds. Assistance can also be obtained from community organizations and labor unions. 6

The living estate you establish should consider college costs if you have children. In recent years, the tax laws have eliminated many of the financial vehicles that could be used to benefit minors, especially for college expenses. Consult a tax consultant or refer to the latest tax preparation guide. However, there are few ways to set aside funds for minors that have benefit over a normal investment.

1. Outright Gifts. An outright gift of $10,000 per adult for each child can be given without being subject to gift tax. The gift can be in the form of money or securities. Naturally, the child will be liable for tax on the interest but this will usually be at a lower tax rate than the adult if the child is 14 or older. If the child is younger than 14, the interest is taxed at the parents tax rate. But these gifts are irrevocable.

2. Gifts to Colleges. There are certain situations where gifts can be given to colleges with the provision that the earned income be used to fund a child's tuition and after graduation a scholarship fund be established.

3. Home Equity Loans. This is a very popular way of borrowing money and is still getting some tax relief on the interest payed.

4. Savings Bonds. As of January 1, 1990 United States Series EE savings bonds can be purchased and the interest is tax-free as long as the entire principal and interest are used for college costs. 7

After evaluating your financial situation and alternatives available, it may be necessary to obtain a college loan. College Loans. Figure 11 outlines some of the typical loans available. The loan rates in the table are likely to vary. The "need" means you can get the loan if you qualify for financial aid.

TAX-SHELTERED RETIREMENT PLANS

Tax-sheltered retirement plans are another alternative for building your living estate. The most popular is the Individual Retirement Account (IRA). But, the tax code has changed so only certain taxpayers can qualify for an IRA. The annual contribution can be subtracted from your taxable income for singles with an adjusted gross income below $25,000 and married couples filing joint returns with less than $40,000. Part of the contribution can be deducted for singles with income between $25,000 and $35,000 and joint filers between $40,000 and $50,000. The deduction is eliminated for singles above $35,000 and joint filers above $50,000. The contribution should be made as soon in the year as possible. It can be made as early as January 1 of the tax year or as late as April 15 of the following year. And, IRAs can be opened into most any kind of investment as long as a custodian is utilized. However, it doesn't make sense to invest in tax-free instruments since the contribution and the earnings are tax deferred until they are withdrawn.

IRAs are very flexible accounts that may be invested in anything from a savings account, mutual funds, bonds or real estate partnerships. But the account must be opened specifically as an IRA account and the Internal Revenue Service must certify the institution and the account. In the case of a disability prior to age 59 1/2 the funds may be withdrawn without penalty. And in the case of death, the funds are collected by the beneficiary without penalty. If taxes have been deferred on either the contribution or the growth and income generated, the taxes are paid upon withdrawal which can usually start at age 59 1/2. Also, if individuals continue to work past 70 1/2 they can generally roll the funds over into a new company plan if they change employers or they can put it into an IRA. Early withdrawals of contributions that have been excluded from income tax will become taxable and may face a 10% penalty by the IRS. Generally, when an employee leaves a company after an eligibility period or retires, the amount credited to the employee's account is collected by the employee. The employee can roll-over the funds into a new company's plan or into an IRA.

Spouses are often in a situation of being able to participate in private retirement plans which can significantly enhance a families financial well being. While on active duty, military members can also set-up an pension plan if they are self-employed on a part-time basis such as with a hobby. The Tax-Sheltered Retirement Plans, Figure 12 outlines characteristics for various plans.

TRUSTS

Trusts can serve to provide effective property management with a side benefit of reducing or avoiding income, estate and/or gift taxes. Currently, an estates must be valued over $600,000 before it is federally taxed. But, with many homes in the $300,000 price range, you may be closer to the $600,000 threshold than you expect. Your Net Worth Worksheet, Figure 3 will help you determine your estate value. The players in a trust are as follows:

1. Trustor. The person who establishes the trust.

2. Trustee. The person/ institution to whom the property (trust corpus or principal) is transferred. This person/ institution then has "legal" title to the property.

3. Beneficiaries. The person/ institution who have "equitable" title to the property. There are two types of beneficiaries:

A. Income Beneficiaries. They have use of the property for a certain time.

B. Remainder Beneficiaries. They take the property after the income beneficiaries period ends.

Trusts are usually established by a lawyer, but many local banks also have trust departments for specific types of trusts. The several types of trust are summarized in Trusts, Figure 13. Probably the most important aspect of establishing a trust is to select a trustee who will have longterm loyalty and financial capability. 8 Before entering into a trust, consult with a lawyer and/or a financial advisor. You may also want to read several financial books which can provide you with lessons-learned and clauses to consider.

INVESTMENTS

Certainly there are an unlimited number of investment instruments available. The difficulty is to assess these instruments and decide how they could fit into your investment strategy. The other challenge is to be able to compare different investment instruments to determine the relative merits of each. The intent of the Investment Performance, Figure 14 is to show the differences for various financial areas. The figure divides the instruments into two categories. First are fixed dollar investments. These investments earn a definite yield while the invested amount does not grow except for the earnings. The second are variable dollar investments. These investments have a rate of return that will vary depending on many factors such as the growth of the company or industry, changes in government policies, etc.. Although the yield is not guaranteed, it will generally be greater than fixed dollar investments because the risk is generally greater. This will allow the individual to assess the alternatives and decide which course of action to pursue or at least get additional information. The bibliography provides sources available at local libraries for this additional information.

While most of the headings of the Investment Performance, Figure 14, there are a few items of explanation.

1. Overall risk - the safety level, considering inflation, deflation, business, interest and market volatility.

2. Probable yield - the payment prior to taxes.

3. Appreciation of capital - the increase in value of the principal invested.

4. Liquidity - the time required to convert the investment to cash.

5. Maturity - the time for the principal to be returned.

6. Inflation protection - does the principal grow with time to outpace inflation.

7. Volatility - the impact on the value of the investment from the rise and fall of the market.

Each investment instrument has unique characteristics. The Investment Information, Figure 15 outlines some of these characteristics. Here are a few words of explanation of the table.

