INVESTMENTS: RETIREMENT AND EDUCATION

Latino Community Credit Union & the Latino Community Development Center

www.latinoccu.org

INTRODUCTION

TO SAVE OR TO INVEST?

To **save** means to set money aside for the future. You can save your money at home, or better yet, in a financial institution.

To **invest** is to do something with your money with the hope that it will grow and give you a higher return. Investing gives you a chance to increase your earnings on the money you save, but it also involves a certain amount of risk. You might not receive the return that you expected, or you could lose some of the money that you invested. Despite the risk involved, investing can help you acquire funds that you need to meet certain goals, especially if you invest wisely.

DIFFERENCES BETWEEN SAVING AND INVESTING		
	SAVING	**INVESTING**
Objective	For **emergencies**, **short or medium- term goals** (shorter than 5 years).	**Long-term goals** (over 5 years) like a child's higher education costs or your retirement.
Risk	There is **no risk** that you will lose your money up to a certain amount. Savings accounts with banks and credit unions are federally insured up to $250,000.00.	**You risk** not earning what you expected and/ or losing some of the funds you invested. Most investments are not federally insured.
Advantages	Your money is safe and easily accessible. You already know what you can expect to earn.	You can get a **higher return** on the money you invest. There are a variety of investment products that can meet your needs.
Disadvantages	You receive a **lower return** on your investment (in the form of earned interest or a dividend).	You risk losing part of your investment. You cannot access your funds easily during the investment period.

Adapted from Finances For All. Financial Education Plan by CNMV and Banco de España. 2010

Saving and investing are two very different concepts. Ideally, it is best for you to save for your short-term goals and for emergencies, and best for you to invest for your long-term goals (like retirement and higher education for your children).

FREQUENTLY ASKED QUESTIONS

If it's so risky, why should I invest? Investing gives you the opportunity to earn more money over a certain period of time than you would by using a saving account. Investing, however, also has an added risk.

What risk is involved in Investing? You could receive a lower return than you expected, and you could also lose money that you invested.

Do I have enough money to invest? Some people think that only rich people can invest, but the truth is that **you can start with a small amount of money**. A small amount of money that is invested over a long period of time can grow considerably.

What do I need to know about investing? Do not let your lack of understanding deter you from investing. In this guide, we will review a few basic concepts to get you started. You can also find more information and resources online. You can start investing a small amount with a basic investment and gradually increase your investments as you acquire more experience and confidence.

You probably have certain life goals that require money, like buying a house, sending your children to college, or being able to retire comfortably. Saving is a safe, but slow road; you may never save enough money to reach your goals. Investing wisely allows you to expedite the process of reaching your goals.

Put your money to work for you!

SAVE WISELY

- If you have your savings in a financial institution, find out how you can **get the highest return**. Don't leave all of your savings in a checking account or a savings account that yields a very low interest.
- **Start saving as soon as possible.** Some experts say that you should ideally save between 10-15% of your salary. If you cannot save that amount, save what you can toward this goal.
- Find out about the types of savings plans that your employer offers.
- Ideally, once you have paid off your most expensive debts, you should continue to pay your other debts, save for an emergency fund, and then save for your long-term goals. Imagine a situation in which you were totally focused on paying off your debts first, before saving for an emergency. If you had an unforeseen expense or situation, you wouldn't have an emergency fund to help you pay for it. It's better to take a little longer to pay your debts and keep some savings on hand.

INVESTING

BEFORE YOU INVEST

Before you invest, it is very important that you are financially stable.

1. **Reduce your debts** as much as you can, especially those that charge a high interest rate, like credit cards.
2. **Keep an emergency fund** with enough money to sustain you for 3 to 6 months in a savings account that will not penalize you for withdrawals. If an unforeseen expense arises, you can easily access this money without having to dip into your investments or use credit.
3. **Make a budget** and calculate the difference between your income and expenses. If this difference is significant, wait until you are in a more stable financial situation to begin investing. Try to reduce your costs and pay off your debts. It might be helpful to calculate your net worth: the difference between what you have (savings, properties, investments) and what you owe (mortgages, loans, and other debts).
4. **Decide how much money you can invest.** With the information that you have obtained from your budget, answer the following: How much money can I set aside temporarily? How much time do I have before I will need it? Make sure to invest only your surplus; be sure you can pay your recurring expenses. The more financially stable you are, the more you can invest, and the greater the risk you can take.

KEY CONCEPTS

Principal: money that you invest.

Interest Rate: percentage of money that you earn on the money you invest.

Return: percentage of profit or loss received from any investment.

Dividend: part of the profit that a company distributes among its shareholders/owners.

For example, if you invest a **principal** of $100 with an **interest rate** of 5%, you will receive a $5 **profit**. This investment has a 5% **return.**

Simple interest: interest that is calculated on the principal of an initial investment. If you invest $100 with an interest rate of 10%, you will receive a $10 profit.

Compound Interest: interest that is calculated on the principal and the accrued interest, so that your investment grows at a faster rate.

For example, let's say you invest $100 with an interest rate of 10%. In the first year, you receive 10% of $100 (a $10 profit) that is then reinvested. So, in the second year, you will receive 10% of $110 (an $11 profit) and so on.

	Profits 1st year	Profits 2nd year	Profits 3rd year	Total Profits
Simple Interest	10	10	10	30
Compound Interest	10	11	12.1	33.1

With compound interest, time is on your side. The earlier you start to invest, the greater your earnings will be, because you will have more time to accrue interest. Thanks to the magic of compound interest, a small amount, invested over a long period of time can grow considerably.

