

PERSONAL FINANCIAL MANAGEMENT PROGRAM

STANDARDIZED CURRICULUM

CHAPTER 8: **Saving and Investing (Basic)**



INTRODUCTION

Saving and Investing is a 2.5 hour program designed to develop knowledge and skills that will enable learners to set and achieve savings objectives and begin to learn about investments both from an educational standpoint and from their initial experiences as investors. The instructor should have a listing of current rates of return and yields on all asset classes mentioned. Some updates are required to provide the most current information.

LEARNING OBJECTIVES

Upon completion of this course, learners should be able to:

- Describe the effects of compound interest and time on money saved or invested.
- Describe the purpose and value of saving and investing.
- Identify the four basic types of savings vehicles.
- Describe the difference between saving and investing.
- Identify types of risk associated with investing.
- Identify investment vehicles.
- Identify the three main types of asset classes.
- Evaluate appropriate vehicles and techniques to build wealth.
- Identify the benefits of participation in the Savings Deposit Program (SDP).
- Identify the benefits of participation in the Thrift Savings Plan (TSP).

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PREPARATION AND PROCEDURES

Activities with Handouts:

- “Compound Interest and Time” (Rate of Return = 10%)

Additional Handouts:

- “Cost Basis and Capital Gains”
- “Investing for the Long Haul”
- “The Financial Planning Pyramid”
- “Thrift Savings Plan: Wealth Building Made Easy”
- “Thinking about Investing”
- “Savings Deposit Program” brochure from DFAS
- “Session Evaluation”

Materials:

- Savings and Investing PowerPoint slides
- Pens, pencils and markers
- Chart paper or a white board

Registration:

Registration ensures that you have an adequate number of materials on hand and that guest speakers are prepared if they have handouts or giveaways for their audience. Program registrants should be contacted by phone or e-mail two to three days before the program to verify participation. Sign-in is advised to track attendance.

Target Audience:

The target audience is Marines and their family members with a basic or intermediate knowledge of personal financial management.

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KEY TERMS

- **Actively managed mutual funds:** refers to a portfolio management strategy where the manager makes specific investments with the goal of outperforming an investment benchmark index. Generally, the manager attempts to select a limited number of stocks (or bonds, or both) with the highest probability of a high return.
- **Annuity:** a contract made with an insurance company that provides for a series of payments to be received at stated intervals (usually monthly) for a fixed or variable time frame.
- **Asset:** an item of economic value owned by an individual or corporation, especially that which could be converted to cash.
- **Basis:** represents the total capital or after-tax income used by a taxpayer to purchase an investment. The investment is considered an asset; an asset's basis can increase or decrease depending on changes that occur throughout its lifetime.
- **Bear market:** a prolonged period where investment prices are decreasing.
- **Bond:** interest-bearing negotiable certificate of debt issued by a corporation, city, state or federal government.
- **Bull market:** a prolonged period where investment prices are rising faster than their historical average.
- **Business cycles:** a recurrence of periods of economic activity (growth/expansion, peak, recession/contraction, trough and recovery) with effects on inflation, growth and employment measured by 24 macroeconomic indicators of which stock market data is only one. Also called the economic cycle.
- **Capital gain:** income received from the sale of an asset above the costs incurred to purchase and sell the asset.
- **Capital loss:** the result of an asset being sold for less income than the costs of purchasing and selling the asset.
- **Certificate of deposit:** interest-earning saving tool offered by a bank or credit union for a stated period of time.
- **Compound interest:** the earning of interest on previously earned interest.
- **Defined contribution plan:** an IRS-approved retirement plan sponsored by an employer to which employees may make pretax contributions that lower their current tax liability and build retirement income that will be taxed in the future or post-tax contributions that do not lower current tax liability but which build future tax-free retirement income.
- **Direct investment plan (DIP):** an investment method where the investor buys stock directly from the company bypassing the broker and avoiding broker fees.