1. Usual minimum investment - the minimum amount of money to start the investment.

2. Management required - the amount of time required by you to manage the investment.

3. Initial fee - the amount of money paid to the company or broker to initiate the investment.

4. Suitable for mutual funds - are mutual funds available that deal in these types of investments.

5. Tax liability - what portion of the investment are subject to taxes.

6. Important advantage - the single chief advantage of the investment.

7. Major disadvantage - the single chief disadvantage of the investment. 9

Since mutual funds are very popular investments, there are several things to consider before you buy.

1. Go to the library and look at the September issue of "Forbes" magazine for the annual review of mutual funds. This issue reviews the performance of mutual funds and provides addresses and telephone numbers for each of the funds. Take a look at the the "Honor Roll of Mutual Funds".

2. Write or telephone the company for a prospectus.

3. Look at the prospectus for the performance over the last year, five years and ten years. Especially consider how the fund performed during major market downturns. Note if the fund's manager can shift out of stocks into U.S. Treasury instruments that can give protection during market losses. The prospectus will indicate if the fund can be purchased directly from the company (no-load) or from a broker (load).

4. Take a hard look at large funds that may find it difficult to shift investments easily. Smaller funds usually have greater flexibility.

5. Funds that are a part of a family of funds provide flexibility in switching between funds depending upon the economic outlook.

6. Diversify money in funds with different investment objectives. If a fund specializes in a single industry or geographical region, it may be wise to diversify between funds. 10

If you decide to use a broker to manage part of your investments, there are several types of brokers available.

1. Banks. They usually deal in certificates of deposit, bonds and some money market mutual funds.

2. Discount Brokers. They usually do not provide advice, but only buy and sell a full range of investments at discounted commissions. There are two categories of discount brokers. Value brokers have their commissions based on the value of the transaction. While share brokers have their commissions based on the number of shares purchased.

3. Full-line Brokers. They provide market research and services that include checking, credit cards, mutual funds, stocks and bonds. 11

Most financial banks, especially the larger commercial banks, have various department to assist individuals. These services range from financial/ estate planning, trust departments to investment corporations. The fee for the financial/ estate planning services can be $2000-$6000. But, the financial counselors will provide an unbiased, objective view of methods to obtain your financial goals, how adequately you are meeting your insurance requirements, alternatives for financing college, the outlook for retirement finances and ways to structure your estate. Certainly, this service is not cheap, but if you are in a quandary about your financial matters and are unwilling to accomplish the leg-work to get smart, then perhaps this is a viable alternative. However, the people in the trust departments and investment corporations can provide a wealth of assistance at no charge. The only time there is a fee is if you purchase certain instruments from the investment corporation which operates like a brokerage house.

If you decide to use a broker affiliated with either a bank or a brokerage house, you need to find out what kind of insurance the firm has to protect your account if the firm experiences financial troubles and/or declares bankruptcy. You don t want your account lost or tied-up in litigation for months or years. Also, there are several questions you should ask a broker.

1. Have you done the research on this stock or has an analyst?

2. Do you consider the stock undervalued?

3. What rate of earnings growth can I expect?

4. How do you know the company is well managed?

5. Why should I buy this stock now?

6. How does this stock fit in with my overall strategy?

7. Who are the large shareholders in this company?

8. What are the chances that the stock will go down instead of up?

9. Where is the stock traded?

10. Is this stock better than the one you mentioned last week? 12

MORTGAGE VARIETIES, FIGURE 9

Type	Description	Considerations
Fixed-rate mortgage	-Fixed interest rate, usually long-term -Equal monthly payments of principal and interest until debt is paid in full	-Offers stability and long-term tax advantages -Limited availability -Interest rates may be higher than other types of financing -New fixed-rate mortgages are rarely assumable
Flexible-rate mortgage	-Interest rate changes are based on a financial index, resulting in possible changes in monthly payments, loan term and/or principal -Some plans have rate or payment caps	-Readily available -Starting interest rate is slightly below market, but payments can increase sharply and frequently if index increases -Payment caps prevent wide fluctuations in payments but may cause negative amortization -Rate caps, while rare, limit amount total debt can expand
Renegotiable-rate mortgage (rollover)	-Interest rate and monthly payments are constant for several years; changes are possible thereafter -Longterm mortgage	-Less frequent changes in interest rate offers some stability
Balloon mortgage	-Monthly payments based on fixed interest rate; usually short-term -Payments may cover interest only, with principal due in full at end of term	-Offers low monthly payments but possibly no equity until loan is fully paid -When due, loan must be paid off or refinanced -Refinancing poses high risk if rates climb
Graduated payment mortgage (GPM)	-Lower monthly payments rise gradually (usually over 5-10 years), then level off for duration of term	-Easier to qualify for -Buyer's income must keep pace with scheduled payment increases
Graduated payment adjustable mortgage (GPAM)	-Similar to graduated payment but flexible interest rate -Additional payment changes are possible if index changes	-With flexible rate, payment increases beyond the graduated payments can result in additional negative amortization
Shared appreciation mortgage	-Below-market interest rate and lower monthly payments in exchange for a share of the profits when property is sold or on a specified date -Many variations	-If house appreciates greatly, total cost of loan jumps -If house fails to appreciate, projected increase in value may still be due, requiring refinancing at possibly higher rates
Assumable mortgage	-Buyer takes over seller's original, below-market rate mortgage	-Lowers monthly payments -May be prohibited if due-on-sale clause is in original mortgage -Not permitted on most new fixed-rate mortgages
Seller take-back	-Seller provides all or part of financing with a first or second mortgage	-May offer a below-market interest rate -May have a balloon payment requiring full payment in a few years or refinancing at market rates which could sharply increase debt

MORTGAGE VARIETIES, FIGURE 9 (continued)