The Rule of 72 is used to estimate how long it would take your investment to double in value. For example, if you invest $100 with a compounded interest rate of 4% a year, it would take 18 years (72/4) to get to $200.

Inflation: the rate of increase in the price of goods and services over time. According to the FINRA (*Financial Industry Regulatory Authority*) statistics, the U.S. has an average inflation rate of 3%. Inflation reduces the purchasing power of your money or, the amount of things that you can buy with your money. Remember how much it used to cost to buy a popsicle when you were a kid? How much does it cost now? It's probably more, right? This is the effect of inflation. With the same amount of money today, you are able to buy fewer things than you could just a few years ago.

Your investment will devalue if your interest rate is lower than the inflation rate. So, it is important to consider inflation when you calculate your expected return on investment.

Net worth: the amount that your assets, what you have (savings, property, investments…), exceeds your liabilities, what you owe (mortgage, loans, and other debts). Find out what your net worth is and decide how much money you can invest.

Portfolio: the collection of investments a person owns (shares, bonds, mutual funds, bank deposits, etc.)

Maturity: the end of the term on an investment. At this time, you can retrieve your money without incurring a penalty.

Liquidity: the ease with which you can cash out an investment, in other words, recuperate the money that you invested without losing value. It is important to keep the liquidity of your investments in mind if you think you might need to access your funds in a short period of time.

RISK, TIME, AND PROFITABILITY

Understanding risk, time, profitability, and your expectations will help you choose the best product for your needs.

RISK All investments involve some risk. You might not achieve the return on investment you expect or you could even lose some of the money that you invested. Before investing, you need to determine the amount of risk you are willing to take, that is, the losses that you are willing to incur.

Risk also comes with some **uncertainty**. With certain investments, you know exactly how much interest you will receive and when it will be paid (like a certificate of deposit). In other cases, for example purchasing the stock from a new company, no one can know if there will be gains or losses.

TIME Think about when you will need your money and invest it for the appropriate period of time. Many financial products will penalize you if you withdraw your money before the maturity date. If you have a lot of time, you can put your money in riskier investments like stocks, because you can wait out the rise and fall of the price and determine when it is best to sell your stock. On the other hand, you might be forced to sell your stock when it looks like you might lose a lot of money. If you have a lot of time, you could eventually make up the losses that you incurred.

Experts recommend that you put your money in riskier investments when you have a lot of time to invest and transfer them to less risky, more liquid investments when you get closer to needing those funds. This way, you can rest assured that you won't incur any losses when you need the funds.

Are you an aggressive or conservative investor? Think About:

- **Your personality:** if the possibility of losing money makes you nervous, pick a low risk investment. Remember that investing is not a game; don't let your impulses guide you. Think about your decisions.
- **Your capacity to incur a loss:** How much money could you lose without affecting your financial stability?
- **Your age** (or the number of years before you will need your money). For example, if you are investing in your retirement and you still have 30 years before you retire, you can make riskier investments.

In general, aggressive investors tend to invest in stocks and conservative investors tend to invest in bonds and cash equivalents with low risk and low return such as CD's or Money Market funds.

PROFITABILITY In general the more profitable an investment is, the riskier it is, because you could incur more losses. The only reason for choosing a risky investment instead of a safer investment is because it could potentially yield a higher profit.

DON'T PUT ALL YOUR EGGS IN ONE BASKET

The best way to reduce risk is to **diversify** your investments amongst a variety of bonds, stocks, and cash equivalents. If you invest in bonds, buy government and company bonds; if you buy stocks, acquire stocks from different companies. Diversify your investments in every category. If you invest all of your money in one company's stocks and that company goes bankrupt, you will have lost your entire investment. Mutual funds are a good way to diversify because they offer a mix of bonds, stocks, and cash equivalents.

Think about the maturity dates on the investment. It is recommended that you put your money in products with different maturity dates, so that your money is available to you as you need it without incurring penalties and losing money.

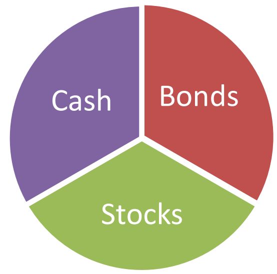
INVEST TO REACH YOUR GOALS

If you are ready to invest, that is, if you have reduced your most costly debt, have enough savings for an emergency, and think that you can set aside a portion to invest, start building a strategy to reach your goals.

My Goals	How much money do I need?	What is my timeframe?	How am I going to get it?
Define concrete and realistic goals (Don't just say, "I need more money"). Revise your goals periodically.	There are many online calculators to help you reach your goals For example: www.finra.org	Remember that if you have very little time to invest, it is better to find low-risk investments with a high liquidity so that you can avoid penalties for withdrawing your money.	Usually, people have different goals, which is why you need to invest in different products with different maturity dates. Pick the product that best adapts to each one of your objectives while keeping your financial situation, timeframe, profitability, and risk in mind.
Put a down-payment on a house	*$5,000*	*18 months*	*Put $275 a month in a Money Market account to be able to withdraw it in 18 months without a penalty.*
Send my child to college	*$66,000*	*16 años*	*Put $246 a month in a 529 plan that will yield at least a 4% interest.*

INVESTMENT PRODUCTS

In general, investment products are divided into three groups: **cash, bonds, and stocks**. Another option is **mutual funds**, which are a combination of the three.