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- **Diversification:** a risk management technique of spreading investment risk by putting assets in several categories of investments (stocks, bonds, money market accounts, and precious metals, for instance), or in stocks in several sectors of the economy, or in a mutual fund with a broad range of stocks in its portfolio with the goal of maximizing returns and minimizing risks.
- **Dividend:** distribution of profits to owners of stock in a corporation.
- **Dividend reinvestment plan (DRIP):** an investment tool where dividends are not issued to the stock or mutual fund owner as cash but are used to purchase additional shares of the stock or mutual fund.
- **Earnings per share (EPS or E/S):** net profit after taxes minus dividends on preferred shares divided by number of outstanding common shares.
- **Employee stock-ownership plan (ESOP):** a benefit plan through which the employer makes tax-deductible contributions of company stock into a trust, which are then allocated into accounts for individual employees.
- **Equity:** an investment in an asset (ownership); a stock or any other security representing an ownership interest; the value of securities in a margin account minus what has been borrowed from the brokerage; the difference between the current market value of the property and amount the owner still owes on the mortgage; a principal asset class (stocks) in investment strategy. The meaning depends on the context.
- **Expense ratio:** management fees plus other marketing costs calculated as an annual percentage of the assets in a mutual fund.
- **Index-based funds:** a large number of securities carefully structured to match, as closely as possible, the total return performance of a particular index.
- **Inflation:** a steady rise in the general level of prices; measured by the changing cost over time of goods and services.
- **Interest:** cost of using money, expressed as a rate of interest per period of time, usually one year, in which case it is called an annual rate of interest.
- **Investing:** committing money to an endeavor or asset with the expectation of obtaining an additional income or profit. Typically a long-term plan with risk associated.
- **Investment Company:** a company whose main business is holding securities of other companies purely for investment purposes. The investment company invests money on behalf of its shareholders who in turn share in the profits and losses. An investment company invests the money it receives from investors on a collective basis, and each investor shares in the profits and losses in proportion to the investor's interest in the investment company.
- **Liquidity:** speed and ease by which an asset can be converted to cash.
- **Load:** sales charges and/or commissions associated with a mutual fund.

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- **Money market account:** any of a variety of interest-earning accounts that pay relatively high interest rates (compared to regular savings accounts) and offer some limited check-writing privileges. Money market accounts can be offered by financial institutions including banks, credit unions, brokerage firms and mutual funds. May or may not be insured.
- **Mutual fund:** an investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are operated by money managers who invest the fund's capital and attempt to produce capital gains and income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.
- **Net asset value:** the per-share value of a mutual fund. Calculated by adding value of all securities in a fund's portfolio, subtracting liabilities, and then dividing the total by the number of shares outstanding. This is the price of one share of the mutual fund.
- **Passively managed fund:** a fund whose investment securities are not chosen by a portfolio manager, but instead are automatically selected to match an index or part of the market. This is the opposite of an actively managed fund. For example, an S&P 500 index fund is a passively managed fund that mimics the S&P 500 index.
- **PAR Value:** in general is also known as par, nominal value or face value and refers to the amount at which a security is issued or can be redeemed.
- **Payout ratio:** the amount of earnings paid out in dividends to shareholders. Investors can use the payout ratio to determine what companies are doing with their earnings. Dividends per share divided by earnings per share.
- **Portfolio:** a collection of investments all owned by the same individual or organization. These investments often include stocks, which are investments in individual businesses; bonds, which are investments in debt that are designed to earn interest; and mutual funds, which are essentially pools of money from many investors that are invested by professionals or according to indices.
- **Portfolio Management:** the art and science of making decisions about investment mix and policy, matching investments to objectives, asset allocation for individuals and institutions, and balancing risk against performance.
- **Price-earnings ratio (P/E):** market price of common stock divided by EPS
- **Price to sales ratio (PSR):** market price of common stock divided by annual sales per share. This ratio is thought to identify overpriced stocks, i.e. the lower the PSR, the less likely the stock is overpriced.
- **Qualified plan:** a plan that meets the requirements of Internal Revenue Code Section 401(a) and the Employee Retirement Income Security Act of 1974 (ERISA) and is thus eligible for special tax considerations. The plan may provide for employer contributions, as in a pension or profit-sharing plan, as well as employee contributions. Plan earnings are not taxed to the employee until withdrawn.