Type	Description	Considerations
Wraparound	-Seller keeps original low rate mortgage -Buyer makes payment to seller, who forwards a portion to the lender holding original mortgage -Offers lower effective interest rate on total transaction	-Lender may call in old mortgage and require higher rate -If buyer defaults, seller must take legal action to collect debt
Growing equity mortgage (GEM) (rapid payoff mortgage)	-Fixed interest rate but monthly payments may vary according to agreed-upon schedule or index	-Permits rapid payoff of debt because payment increases reduce principal -Buyer's income must be able to keep up with payment increases
Land contract	-Seller retains original mortgage -No transfer of title until loan is fully paid -Equal monthly payments based on below-market interest rate with unpaid principal due at loan end	-May offer no equity until loan is fully paid -Buyer has few protections if conflict arises during loan
Buy-down	-Developer (or third party) provides an interest subsidy which lowers monthly payments during first few years of the loan -Can have fixed or flexible interest rate	-Offers a break from higher payments during early years -Enables buyer with lower income to qualify -With flexible-rate mortgage, payments may jump substantially at end of subsidy -Developer may increase selling price
Rent with option	-Renter pays "option fee" for right to purchase property at specified time and agreed-upon price -Rent may or may not be applied to sales price	-Enables renter to buy time to obtain down payment and decide whether to purchase -Locks in price during inflation times -Failure to take option means loss of option fee and rental payments
Reverse annuity mortgage (equity conversion)	-Borrower owns mortgage-free property and needs income -Lender makes monthly payments to borrower using property as collateral	-Can provide homeowners with needed cash -At end of term, borrower must have money available to avoid selling property or refinancing
Zero-rate and low-rate mortgage	-Appears to be completely or almost interest-free -Large down payment and one-time finance charge -Loan repaid in fixed monthly payments over short term	-Permits quick ownership -May not lower total cost (because of possibly increased sales price) -Doesn't offer long-term tax deductions
Two-step	-Combines adjustable and fixed rate features -First 7 years rate is 3/8 below 30 year fixed rate -Remaining 23 years, rate is set at 2.25 to 2.5 points higher than 10 year Treasury Notes -No additional fees or charges at readjustment time	-Advantageous to military and families with regular moves -Advantageous to first-time home buyers who expect to buy-up in houses in 7 years

SOURCE: 13, 14

CONSUMER CREDIT SOURCES, FIGURE 10

Credit Sources	Type of Loan	Lending Policies	Cost Comparisons	Common Range of Rates	Services
Commercial banks	-Single payment loans -Personal installment loans -Passbook loans -Check-credit plans -Credit card loans -Second mortgages	-Seek customers with established credit history -Require collateral or security -Prefer to deal in large loans -Determine repayment schedules according to loan purpose -Vary credit rates according to type credit, time, customer history and security offered -Several days to process loan	-Lower than some lenders --Take fewer credit risks --Lend depositor's money --Deal mainly in large loans	-15-18% credit card and check credit plans -11-18% unsecured loans -8 1/2 - 13 1/2% secured loans and passbook loans -12-15% second mortgages	-Offer several different types of consumer credit plans -Offer financial counseling -Handle credit transactions confidentially
Consumer finance companies	-Personal installment loans -Second mortgages	-Often lend to customers without established credit history -Often make unsecured loans -Often vary rates due to loan size -Variety of repayment schedules -Higher percentage of small loans -Maximum loan size limited by law -Process loans quickly	-Higher than some lenders --Take greater credit risks --Must borrow and pay interest on money to lend --Deal frequently in small loans	-15-36% personal loans -13-20% second mortgages	-Provide credit promptly -Make loans to pay off accumulated debts willingly -Design repayment schedules to fit the borrower's income -Offer financial counseling -Handle credit transactions confidentially
Credit unions	-Personal installment loans -Share draft-credit plans -Credit card loans -Second mortgages	-Lend to members only -Make unsecured loans -May require collateral/cosigner for certain size loans -May require payroll deduction to pay off loan -Variety of repayment schedules	-Lower than some lenders --Take fewer credit risks --Lend money deposited --Receive free office space --Are managed by members --Have federal income tax exemption	-9-15%	-Design repayment schedules to fit borrower's income -Generally provide credit life insurance without extra charge -Offer financial counseling -Handle credit transactions confidentially

CONSUMER CREDIT SOURCES, FIGURE 10 (continued)

Credit Sources	Type of Loan	Lending Policies	Cost Comparisons	Common Range of Rates	Services
Life insurance companies	-Single or partial payment loans	-Lend on cash value of policy -No date or penalty on repayment -Deduct loan amount from death benefit if death occurs before loan repayment	-Lower than some lenders --Take no risk --Pay no collection costs --Secure loans by cash value of policy	-5-8% (stated in policy)	-Permit repayment at anytime -Handle credit transactions confidentially
Savings and loan associations	-Personal installment loans -Home improvement loans -Education loans -Savings account loans -Second mortgages	-Will lend to all credit worthy individuals -Require collateral -Loan rates vary depending on size of loan, length of payment and security involved	-Lower than some lenders --Lend depositor's money --Secure most loans by accounts or real estate	-7 1/4 - 14% savings account and other secured loans -13-20% second mortgages	-Offer financial counseling -Specialized mortgages and other housing-related loans -Handle credit transactions confidentially

SOURCE: 15

COLLEGE LOANS, FIGURE 11

Category/Type	Interest Rate (%)	Terms (years)	Maximum per year ($)	Restrictions
FEDERAL LOANS ****				
Carl D. Perkins National Direct Student Loan	5	10	2,250	Generally reserved for families with incomes less than $30,000
Guaranteed Student Loan (GSL)	8% for first four years, 10% after	10	2,625 in each of first two years, $4,000 in years 3&4	Families with incomes over $30,000 must pass an additional test
Supplemental Loan for Students and Loans for Parents	3.75 points above 1-year Treasury bill rate; 12% cap	10	4,000	Open to all
STATE LOANS *****				
Connecticut Family Education Loan	10.98	11.75	10,000	Student must attend a Connecticut school
Iowa Higher Education Loan	11	10	5,000	Student must attend a Iowa private school
Louisiana Association of Independent Colleges and Universities Loan	10.8	12	4,000	Student must attend one of six participating private schools
COLLEGE LOANS *****				
Emory University Student-Parent Loan	7	12	9,250	Student must be ineligible for scholarships
Stanford University Parent Loan	9.25	8	15,908	Family must have income over $25,000
Northwestern University Parent-Student Loan	8.25	6	11,000	Family must have income over $100,000
COMMERCIAL LOANS *****				
Knight Insurance Agency Extended Repayment Plan	10.25	10	100% of college costs	None
Tuition Plan	15.95	10	100% of college costs	Borrower must be a resident of one of 38 participating states
Mellon Bank Edu-Check Program	12.4	8	100% of college costs	None
ConSern, U.S. Chamber of Commerce	Variable	15	25,000	None