CASH (OR CASH EQUIVALENTS)

Cash equivalents yield the lowest return, but are the most secure. The trouble with these investments is that the interest you earn will likely not keep pace with inflation.

NCUA

Credit Unions

YOUR MONEY IS PROTECTED!

FDIC

Banks

Deposits in credit unions are insured by the NCUA (*National Credit Union Administration*), and deposits in banks are insured by the FDIC (*Federal Deposit Insurance Corporation*). Both are federally regulated agencies.

There are many cash equivalent options:

- **Savings account**: Typically you don't receive checks or a check card for these accounts, because the purpose of the account is to save. You earn interest on your money and always know what the rate is, and if there is any change, your financial institution will inform you. You can access your money at any time. The minimum balance on the account does not tend to be very high ($10, for example), but if you do not maintain the minimum balance, you will have to pay a maintenance fee.
- **Money Market Account***:* Yields a higher interest than a regular savings account, but usually requires a higher minimum balance, for example $500. You can access your money at any time. If you do not maintain the minimum balance or exceed the maximum amount of transactions you will be charged a fee.
- **Certificate of Deposit**: You deposit money for a predetermined period of time (for example, 6 months, 1 year, 5 years) during which time you will not be able to access your money without incurring a penalty. These deposits tend to have a higher interest rate than a savings account or Money Market account. You may receive interest periodically or when the account matures. Before you deposit your money, you know the interest you will receive during the length of the term. The interest on the deposit will not change.

STOCKS

A stock allows you to buy a small piece of a company. If the company performs well, the price of the stock goes up. But if it performs poorly, the price of the stock will fall, and possibly lose its value entirely. You can earn money with stocks in two ways:

- **Selling your stock** for more money than you paid for it. Usually, stock prices change constantly, which is why it is important to wait for a good time to sell.
- **Through dividends** that some companies pay out to their stockholders. It's like a distribution of profit. Usually the bigger, well-established companies pay out dividends.

Stocks are investments that tend to yield the highest profits, but they are also the most risky. No one can predict what their profits will be ahead of time because it all depends on how the company performs.

BONDS

Companies and governments can sell bonds to finance their debt and other expenses. Let's say that you (a bond purchaser) loan money to a company or the government and they agreed to pay you back on a certain date (maturity). The bond issuer has to pay you interest on the loan. You can receive interest periodically or when the bond matures, depending on the contract. You will always receive the same interest, so if you decide that you want to receive interest payments periodically, you can count on a steady income. Bonds do not yield as high a return as stocks, but they carry less risk. Usually, the higher the return, the higher the risk you assume. For example, if you buy bonds from a start-up company, your investment will run a higher risk than it would if you invested in a well-established firm or the government.

MUTUAL FUNDS

This is probably the most highly recommended option for small investors without very much experience. With a mutual fund, a group of investors pool their money under an administrator that manages the fund. Mutual funds are a mix of investment products, some of which carry less risk (more bonds) and others that are higher risk (more stocks). Each investor has shares and the earnings generated by the fund are distributed based on the number of shares each investor holds. Mutual funds are an inexpensive way to keep a diverse investment portfolio. Furthermore, these funds are managed by professionals, so you don't have to spend too much time on your investments, although it's advisable to monitor them.

> When choosing a mutual fund, make sure you know all the charges and fees; **weigh the cost and the benefit** of each option. Some costs are very high and they could significantly reduce the profitability of your investment.

These are the most common types of investments, but you can also invest in real-estate, jewelry, art, among other things.

WHERE DO I OBTAIN INVESTMENT PRODUCTS?

Common practice, especially if you do not have much experience, is to obtain investment products through an **intermediary** (in some cases, a bank, credit union, broker, investment advisor, accountant, independent financial planner, or securities company).

You can also acquire some stocks, bonds, or mutual funds directly. You have to be very careful if you decide to take this route and be absolutely sure that you are dealing with a legitimate entity. Some very secure options are buying bonds directly from the United States Treasury or buying stocks from large companies like General Electric, on their websites.

When searching for a financial planner, make sure that they are trustworthy. Be very careful when sharing your financial information. Make sure that you understand the conditions, the service you will receive, and the fees that you will have to pay.

HOW TO CHOOSE A RELIABLE FINANCIAL PLANNER

Whether you are dealing with an independent financial planner or a company:

- Make sure they are **certified** (like: *Certified Public Accountant (CPA), Certified Financial Planner (CFP*).
- Make sure they have a **license** to work as a financial planner.
- Make sure they are **registered** with the FINRA *(Financial Industry Regulatory Authority)*, the SEC *(Security and Exchange Commission)* or the corresponding agency in the state.
- Ask friends and family for **references**, interview a number of financial planners and make sure you understand how you will be paying them for their services.

If you have problems with your financial planner, you can write to the SEC *(Security and Exchange Commission)*

When you make an investment, it is important to understand the details. **Ask as many questions as necessary**:

- Understand how your investment works, when does it mature? How liquid is this investment? What penalties will I have to pay if I withdraw the money early?
- Understand the risk.
- Know what services you will receive and the cost and fees for those services.
- Make sure that the product is registered with the Securities and Exchange Commission (SEC).

A reliable website for finding an independent financial adviser is the National Association of Personal Financial Advisers: www.napfa.org.

Fees for financial services vary from one company to the next. Some of the most common fees are for:

- managing the porfolio
- transactions
- personalized financial planning

It is important that you understand these fees, because they will affect the performance of your portfolio.