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- **Rate of return:** gain or loss on an investment over a specified period, expressed as a percentage increase over the initial investment cost; another term for yield.
- **Risk:** uncertainty about the outcome of a situation or event; the possibility that the outcome will differ from what is expected.
- **Risk tolerance:** degree of uncertainty that an investor can handle in regard to a negative change in the value of his or her portfolio.
- **Safety:** freedom from financial risk.
- **Saving:** income not spent on current or past consumption (e.g., paying credit card balances). Committing money with the expectation of obtaining interest on the money, generally depositing money in a bank or credit union, or purchasing a U.S. Government savings bond. Typically a short-term plan with little to no risk associated.
- **Securities:** an instrument representing ownership (stocks), a debt agreement (bonds) or the rights to ownership (derivatives).
- **Stock market cycles:** the long-term price patterns of the stock market; repeating and periodic up-and-down movements (that can happen in all markets).
- **Tax-advantaged:** refers to the economic bonus which applies to certain accounts or investments that are, by statute, tax-reduced, tax-deferred, or tax-free. Governments establish the tax advantages to encourage private individuals to contribute money when it is considered to be in the public interest.
- **Tax-deferred:** in investments, refers to investment earnings such as interest, dividends or capital gains that accumulate tax free until the investor withdraws and takes possession of them. The most common types of tax-deferred investments include those in individual retirement accounts (IRAs) and deferred annuities.
- **Tax-exempt:** certain securities or investor groups that produce capital/income/interest can be referred to as tax exempt, which is to be free from, or not subject to, taxation by regulators or government entities.
- **Tax-free:** an informal term which, when referring to an investment, means that the growth in value in an investment is tax-exempt. Growth in a Roth IRA is tax-free.
- **Thrift Savings Plan (TSP):** the federal government's defined contribution plan for government service employees and members of the military.
- **Yield:** the income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value; another term for rate of return.

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QUALITY ASSURANCE PROCEDURES

To assure accurate and current information as well as a quality presentation:

- Headquarters (HQ) and installation PFMs will review the curriculum annually or when there have been consequential changes to content regarding laws, regulations or military programs that could have a significant impact on Marines and their families. HQ will then update the curriculum.
- Distribute session evaluations to participants at the end of each workshop. Results should be tabulated and retained to measure the effectiveness of information provided at the session, in the program content, and of the delivery of the presentation.

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CONTENT OUTLINE (2 HOURS AND 35 MINUTES TOTAL)

1. Welcome and Introduction (5 minutes)
 - a. Overview: Topics
2. The Basics (15 minutes)
 - a. Start Early
 - b. The Effects of Compound Interest and Time: Plan A
 - c. The Effects of Compound Interest and Time: Plan B
 - d. The Effects of Compound Interest and Time: Plan C
 - e. The Effects of Compound Interest and Time: Plan D
 - f. Projection Objections
3. Establishing Savings (20 minutes)
 - a. The Financial Planning Pyramid
 - b. Savings Factors to Consider
 - c. Savings Vehicles
 - d. Regular Savings Accounts
 - e. Certificates of Deposit
 - f. Money Market Accounts
 - g. U.S. Savings Bonds: Series EE
 - h. U.S. Savings Bonds: Series I
4. Saving vs. Investing (15 minutes)
 - a. Risk
 - b. Taxes
 - c. Taxes on Tax-Advantaged Accounts
 - d. Compounding
 - e. Should I Spend The Nest Egg?
5. Investing (35 minutes)
 - a. The Vehicles of Investing
 - b. Asset Classes and Related Mutual Funds
 - c. Equity: Stocks

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- d. Fixed Income: Bonds
- e. Cash and Cash Equivalents
- f. Mutual Funds
- g. Advantages and Disadvantages of Mutual Funds
- h. Lessons Learned
- i. Choosing a Mutual Fund
- j. Making an Evaluation
- k. The Market
- l. Real Estate as an Investment
- m. Collectibles as Investments
- n. Options and Commodities
- 6. The Savings Deposit Program (10 minutes)
- 7. The TSP Funds (45 minutes)
 - a. TSP Benefits
 - b. TSP Enrollment and Account Access
 - c. TSP Contributions
 - d. Index-Based Fund Options
 - e. G Fund
 - f. F Fund
 - g. C Fund
 - h. S Fund
 - i. I Fund
 - j. Lifecycle (L) Funds
 - k. L Fund Allocation Targets
 - l. L Fund Annual Returns
 - m. TSP Investment Options
 - n. Manage Your Own Mix
 - o. Let L Funds Manage Your Mix
 - p. TSP Loan Program

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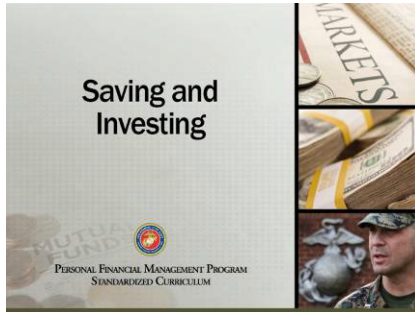
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- q. After Military Service
 - r. Early TSP Withdrawals
 - s. Withdrawal Options
8. Saving and Investing Techniques (5 minutes)
 9. Resources and Summary (5 minutes)

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SLIDE 1: INTRODUCTION



SLIDE 2: BASIC SAVING AND INVESTING



SLIDE 3: OVERVIEW: TOPICS



INSTRUCTOR NOTES:

1. Introduce yourself and have the participants introduce themselves.
2. Introduce the topics to be covered in this session.