SOURCE: 16

TAX-SHELTERED RETIREMENT PLANS, FIGURE 12

Type of Taxpayer	Type of Plan	Eligibility Requirements	Maximum Annual Contributions	Financial Benefits for Planholder
-Self employed person (sole proprietor or partner) -Part-time self-employed person	-Keogh	-All employees with 3 years of service must be included, with contributions made on same percentage basis as employer's	-15% of self-employment income but not more than $15,000 a year per self-employed	-Contribution is tax deductible -Growth and income generated not subject to current taxes -Assets not attachable in event of personal bankruptcy -Benefits 100% vested at all times
-Individual	-IRA (Individual Retirement Account	-Earned income -Under age 70 1/2	-100% of earned income, but not more than $2,000 if adjusted gross income is less than $40,000	-Same as above
-Individual with non-working spouse	-Marital IRA	-Married couple filing joint return -Each under age 70 1/2 -Only one has earned income	-100% of earned income, but not more than $2,250 if adjusted gross income is less than $40,000 -Separate account for each spouse with a maximum of $2,000 to any account	-Same as above
-Recipient of a qualifying rollover distribution from a tax-sheltered retirement plan either: --through retirement or termination of employment --through termination of plan while still employed --death of employee(spouse)	-Rollover IRA	-Recipient must receive entire balance within one taxable year	-No limit -Entire distribution may be rolled over except non-deductible employee contributions -Partial rollovers are allowed, but the amount not rolled over is taxed as ordinary income	-Same as 2,3 and 4 for Keogh -No taxes paid on distribution -Full amount available for investment -Terminated plans taxable as ordinary income
-Employee of non-profit organization (educational, medical, religious, etc)	-403(b)	-Generally participation by employee voluntary	-$45,475 or 20% of compensation from employer, whichever is less...plus catch-up provision for prior low-contribution years	-Contribution subtracted from total taxable income of planholder -Same as 2,3 and 4 for Keogh

TAX-SHELTERED RETIREMENT PLANS, FIGURE 12 (continued)

Type of Taxpayer	Type of Plan	Eligibility Requirements	Maximum Annual Contributions	Financial Benefits for Planholder
-Employee of state & local governments -Independent contractor to state & local government	-Deferred Compensation Plan	-Performs services for state & local government as	-$7,500 or 25% of gross compensation, whichever is less...plus limited catch-up provision	-Contribution subtracted from total taxable income of planholder -Growth and income generated not subject to current taxes
-Corporation	-Profit Sharing: contributions come from profits at employer's discretion -Money Purchase Pension: contributions are required based on salary -Defined Benefit Pension: contributions are required	-Employees meeting specified age (25) and service (1 yr.) requirements -Certain classes can be excluded if non-discriminatory	-Whichever is less: --$45,475 or 15% (Profit Sharing) --$45,475 or 25% (Pension) --$45,475 or 25% (Combined Profit Sharing and Pension)	-Contributions not included in employee's taxable incomes -Growth and income generated not subject to current taxes -Assets not attachable in event of personal bankruptcy
-Subchapter S Corporation (corporation taxed as if a partnership	-Same as above	-Same as above	-15% of compensation but not more than $15,000 a year per participant	-Same as above
-Employers (and their employees)	-Simplified Employee Pension(SEP): a form of IRA with a maximum contribution	-Generally all employees age 25 who have worked for employer 3 of the last 5 calendar years	-15% of compensation but not more than $15,000 a year per participant	-Contribution is tax deductible -Growth and income generated not subject to current taxes -Assets are not attachable in event of personal bankruptcy -Benefits 100% vested at all times

TAX-SHELTERED RETIREMENT PLANS, FIGURE 12 (continued)

Type of Taxpayer	Type of Plan	Eligibility Requirements	Maximum Annual Contributions	Financial Benefits for Planholder
-Employers (and their employees)	-Thrift Plans	-Same as above	-2-6% of after tax compensation by employee	-Employer usually matches 25-50% of employee's contribution -Growth and income generated not subject to current taxes
-Employers (and their employees)	-Salary Reduction Plan: 401(k) and Cash or Deferred Arrangement (CODA)	-Same as above	-Maximum employee contribution is $7,300 a year -Employers may not contribute more than 15% of the total company compensation in any one year	-Part of employees compensation is saved in an employee plan -Company matches half of the employee's contribution -Contributions and growth/income generated are tax deferred until withdrawn -Some companies offer shares of company stock
-Employers (and their employees)	-Employee Stock Ownership Plan (ESOP)	-Same as above	-Employees usually collect 5-15% of compensation	-Employer offers shares of stock to employees -Employer receives a tax break and can borrow against trust

Source: 17, 18, 19

TRUSTS, FIGURE 13

Item	Trust Type			
	Irrevocable Living	Revocable Living	Testamentary	Unfunded Life Insurance
Characteristics	-Trustor gives up property forever	-Trustor can revoke trust -Created and operated during trustor's life	-Created by will	-Funded by trustor s life insurance proceeds -Can be revocable or testamentary
Nontax Benefits	-Supervised control and investment -Avoids probate	-Supervised control and investment -Avoids probate	Supervised control and investment	-Like revocable or testamentary
Income Tax	-Taxed to beneficiary	-Taxed to trustor	-Taxed to beneficiary	-Like revocable or testamentary
Estate Tax	-Not taxable in trustor's estate	-Includible in trustor's estate	-Includible in estate of creator	-Like revocable or testamentary
Gift Tax	-Taxable to trustor	-No liability	-No liability	-No liability