MANAGING YOUR INVESTMENTS

- Be **disciplined** (make periodic contributions), and be **patient** (don't get nervous if your returns decrease, you will usually recover your losses over time).
- **Be vigilant** to make sure that everything is going as you had planned. Regularly monitor the performance of your accounts, including your fees. If your investments are not performing as you expected, you may want to consider some adjustments.
- **Revise your investments** if you have had a life change, like having a child or getting a raise. If your goals have changed, do your investments still suit your needs?

Investing is just one part of managing your finances; you have to control your expenses, save, and reduce your debts, and always keep your financial goals in mind.

THE IRS AND YOUR INVESTMENTS

The taxes that you pay on your investments diminish the performance of your investment portfolio.

Typically you will pay interest on **dividends** or **interest** that you receive from your investments and for **the money that you earn when you sell** in a given year.

However, there are a few exceptions:

- Bonds issued by the Federal Government or state tend to be tax free.
- Many mutual funds, especially those aimed at retirement or education have certain tax advantages, as long as you comply with the conditions on the account, especially regarding the use of the money and the term.

INVEST WITH YOUR CONSCIENCE

Help create a better world with your investments. Do not invest in companies that don't share your values (for example, a company that pollutes, or uses child labor) and instead support socially responsible companies or organizations that work to make the world a better place.

These investments might yield a smaller return, but you will know that you are making positive social and environmental changes. There are certain socially responsible mutual funds that only invest in companies that meet these criteria.

You can also put your money in a credit union or a local financial institution that helps your community.

QUESTIONS YOU SHOULD ASK WHEN CHOOSING AN INVESTMENT

Will this investment help me reach my financial goals? Is it right for me?

How and when will the funds be distributed?

What has to happen so that I can earn money with this investment? Does the company have to do well? Do interest rates have to increase?

What charges and fees will I have to pay for this investment?

How liquid is this investment? What happens if I want to withdraw my money before the maturity date?

What taxes will I have to pay for this investment? Are there any tax-advantages?

What are the risks involved with this investment? What is the maximum amount that I could lose?

Is this product registered with the Securities and Exchange Commission (SEC)?

How long has the company that offers this investment product been in business? Do the agents have enough experience? How do the portfolios of their clients perform?

How often will I receive information about my investment performance?

Are the investments consistent with my values?

PREVENT FRAUD

- If it sounds too good to be true, it probably is. Do not trust agencies that claim to “make you rich” or “give you higher profits with little risk”. If someone offers you an investment with a high return and no risk, it is probably a scam.
- Make sure you are working with a registered agency.
- Do not invest without first obtaining written documentation.
- Make sure that you are given a receipt for the money you invest, and never pay in cash or with a personal check.
- When choosing a product, do not trust advertisements, as they usually only highlight the positive aspect of the product. Find the most accurate information on the product through the Securities and Exchange Commission (SEC).
- Take your time and ask the right questions. Do not trust opportunities that require you to invest your money immediately.

RETIREMENT

They say that your golden years start at retirement, but how can you really enjoy them if you can't count on a steady income? More and more, we're seeing an increase in life expectancy to about 85-90 years. If you retire at 65, you will have to make sure you have a stable income for 20-25 years. Planning for retirement early on is important. In the next section, we'll show you how to plan for your future.

1. Think about **how much money you will need** to maintain the lifestyle that you would like when you retire. For most people, it tends to be around 70% of your current salary.
2. **Estimate the sources of income** that you can count on:

Social Security Benefits

Social Security will pay out your retirement benefits (usually a maximum of 40% of your salary) if you have worked for a long enough time and have paid your taxes. You can estimate your expected social security benefits at the Social Security Administration page: http://www.ssa.gov/estimator/. Keep in mind that **these benefits may be reduced in the future**.

\+

SAVINGS/ INVESTMENTS

$

3. Your social security benefits are probably not enough to help you retire comfortably, which is why it is important to have a solid **savings and investment plan**. Before you jump into a complex investment plan, check with your employer to see if they offer an investment plan for their employees.

WHAT TYPES OF RETIREMENT PLANS ARE THERE?

There are a variety of retirement plans. The following plans are the most common.

Employer-offered retirement plans. You should find out what types of retirement plans your employer offers.

- Traditional 401(k)
- Roth 401(k)

Individual retirement plans. If your employer does not offer a plan, you can open one for yourself. You can also open a separate retirement account in addition to your employer-offered retirement plan to supplement your benefits.

- Traditional Individual Retirement Account (IRA)
- Roth IRA

The main benefit of these accounts is that they allow you to save money on your taxes, but in turn, the IRS places conditions on how much money you can put in the account and when and how you can withdraw it.

401(K) PLANS

TRADITIONAL 401(K) PLAN

A tax advantaged account where you can deposit a certain amount of your salary every month.

Why can I save more with a 401(k)? Money that you put into your 401(k) doesn't pass through your hands, so you can't spend it. Moreover, employers often match your contribution up to a certain percent. This is a great incentive for you to make the highest monthly contribution possible to receive your full employer match without sacrificing your other needs. Additionally, you also get the added tax benefit from the IRS.

Miguel earns $50,000 a year and contributes 6% ($3,000) to his 401(k). Additionally, he also receives a 50% match up to the first 6%. This means that for every contribution he makes (up to 6%), his employer will deposit $1,500 into his 401(k).

How does the money in my 401(k) grow? Normally your plan will offer you a number of investment options that you can review to find the one that is best for you. Everything that we have reviewed about investments will help you choose.

How do I know that the money will be there when I retire? You cannot access the money until your retirement. If you withdraw the money before you turn 59½, you will have to pay a penalty fee.

What about taxes? Taxes on a traditional 401(k) are deferred, which means that you won't pay taxes for that money until you retire. This is advantageous for certain investors who expect to be in a lower tax bracket upon retirement.

ROTH 401(K) PLAN

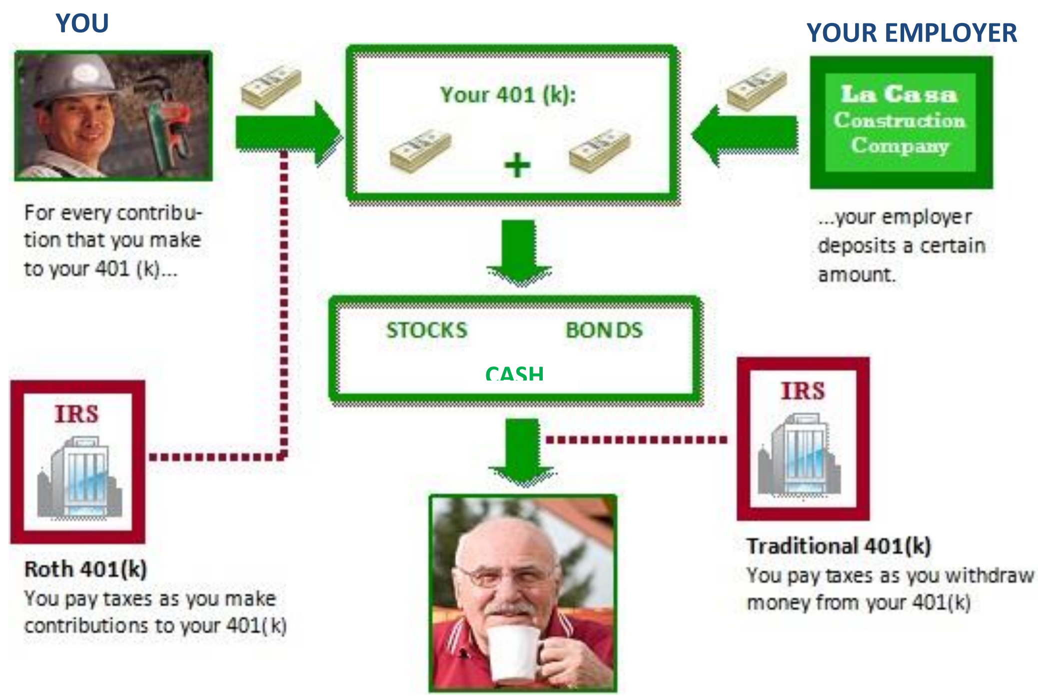
The main difference between the Traditional 401(k) the Roth 401(k) is that the money deposited into the Roth 401(k) **is money that you deposit after having paid taxes**, so you won't have to pay them when you retire. The money that your employer deposits, however, is tax-free when it is deposited, so you will have to pay taxes on that money when you withdraw it. Employer contributions are usually put into a different account to avoid any confusion.

The Roth 401(k) plan might interest you if you think that at 59 ½ you will be in a higher tax bracket.

THINGS YOU SHOULD KNOW ABOUT 401(K) PLANS

- Usually, the money that your employer contributes to your 401(k) is not yours right away. Over time, you will begin to have access to more and more of the deposited funds (for example, 25% in year one; 50% in year two; 75% in year three; 100% in year four). This is called the ***vesting schedule***. This means that if you leave your company, depending on your particular vesting schedule, you may only be able to access part of the employer contributions in your 401(k).
- If you change employers, you can keep the money in the same plan (as long as you meet the requirements of your previous employer) or you can transfer it to your new employer's 401(k) plan or transfer them to an Individual Retirement Account (IRA).

HOW DOES THE 401(K) PLAN WORK?



If your employer offers a 401(k) match, take advantage of it. This is extra money from your employer! Contribute as much as you can to receive the highest possible match.

You can only withdraw funds from your 401(k) for the following reasons:

- Termination of employment – to transfer the money to another plan.
- Retirement (in general, once you turn 59½).
- Death or disability.
- Sometimes certain exceptions exist such as medical or education expenses, or costs related to purchasing a house.

401(k) PLAN COMPARISONS		
	TRADITIONAL 401(k)	**ROTH 401(k)**
Eligibility	Any employee is eligible according to each employer's criteria. Usually you need to have worked at the company for a certain period of time.	
Contributions	The maximum contributions allowed (including yours and your employer contributions) is 100% of your salary or the maximum amount fixed by the IRS ($50,000, en 2012), whichever is less.	
Withdrawals	You can start at age 59 ½ without paying any penalties. You must start withdrawing funds at age 70 ½ at the latest, unless you have not yet retired.	You can start at age 59 ½ without a penalty if the account has been open for at least 5 years. It is necessary for you to start withdrawing at age 70 ½ at the latest unless you have not yet retired.
Taxes	Contributions are made before you pay taxes. You will pay taxes once you make a withdrawal.	You pay taxes as you make contributions. You won't pay any taxes when you withdraw the money.
Early withdrawal (before age 59½)	You will have to pay the taxes plus a 10% penalty. Certain exceptions do exist.	

This is very general information; some plans may have different terms and conditions.

IRA (INDIVIDUAL RETIREMENT ACCOUNT)

IRAs *(Individual Retirement Account)* are tax-advantaged accounts individuals can use to invest for retirement.