SOURCE: 20

INVESTMENT INFORMATION, FIGURE 15

Name/Type	Usual Minimum Investment	Management Required	Initial Fee	Suitable for Mutual Funds	Tax Liability	Important Advantage	Major Disadvantage
FIXED DOLLAR INVESTMENTS							
Savings Accounts	None	None	No	No	Interest	High liquidity	No inflation protection
Time Deposits and Certificates	$500	None	No	Yes	Interest	Safety	Limited liquidity
Corporate Bonds	$1,000	Moderate	Yes	Yes	Interest and gain/loss upon sale or maturity	High yield	No inflation protection
Municipal Bonds	$5,000	Moderate	Yes	Yes	Gain/loss upon sale or maturity	Tax advantage to investors in higher tax brackets	No inflation protection
Treasury Bills, Notes and Bonds	$10,000 bills $1,000 notes $1,000 bonds	Little to moderate	Yes/no	Yes	Interest	No state taxes, deferred federal taxes	No inflation protection
VARIABLE DOLLAR INVESTMENTS							
Common Stocks	Varies	Moderate to substantial	Yes	Yes	Dividends and gain/loss upon sale	Potential high yield	Stock prices forced down by rising interest rates
Mutual Funds	Varies	Moderate	Yes/no	Yes	Dividends and gain/loss upon sale	High liquidity and rate of return	Some price fluctuations
Money Market Funds	$500	None	No	Yes	Interest	Liquidity	Rate fluctuation
Life Insurance and Annuities	Varies	None	Yes	No	Deferred to maturity	Forced savings	Low rate of return
Real Estate	Varies	Moderate to substantial	Yes	Yes	Gain/loss upon sale and income sheltered by depreciation	Potential high appreciation	Slow liquidity

Source: 25, 26

INVESTMENT PERFORMANCE, FIGURE 14

Name/Type	Overall Risk	Probable Yield (%)	Appreciation of Capital	Liquidity	Inflation Maturity	Protection	Volatility
FIXED DOLLAR INVESTMENTS							
Savings Accounts	Very Low	5-15	Generally not possible	1 Day	N/A	Almost none	Very low
Time Deposits and Certificates	Very Low	6-12	Generally not possible	1 Day, but may be a penalty	90 Days to 10 Years	Low	Very low
Corporate Bonds	Generally moderate	5-18	Potential increases with maturity terms	1 Week	Up to 30 Years	None	Low
Municipal Bonds	Generally moderate	3-11	Potential increases with maturity terms	1 Week	Up to 30 Years	None	Moderate
Treasury Bills, Notes and Bonds	Very low	7-11	Potential increases with maturity terms	1 Week	90 Days to 30 Years	Very low	Low
VARIABLE DOLLAR INVESTMENTS							
Common Stocks	Moderate to high	0-25	Possible	1 Week	Sold any time	Generally good	High
Mutual Funds	Moderate to high	0-25	Varies with type fund	1-2 Weeks	Sold any time	Generally good	Moderate to high
Money Market Funds	Low to moderate	6-11	Generally not possible	1 Week	N/A	Moderate	Very low
Life Insurance and Annuities	Low	[illegible]-9	Generally not possible	2-4 Weeks	10 Years to Life	None	Very low
Real Estate	Moderate to high	5-25	Quite possible	2 Months to 2 Years	N/A	Generally Good	Moderate

Source: 21, 22, 23, 24

ENDNOTES

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CHAPTER VI

STRATEGY

A theme throughout financial books is you must take charge of your financial interests and make some decisions on when, how and how much to invest, save and spend. It is usually a mistake to make no decisions and travel through life in limbo. This often leaves you uneasy and frustrated. There are several common actions to be taken to preserve and protect what you have and help it grow. It is anticipated these steps will be taken sequentially as your surplus of funds increases.

1. Establish a cash reserve to be used for emergencies. This should usually be three months of your after-tax income. It should be placed in a savings certificate in a federally insured institution or in a money-market mutual fund.

2. Begin investing a regular monthly amount. This will discipline you to invest and will dollar-cost average your investment. As this amount grows, you can begin to diversify the funds into higher growth investments which will naturally be at increased risk.

3. Take steps to reduce your tax liability. This will help this year and future years. Consider buying tax-free municipal bonds, tax-free mutual funds, company pension funds or tax-deferred investments.

4. Establish an Individual Retirement Account (IRA). If you fall within the adjusted gross income range, the annual contribution can be subtracted from your taxable income.

5. Open a Keogh account if eligible. Keogh plans work like IRAs but you can invest a lot more money into them. To open a Keogh account you must be self-employed either full-time or part-time. But, the contribution to Keogh accounts must be made during the taxable year.

6. Save money on your insurance policies (life, auto, health, etc) and make sure you have the right kind of policies and coverage. For life insurance, you probably should consider a combination of term and whole-life insurance and only the amount you need. For auto insurance, consider the age of your cars and the impact on your premium if you increase the deductible amount. For health insurance, how much is needed beyond catastrophic illness. Often, the money you save can be placed in a mutual fund or other sound investment and potentially give you greater financial security and independence.

7. Save money by giving it away. Put money in the name of close relatives who are in a lesser tax rate, especially children and grandchildren. A trust or college fund is an excellent way to transfer money and reduce your tax liability.

8. Prepare a will and keep it current. This will clearly say how you want your estate distributed, but it can also significantly reduce the tax liability of your assets. It is usually recommended your will be drafted by an attorney and updated every three years.

9. Keep current on news affecting your money. This can be done by reading the business section of the newspaper, business magazines and financial news letters.

There are certainly many more actions that can be taken, these are just a few. But, if taken, they can certainly get you started on a financial plan. 1

Once the amount from your regular monthly investment begins to grow, you need to consider various investment instruments. The unanimous recommendation from investment counselors is to diversify. Considering the size of your investment dollars, your age and your financial goals; it is valuable to develop certain guidelines so you know when to invest in particular instruments. The following strategy is an example of how to build your assets as the total size of your investment dollars increases.

1. Savings account built to match six months of income. This savings account will serve as an emergency fund.

2. Opening of money fund account with two thirds of savings. This portion of savings will potentially earn a higher yield with little increase in risk.

3. Contribute to employer's pension plan. Start contributing to an employer's pension plan since the employer will usually match the employee's contribution. Also, the earnings are tax deferred until the retirement funds are withdrawn.

4. IRA started with certificate of deposit. The IRA has the double benefit of reducing current taxable income and deferring taxes on the earnings until the funds are withdrawn after age 59 1/2.

5. Purchase a residence. A residence will permit leveraging a mortgage with a small downpayment while anticipating the residence to appreciate in value.

6. Excess savings go into growth stock mutual fund. This should be a regular monthly investment which will provide the benefit of dollar-cost-averaging for mutual fund purchases. The fund will permit the investment to grow at a greater rate than savings accounts with usually an acceptable increase in risk.