Why do you save more with an IRA? The money that you deposit into an IRA account does not pass through your hands, so you cannot spend it.

How does the money in an IRA account grow? Your plan will offer a variety of investment options, so you can choose what is best for you. Everything that we have previously learned about investments will help you choose.

How do I know that the money will be there when I retire? You are unable to withdraw the money until you retire. If you withdraw the money before you turn 59½, you will have to pay a penalty.

What about taxes? IRA accounts have certain tax-advantages to help you save for your retirement. The conditions differ between Traditional and Roth IRAs. We will discuss the differences in detail.

TRADITIONAL IRA

Contributions to your IRA account can be tax-deductible depending on your income, if you file your taxes individually or jointly with your spouse, or if you or your spouse has another retirement plan through your employer. Additionally, the taxes on your traditional IRA are deferred, which means that you won't pay taxes until you withdraw your money upon retirement. If you withdraw your money before your retirement, you will have to pay a penalty.

ROTH IRA

The Roth IRA allows you to pay your taxes upfront when you make your contribution. Since you already paid your taxes, these accounts are much more flexible. You can withdraw contributions anytime and you don't have to begin withdrawing funds at a certain age. You can also withdraw your earnings before retirement penalty free and tax-free for certain expenses, such as education or a down-payment for a home.

A very interesting advantage to the Roth IRA is that you are not obligated to withdraw funds; you can leave tax-free money to your designated beneficiary.

If you comply with all of the IRS' requirements, you can have both a traditional IRA and Roth IRA up to a certain limit.

Remember, if you start saving and investing as soon as you can for your retirement, you will have to contribute less every month.

IRA COMPARISONS		
	TRADITIONAL IRA	**ROTH IRA**
Eligibility	You or your husband must have an income and be younger than 70 ½.	You and your husband must have an income that does not exceed the maximum income requirements set by the IRS. There are no age limitations.
Contributions	The maximum contributions allowed is 100% of your salary or the maximum amount set by the IRS each year ($5,000, in 2012 or $6,000 if you are over 50), whichever is less.	The maximum contribution allowed is 100% of your salary or the maximum amount set by the IRS each year ($5,000, in 2012 or $6,000 if you are over 50), whichever is less. There are other limits if your income is greater than the restrictions set by the IRS.
Age	You cannot make any contributions after the age of 70½	There is no age limit.
Withdrawals	You can start to withdraw funds at age 59½ without a penalty; you must start withdrawing funds at age 70½ at the latest. If you don't start to withdraw money by age 70½ you will have to pay taxes at a rate of 50% on the amount that has not been withdrawn.	You can withdraw your contributions without paying taxes and without a penalty at any time. You are not forced to withdraw funds.
Taxes	Contributions are tax deductible if you meet certain criteria. Taxes on earnings are deferred.	You pay taxes as you make contributions. You can withdraw your contributions without paying taxes or penalties at any time. You can also withdraw your earnings tax-free as long as the withdrawals are authorized; if they are not authorized, you will have to pay a penalty of 10%.
Early withdrawal (before age 59½)	You will have to pay taxes on the amount plus a 10% penalty, unless the withdrawal is authorized.	
Authorized withdrawals	• Retirement (in general, after age 59½) • Death or disability. • Buying your first home. • Some medical expenses. • Some higher education expenses. • To pay federal taxes.	• Retirement (in general, after age 59½). • Death or disability. • Buying your first home (up to $10,000). Additionally, the money should have been in the account for at least 5 years.

SEP *(Simplified Employee Pension)* IRA

The SEP IRA was created for self-employed people and small business owners. The plan allows employers to make contributions for their own retirement and for their employees.

The employer and the employee sign a contract and the employee can open a SEP IRA at the financial institution of his/her choosing. The maximum contribution cannot exceed 25% of the employee's salary (or 20% for sole-proprietors).

YOUR CHILDREN'S EDUCATION

Giving your children the opportunity to go to college is one of the best things you can do for them. With a college degree, they can get better jobs, earn more money, and have more opportunities in their lives.

Many young people don't go to college because they think that they can't afford it, but money should not be an obstacle in your child's future. A college education is very costly, but that's why it is so important to start as soon as possible. It's never too early!

WHERE DO I START?

1. **Calculate the cost of going to college.** Include: tuition, registration, books, and room and board for 4 years.

2. Don't panic when you find out how much it costs to go to college. There are many options that can **help you pay for your child's education.**

- **Savings and Investment Plans** for higher education.
- **Scholarships, subsidies and loans:** There is help available from private foundations and the government. Almost all students receive some form of financial aid.
- **Help from Family**: grandparents, uncles/aunts, and even friends who want to help pay for your child's education.
- **Help from your children**: your children can get part-time or summer jobs.

3. **Choose a savings and investment plan** that can help you meet your savings goals.

There is a lot of help available!
Your child can go to college!!!!

THE COST OF GOING TO COLLEGE

The costs associated with going to college can include tuition, registration, books, room and board over 4 years. It's a lot of money and the prices go up every year. Public universities tend to be less costly than private universities. The average cost per year in 2008-2009 was $15,000 at a public university and $30,000 at a private university (*U.S. Department of Education, National Center for Education Statistics*).

1. If you already know the university that your child will be attending, you **can verify the cost**, and get in direct contact with the higher education institution.
2. When making your calculations do not forget to consider **inflation**. There are a lot of online resources that can help you estimate the cost of going to college, for instance www.finaid.org

> For example, let's assume the university that you are considering for your 8 year old child currently costs $15,000 per year. In 10 years, when your son will start, the cost will rise to about $25,000, with an inflation rate of 6%. So, you'll have to save up approximately $100,000, or $50,000 to pay for half of it.

3. Think about **what percentage of the total cost you plan to cover**. Almost no one pays for the entire cost of a college education. It is very common to receive some sort of financial aid, loans, or scholarships. Experts recommend saving between 33% and 50% of the cost. Determine an amount you would feel comfortable paying.

- Normally it tends to be most cost effective if your child goes to a public university in your state, rather than one that is out of state. Additionally, your child could continue living at home if the university is not far away in order to save money on room and board expenses.
- If you can't save enough money, another option to consider would be a community college. They offer 2 year programs that are much more affordable. Then, if your child gets good grades, he could transfer his credits to a university.
- Encourage your child to pursue their dreams and apply to college. There are many options that can help pay for college. Almost all universities have a financial aid office to make sure that good students can go to college.

SPECIFIC SAVINGS AND INVESTMENT PLANS

There are many investment options to help you pay for your child's higher education expenses. Almost all of these plans offer tax-advantages, as long as the money is for education. You can open an account with very little money (the minimum amount tends to be $25) and start making contributions little by little. The most popular plans are the 529 and the Coverdell accounts. We will explore these options below:

529 PLAN

529 plans have a tax benefit and they are sponsored by higher education institutions or by the state. There are two types:

529 PRE-PAID TUITION PLAN

You pay your child's tuition ahead of time, that is, you pay today's prices for the future. Keep in mind that the cost of going to college increases every year, so this is a good way to save. Usually, public universities in the state participate in these plans, but you could pay a fee to transfer the tuition to a private university or a college out of state.

529 SAVINGS PLAN

The difference between the pre-paid plan and the savings plan is that the payment is not made to the school until your child enrolls at the university.

You invest your contributions in mutual funds or other simlar investments for your child's education.

COVERDELL EDUCATION SAVINGS ACCOUNTS

The purpose is the same as the 529 Savings Plan. It is a tax advantaged account where you invest your contributions in mutual funds or other similar investments. The main difference between this plan and the 529 plan is that the money can also be applied toward elementary, middle, and high school, not just college.

To find 529 Plans in North Carolina visit: www.cfnc.org

To find out about 529 plans in other states, visit: www.collegesavings.org

Every state offers different 529 plans. You can open a 529 plan in any state, even if it is not the state in which you reside. Make sure you compare the plans and pick the one that is best for you.

Remember that in some cases, certain retirement plans (such as a Roth IRA) will also allow you to use your contributions for education costs without penalty. Think about whether this would be a good option for you.

Some families choose not to save for their child's college education because they think that it might affect their chances of receiving financial aid. **Do not make this mistake**. It is true that if you do have some savings, it is possible that you will receive less financial aid, but the difference is typically not significant. It is very unlikely that your child will receive enough financial aid to cover all of the expenses, so it is always recommend that you have savings to avoid having to take out an excessive amount in loans.

529 PLAN AND COVERDELL COMPARISON			
	529 PRE-PAID TUITION PLAN	**529 SAVINGS PLAN**	**COVERDELL SAVINGS PLAN**
Earnings	Save money by paying for the cost of an education today instead of higher tuition costs in the future.	Your earnings grow in your tax-deferred account.	
Taxes	Tax-free if the money is used for its intended purpose.	Pay taxes on the deposits that you make to the plan, but not on the earnings or your withdrawal of the money as long as the money is used for its intended educational purpose.	
Security	A lot of these plans are insured by the government	No guarantee.	
Beneficiary eligibility	No age limit. Sometimes you have to reside in the state where you open the plan.	No age limit.	Children 18 years or younger.
	A valid Social Security Number or ITIN is required.		
Maximum amount that can be put in the account	Depends on the plan and the age of the beneficiary.	Between $100,000 and $350,000, depending on the state.	$2,000 per year
What can I use the money for?	College/University		Elementary school, middle school, high school, and college/university.
Penalties	If you use the money for other purposes, you will have to pay the applicable taxes and a penalty of 10%.		
Who offers it?	The state.	The state (along with an investment manager).	Almost any financial institution or investment manager.
How can I open an account?	Through the state, a financial institution or an investment manager.		Through your financial institution or an investment manager.
Maximum income to be able to open an account	There is no income limitation		You need to make less than the income limit set by the IRS (in 2012 it is $110,000 or $220,000 between you and your spouse). If you earn more than that, you might be able to deposit less money or none at all.

QUESTIONS YOU SHOULD ASK WHEN CHOOSING YOUR PLAN

Who is eligible?

What tax-advantages does this plan offer?

What expenses or fees will I have to pay?

What are qualified expenses?

What are the minimum or maximum contribution requirements?

Will I be penalized for withdrawing the money early or if I choose to use the money for purposes other than education?

How will the plan I choose affect me when I decide to apply for financial aid?

How is the money in my plan invested?

What returns have other people obtained from investing in these plans?

What kind of a reputation does the investment manager have?