7. IRA builds to $10,000, shifted to mutual fund. The mutual fund should provide a higher yield with an acceptable increased risk. Remember, don't select a tax-free fund since the IRA is already tax-deferred.

8. Non-IRA savings transferred to stock portfolio or diversify in mutual funds. Now will be the time to decide if the non-IRA savings should be directed toward a stock portfolio managed by a broker or to diversify into several mutual funds. For those that have the time and interest, a self-directed stock portfolio can be pursued. For others, diversification in mutual funds may be the prudent approach.

9. IRA into self-directed stock portfolio or diversify in mutual funds. The usually advice is to invest IRA funds in conservative instruments since this is an individuals retirement nest egg.

10. Growth-income stocks or comparable mutual funds for IRA. This will provide for the investment to appreciate with conservative risk.

11. Aggressive growth stocks or comparable mutual funds for non-IRA. This will increase the potential for growth, but will also increase the risk.

12. Some tax-free bonds in non-IRA. It is assumed the individual will at least be in the 33% tax bracket and will need a tax free investment to reduce their tax liability.

13. Portfolios now heavy with fixed incomes. Pension plans, IRAs and non-IRAs portfolios are well established to provide an adequate living estate.

14. Retirement. Now will be the time to start taking advantage of retirement and deciding at what rate to withdraw funds from your investment portfolios. 2,3

As you are able to build your investment amount and proceed down this strategy, you should keep as much as possible under the IRA tax-deferred umbrella. And don t take needless risks with an IRA since the tax status permits good returns on conservative investments. Tax-free municipal bonds are probably worth considering for non-IRA funds if you are in the 33 percent tax bracket. And certainly mutual funds, especially no-load funds with low administrative fees, can provide attractive returns.

Now is the time to make some investment decisions. However, before you take that step, you need to decide if and how much money you have available for investments. You must determine if you can provide additional funds to build your investment portfolio. The following steps are recommended at this point:

1. Determine if any of your current investments are poor performers.

2. Look at the trend of each investment to determine if the trend is in line with your goals.

3. After reviewing the family budget, determine if there are additional funds that can be shifted from current expenditure areas to investments.

4. Review the insurance figures and decide if any changes should be made to provide better coverage at perhaps a reduced premium.

5. Review the pension figures and determine if you are taking full advantage of plans available to you and/or your spouse.

6. Review the Investment figures and decide if there are other investments that should be considered if and when additional investment funds become available from:

a. The conversion of current "poor" performing investments,

b. Additional funds from the family budget or,

c. Revisions of current insurance practices.

You must also consider your tax bracket. As an example for taxpayers filing a joint return, currently there are three brackets: for taxable income up to $30,200 the tax rate is 15%, for taxable income from $30,201 to $74,000 the tax rate is 28% and above $74,001 the tax rate is 33%. Thus each dollar above $30,200 is taxed at 28%. Therefore, it may be worthwhile to consider tax free instruments once you reach this taxable level. A federally taxed investment at 8% yield would be an effective yield of 6.8% after taxes at the 15% rate and only 5.8% at the 28% tax rate. When state taxes are considered the yield may be further reduced.

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CHAPTER VII

CONCLUSIONS

It is expected that when a financial decision becomes necessary, you should be better prepared to determine a course of action. The following outlines several considerations.

1. Review the value of assets at the current time.

2. Review the non-discretionary needs ahead, such as college.

3. Liquidate an existing investment.

4. Establish a new loan (review consumer credit and mortgage options).

5. Reduce the amount of the requirement, such as buying new furniture.

6. Delay or eliminate the need for the funds, such as buying a new car this year.

This paper serves as a beginning for senior military officers to assess their current financial position. It has provided an overview of some of the financial opportunities available. The sequence of evaluating your financial well-being and establishing an investment course of action should be:

1. Assessment. You must know where your money is committed and invested and determine if your net worth is increasing.

2. Analysis. You must review your monthly cashflow and decide if funds can be shifted to investments.

3. Adjustment. You must decide if you can shift some of your revenue so more can be available for investment .

4. Alternatives. You must determine if there are alternatives that can increase your living estate at an acceptable risk.

5. Strategy. You must develop an investment strategy if your living estate is to increase.

APPENDIX 1

FINANCIAL NEWSPAPER ARTICLES

The following items were taken from the "Money" section included in the daily edition of the "The Washington Times". Listed with the information will be the date of the newspaper.

- Can a stock that was purchased at $6,500 many years ago and is now worth $100,000 be given to a nephew without paying capital gains? (6 Mar 90)

-- The capital gains tax can be avoided by making the stock a gift since gifts are not subject to capital gains tax.

-- There might be a federal gift tax.

-- The Internal Revenue Code allows $10,000 by an individual ($20,000 for those filing a joint return) to be given to as many people as you please without filing a federal gift return.

-- Also, any gifts you make subject to the gift tax reduces the $600,000 ($1.2 million for joint filers) limit you can leave free of federal estate tax.

- There are several important tax changes for 1989 for taxpayers with children (2 Mar 90)

-- Dependency Exemptions: Children under the age of 24 and are full-time students may be claimed.

-- Kiddie Tax: For children under age 14 and with unearned income (interest and dividends) over $1,000 will be taxed at the parent's tax rate. The kiddie income may be reported on the parent's return in lieu of filing a separate return.

-- Child Care Credit: Child care credit may be claimed for children under age 13.

-- U.S. Savings Bonds: Taxpayers may switch back and forth between paying taxes on interest on their current return or postponing it to the future.

- Veterans Administration (VA) guaranteed loans after 1 Jan 90 have several important changes. (9 Mar 90)

  -- A 1.25 funding fee will be paid to VA (not the lender) for new loans.

  -- The loan applicant will be free of liability for a default on the loan while they own the property or if the loan is assumed except in the case of fraud or bad faith.

  -- VA has increased the amount of its guarantee to $46,000 which permits a no-down payment VA mortgage for as much as $184,000.

- Brokerage houses have insurance to protect customers should a brokerage firm fail. (14 Feb 90)

  -- Firms doing business with the public are required to be a member of the Securities Investor Protection Corp. (SIPC) which was created by an act of Congress in 1980.

  -- The SIPC requires the firm to protect each account up to $500,000 with no more than $100,000 in cash.

  -- The SIPC is funded from annual assessments on brokerages and many also have private insurance.

  -- The SIPC may also borrow up to $1 billion from the U.S. Treasury to protect brokerage customers.

- Series EE U.S. Savings Bonds purchased after 1 Jan 90 may have tax-free interest if used for college tuition. (12 Mar 90)

  -- The parent must be at least 24 years of age when the bond is purchased.

  -- All the proceeds from a redeemed must be used to pay college costs in same year the bond is cashed.

  -- In the year the bond is cashed, the adjusted gross income for joint income tax filers must be less than $60,000 and less than $40,000 for single filers. This tax break phases out when the adjusted gross income is $60,000 to $90,000 for joint filers and $40,000 to $60,000 for single filers.

- These are a few of the "audit triggers" tax experts say ordinary taxpayers should try to avoid. (2 Feb 90)

  -- Tax shelter activity: Real estate and other tax shelters with high write-offs.

  -- Returns prepared by preparers on the "Problem List": The IRS has a list of preparers who clearly violate the law.

  -- Travel and entertainment expense deductions: Keep good records and a diary.

  -- Business use of automobile deduction: Keep a detailed log book to support business and personal use of a car.

  -- Home office expense deduction: Stringent requirements must be met to qualify for the deduction.

-- Casualty losses: Only losses resulting from a "sudden, unexpected or unusual" event are allowed.

-- Hobby losses: The loss can only be as great as the profit from the hobby activity.

-- Barter income: The IRS is sensitive to abuses in this area and good records on business expenses are essential.

APPENDIX C

REAL ESTATE NEWSPAPER ARTICLES

The following items were taken from the "Mail Bag" column in the "Real Estate" section included in the weekly edition of the "Washington Post". Listed with the information will be the date of the newspaper. It is important to consider that a house probably represents the most significant investment a military officer has. When considering any of these ideas, it is advisable to consult a tax advisor, attorney and/or a certified public account. The tax rules are ever-changing so one has to stay current.

Owning ********

- Remodel/expand current home or buy a new home? (7 Oct 89)
  - -- Is the neighborhood satisfactory
  - -- Remodeling/expanding is usually cheaper than an equivalent new home
  - -- Property tax assessment will usually remain lower
  - -- Before hiring interview at least three contractors, inspect one of their previous jobs, check the state contractor's license board and the Better Business Bureau

- What are the consequences if a mortgage lender goes bankrupt? (23 Sep 89)
  - -- The mortgage payments will go to the bankruptcy trustee
  - -- The loan payments will not be accelerated but they will still be required

- Should the title for a home be in joint tenancy with rights of survivorship? (23 Sep 89)
  - -- This should be done by a husband and wife even in community property states
  - -- In community property states, spouses should indicate that their joint tenancy property is also community property as specified in IRS Revenue Ruling 87-98

Selling ********

- Avoid reduce tax liability when selling a $375,000 house and buying a $150,000 house and not yet 55 or older (7 Oct 89)
  - -- Move out of the house and rent it for at least 6-12 months before selling
  - -- This converts the house to rental property and eligible for an IRC 1031 tax deferred exchange of investment or business property
  - -- Acquire one or more rental properties, preferably houses, with the total acquisition price equal or exceeding the old house sale price
  - -- Will be taxed on any personal property "boot" such as cash or net mortgage relief received in the exchange

- Real estate agent s check bouncing (7 Oct 89)
  - -- A real estate agent's check should never bounce
  - -- The agent is either sloppy or has a problem bank
  - -- Report the matter to the real estate commissioner for investigation

- Can a tax-deferred exchange of profitable stocks for real estate be made without paying tax? (7 Oct 89)
  - -- Only "like kind" exchanges can qualify for tax-deferral

- Implications of selling inherited properties? (7 Oct 89)
  - -- The estate should pay any tax due
  - -- The properties are acquired at a new basis stepped-up to the market value on the date of death
  - -- If the properties are sold at or less than the market value there is no tax
  - -- If the properties are sold above the market value then a profit tax must be paid on the difference between the market value and the selling price

- Implications of selling a house that was deeded prior to a parent dying? (23 Sep 89)
  - -- If the house were not deeded prior to the death the house would have been inherited and the profit tax would be on that amount above $4000,000
  - -- The tax basis would be the market value at the time the house was deeded. This should be calculated on the sum of the father s half and the mother s half: the father s half will be the stepped-up basis at the time of his death; the mother s half will be half of the original purchase price plus any capital improvements.

- How can an inherited share in an apartment building be used? (23 Sep 89)
  - -- It may be sold to the other partners but may have to be at up to a 20% discount because it is difficult to sell partnership shares
  - -- It may be used as a down payment on a home or other property

- What are problems with indefinite contingency clauses? (23 Sep 89)
  - -- The clause doesn t specify when the contingency runs out and the contract then becomes voided
  - -- The buyer can put the seller on the hook in the following ways: wait until the buyer finds a buyer for his current house or wait until the buyer can arrange a maximum mortgage available at current interest rates or terms
  - -- Consider giving the buyer written notice to close in 30 days or consider the transaction canceled.

- How to get top dollar in a slow market? (23 Sep 89)
  - -- Get home in tiptop condition: paint inside and out, replace carpet, spruce-up landscape, repair and clean
  - -- Interview three local realty agents about selling with each one giving a "comparative market analysis" showing recent sales and current asking prices. This will also show proposed selling price
  - -- Raise the proposed selling price by 5-10 percent if the first or a second mortgage will be carried by the seller

- Should the profits from the sale of a house using the $125,000 over 55 rule tax exemption be used to pay-off a retirement home? (23 Sep 89)
  - -- If the sale profit is above $125,000 be sure to use the "rollover residence replacement rule" of IRC 1034 which can be combined with the $125,000 over 55 rule
  - -- Do not advise using all the cash to buy a retirement home
  - -- The 1987 Tax Act makes low down payments and big mortgages on a home purchase very smart
  - -- Interest can be deducted from a home acquisition loan up to $1 million and a home equity loan of up to $100,000
  - -- With low down payment and houses generally appreciating, the percentage returned per dollar invested is maximized
  - -- If cash is needed later for emergencies or investments, it may be difficult to borrow on the home equity
  - -- But the mortgage should not be so large that the mortgage can not be comfortably paid from available income