OTHER INVESTMENT OPTIONS

SAVINGS BONDS SERIES EE AND SERIES I

These bonds are a low-risk investment option because they are issued and backed by the United States government. Furthermore, if the money is for your child's education, you could receive a tax credit. Parents and family members often give savings bonds to their children so that they can put them toward college. There are two types of bonds for education:

This means that you will not receive an interest rate lower than the rate of inflation

	BOND SERIES I	BOND SERIES EE
Advantages	**Fixed interest rate. You will always receive the same interest.**	**Variable interest rate, adjusts to the rate of inflation.**
	The interest is compounded semiannually and is received when you exchange the bond.	
Taxes	You don't pay local or state taxes. Federal taxes are deferred. There are more tax breaks if the money is used for education.	
Security	Insured by the United States government.	
Eligibility	You have to have a valid Social Security Number and be a U.S. citizen or a permanent resident.	
Minimum and maximum investment amount	Minimum investment $25. Maximum investment: $5,000 per year.	
Penalties	Early redemption penalty: Before 5 years, forfeit the 3 most recent months' interest.	
How can I buy them?	Bonds can be purchased online at www.treasurydirect.gov or at your financial institution.	

UGMA (Uniform Gift to Minors Act) and UTMA (Uniform Transfer to Minors Act) Accounts

These are tax-advantaged custodial accounts through which you can transfer assets to minors. UTMA accounts allow the transfer of almost any asset, including immovable properties, while UGMA accounts only allow transfers between deposit accounts at financial institutions, investment products (stocks, bonds, and mutual funds) and insurance policies.

A lot of people use this as a way to save for college because the money is the child's property as soon as the child starts college (at age 18). However, the child does not have to use the money to go to school; they can spend it as they wish. The main benefit in comparison to other options is that you are allowed to transfer more assets to the minor (not just money and investment products). This is only available for U.S. citizens.

FINANCIAL AID

There are a lot of ways to help pay for college, especially if your child is a good student. The most common type of help is from the federal government, even though you can also apply for scholarships and government subsidies from the state, certain universities, and other organizations. Ask for information at the financial aid office at the school or university or look online.

To receive help from the federal government, the child (not the parents) usually has to be a United States citizen or a legal permanent resident, have a valid Social Security Number, and demonstrate financial need.

There are many organizations that offer financial help regardless of immigration status.

To learn more about the Federal financial aid programs visit:
http://studentaid.ed.gov/PORTALSWebApp/students/english/index.jsp

To apply for any type of Federal aid, you must complete the Free Application for Federal Student Aid (FAFSA). This will also help give you an idea of the kind of help that you could qualify for. www.fafsa.ed.gov

OTHER SOURCES OF AID

Sometimes private universities will offer need-based financial aid to students. Many of these universities require the use of the CSS Profile (College Scholarship Service Profile), a more detailed form than the FAFSA. This form allows universities to take a closer look at your family's financial information to determine how much aid they can provide (in some cases, the amount that the college will provide is substantial). The CSS Profile is filed through the College Board, a national non-profit that connects students with colleges (www.collegeboard.com). If your child is considering applying to a private university, the CSS Profile may be required. The cost associated with filing the CSS Profile is $25 for the first school and $16 for any additional school (in 2012). A limited number of fee waivers are automatically applied to low-income families. More information is available at www.collegeboard.com.

	FINANCIAL AID RESOURCES	
SCHOLARHSIPS AND GRANTS	These are the best options, since you don't have to repay them.	• The federal government offers, among other things, Pell Grants for low-income students. • You can find more scholarships and private grants at: www.finaid.org www.latinocollegedollars.org www.maldef.org/leadership/scholarships/index.html
LOANS	Ask only for the amount that you need, so that you can avoid unnecessary debt. Make a plan to pay it back on time. Usually, you receive a grace period of a few months before you have to start paying it back.	The federal government offers very competitive student loans. These loans are usually better than loans from a financial institution. ○ *Perkins* ○ *Stafford* ○ *PLUS (Parent Loans for Undergraduate Students)*
WORK STUDY	The federal government Work-Study program offers part-time work for students to earn money to pay for school expenses.	For more information visit: http://studentaid.ed.gov/
IRS DEDUCTIONS	The IRS offers help through tax credits.	○ *HOPE Scholarship Credit* ○ *Lifetime Learning Credit* ○ *American Opportunity Tax Credit* For more information, visit: http://www.irs.gov

1. PUT YOUR PLAN INTO ACTION

Be disciplined, make sure you make regular deposits into your education savings account!

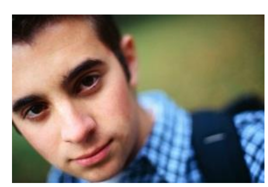
Ask your family members to contribute to the plan for your child or open an account for them.

Goal: UNIVERSITY

Start saving as soon as you can!
Imagine that you want to save up $80,000 for your child's college education: the amount that you would have to save each month would be much greater the longer you wait.

Baby: $390 /month

Age 10 : $656/month



Age 17: $1.450/month

This example was obtained from UNFCU, Education Center (2011). (This assumes a 5% inflation rate and a 7% interest in your investment).

REFERENCES

College Information Fact Sheet (Spanish) - California Market
Authors: The Tomás Rivera Policy Institute
Publication Date: March 2006
Publication Type: Fact Sheet

Perspectives of College Costs, Benefits, and Financial Aid Among California Latino Youth
Authors: Harry P. Pachon, Ph.D. and Maria Estela Zarate, Ph.D.
Publication Date: December 2005
Publication Type: PowerPoint Presentation

www.aspira.org

www.betterinvesting.org

www.finaid.org

www.finanzasparatodos.es

www.finra.org

www.investinginbonds.com

www.investopedia.com

www.irs.gov

www.publicdebt.treas.gov

www.sec.gov

www.collegeboard.com