- When a seller rents a house for a short period after closing and before they move, is the rent taxed? (23 Sep 89)
  - -- The rental income is reportable on Schedule E
  - -- But will also deduct expenses such as mortgage interest, property tax, insurance, utilities and maintenance costs for the rental period

- What to do if a seller decides not to sell after signing a contract? (23 Sep 89)
  - -- Don't have to accept the seller's cancellation of the purchase contract
  - -- Legal recourse is a specific performance lawsuit against the seller
  - -- By recording a "lis pendens" against the seller's title, this prevents the seller form selling to another buyer

- How does the "over 55 rule" apply to recently a recently married couple who are both over 55? (19 Aug 89)
  - -- Internal Revenue Code section 121, the "over 55 rule" $125,000 home sale tax exemption, is available when the seller is 55 or older on the day of sale, has owned and lived in the principal residence at least three of the five years before sale, and has never used this tax break before
  - -- People who are 55 or over and plan to get married should determine if either has already used the exemption before
  - -- If the answer is yes, then the new spouse should consider selling his or her house before the marriage

- Can a recently married couple sell the residences and purchase another residence and avoid a profit tax? (19 Aug 89)

  -- IRS Revenue Ruling 75-238 says two taxpayers who own their principal residences can defer their profit taxes by selling their old homes and buying a principal residence where they both live

  -- The cost of the replacement must equal or exceed the total sales prices of the two former principal residences

  -- The replacement home must be purchased within 24 months from the sale date of the old principal residence

- Is the loss on the sale of a residence tax deductible? (19 Aug 89)

  -- If the residence was strictly used for personal residence up to the time of the sale then the loss is not tax deductible

  -- If the residence was converted to rental property and then sold, the house is considered as business or investment property and the loss is tax deductible

- What is the best way to delay a home sale but still lock-in the potential buyers? (19 Aug 89)

  -- Lease the home to the potential buyers

  -- Give a lease-option that provides the purchase option cannot be exercised until the desired date in the future

  -- Even if the potential buyer is a relative, require a substantial nonrefundable consideration for the purchasing option

- Should an "open listing" be considered is selling property? (19 Aug 89)

  -- An "open listing" is an invitation to one or more local real estate agents to find a buyer who makes an acceptable offer. If an agent finds a buyer, then he gets the full sales commission. If the seller finds a buyer, without the help of the agent, no sales commission is owed

  -- This is not recommended because no agent will work hard to sell the house

  -- Local multiple listing service (MLS) will not be used

Renting ********

- Shorter depreciation periods for residential rentals (7 Oct 89)

  -- No provisions for shorter depreciation periods due to local market conditions

  -- Tax law allows 27.5-year straightline depreciation for residential rentals and 31.5 year straightline depreciation for commercial property

- Should rental property be purchased in areas where the market has supposedly bottomed and is starting to rise slowly? (19 Aug 89)

  -- Do not invest in out-of-town properties because too many long distance investors lose money

  -- Often there are a lot of foreclosed properties and if the market start to rebound then the lenders will be flooding the market

- Can a residence that was converted to rental property be sold and the tax deferred on the sale profit? (19 Aug 89)

  -- Internal Revenue Code 1034 allows deferral of home sale tax when selling your principal residence if a replacement principal residence of equal or greater cost is purchased within 24 months of the sale

  -- Tax Court decision (Clapham 63 T.C. 505, 1975) allowed tax deferral where the seller took three years to sell the former residence

Buying ********

- Problem qualifying for a home loan? (7 Oct 89)

  -- Switch banks, consider a smaller community bank

- Are VA and FHA foreclosed houses worth considering? (7 Oct 89)

-- Be careful of the neighborhood, if it is improving it may be worth considering

-- May consider for rental

-- Major drawbacks could be noisy freeway, undesirable factory, underground water or floodway area.

-- If a defect, such as a rebuilt kitchen, can be cured may consider

-- Take a close look at the terms and the sale to value ratio

- Buying a lot in a large new recreational development? (7 Oct 89)

-- Often developers will entice with low financing for extended years but overly inflated lot prices

-- The lot would have to be paid-off before a bank will approve a construction loan and a permanent mortgage

-- It would be difficult to sell the lot in the future because of the competition with the developer's unsold inventory

- What about timeshare real estate investment? (7 OCT 89)

-- Not considered good investments because they are the advance purchase of future vacations

-- There is virtually no resale market at any price

-- Some even assess owners for repairs to meet operating budgets

- How long should an offer be valid? (7 Oct 89)

-- An offer should be for no more than 24 hours

-- If longer, an agent will often use the offer to try and attract a higher offer from other agents

-- The longer the time the offer is valid, the longer the agent has to "offer shop" other agents or potential buyers

- Should buyers be allowed to move in prior to closing? (7 Oct 89)

-- Don't let the buyer move in before the deed is recorded

-- Usually VA loans can be automatically approved by VA mortgage lenders so this will not delay things

-- They may find a real or imagined "defect" and refuse to close unless the price is reduced

-- If the seller doesn't qualify for the loan it will be very difficult to evict the potential buyer because they will say they are trying to obtain financing

- When should equity sharing be considered? (23 Sep 89)

-- Wonderful arrangement between parents and adult off-spring

-- Parents help with the down payment, but children pay the monthly expenses

-- Not so successful among strangers

-- Internal Revenue Code 280A authorizes equity-sharing tax deductions

--- Requires the nonresident investor and the resident to both be on the title and to have and equity sharing contract

--- If the resident co-owner does not make the monthly payments, it is difficult to evict the resident

-- Most equity-sharing agreements do not adequately protect the investor in the event of the resident co-owner's default

- Can a contract to buy a house from a builder be assigned to another buyer? (23 Sep 89)

-- A contract can be assigned unless prohibited by the terms of the contract or the contract has a personal service aspect such as the builder carrying back financing

-- If a builder thinks the house can be resold, he may pressure the original seller to default on the contract leaving him with the deposit

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