SECTION BACKGROUND INFORMATION

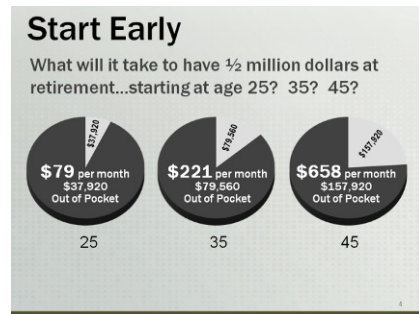
This class will explore how to use saving and investing to achieve financial security. We will start with a discussion of the basics, like using compound interest and time to your advantage. Then we will discuss the different saving and investing vehicles and uses, including mutual funds, the Savings Deposit Program, the Thrift Savings Plan and real estate. Finally, we will talk about some basic investing techniques to help you reach your goals and achieve financial security.

1. The Basics
2. Establishing Savings
3. Saving vs. Investing
4. Investing
5. The Savings Deposit Program
6. The TSP Funds
7. Saving and Investing Techniques

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SLIDE 4: START EARLY



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

How much wealth is enough? How much should a person save each month or year? What is a good goal? A few years ago, the head of the Social Security Administration suggested that the average middle-aged person today will need at least \$500,000 of their own money to retire comfortably (in addition to Social Security benefits and any employer- provided pensions). Are you on track to reach \$500,000 by the time you retire? Did you know that the earlier you start to save and invest, the less of your actual hard earned money needs to be committed to this goal? Let's get right to work on the importance of starting early by looking at an example.

A 25-year-old investor would need to invest \$79 per month at a rate of return of 10 percent — a total out-of-pocket expense of \$37,920 — to have \$500,000 at age 65. If the investor delayed starting for 10 years, at age 35, a monthly amount of \$221 would need to be invested — a total out-of-pocket expense of \$79,560 — to get the same \$500,000 at age 65. What if the investor delayed until age 45? He or she would have to invest \$658 each month — a total out-of-pocket expense of \$157,920 — to have \$500,000 by age 65. (All examples assume a 10 percent long-term rate of return, with taxes deferred.)

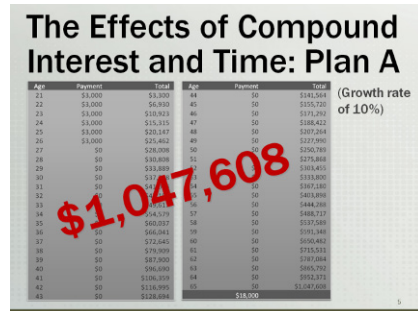
What does this example show? The earlier you start to invest, the less you have to invest each month as you age. This is the “magic” of compound interest and time. The sooner you begin to put money aside, the longer your money will be working for you. In the same way that the key to building wealth is saving and investing, the keys to successful investing are pretty simple: start early in life, be consistent and disciplined, and let compound interest and time work for you.

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SLIDE 5: THE EFFECTS OF COMPOUND INTEREST AND TIME: PLAN A

The Effects of Compound Interest and Time: Plan A



Age	Payment	Total	Age	Payment	Total
21	\$3,000	\$3,300	44	\$0	\$181,568
22	\$3,000	\$6,600	45	\$0	\$195,725
23	\$3,000	\$9,900	46	\$0	\$211,292
24	\$3,000	\$13,200	47	\$0	\$228,422
25	\$3,000	\$16,500	48	\$0	\$247,268
26	\$3,000	\$19,800	49	\$0	\$267,966
27	\$0	\$20,000	50	\$0	\$290,560
28	\$0	\$20,000	51	\$0	\$315,208
29	\$0	\$20,000	52	\$0	\$342,072
30	\$0	\$20,000	53	\$0	\$371,280
31	\$0	\$20,000	54	\$0	\$402,880
32	\$0	\$20,000	55	\$0	\$436,960
33	\$0	\$20,000	56	\$0	\$473,600
34	\$0	\$20,000	57	\$0	\$512,800
35	\$0	\$20,000	58	\$0	\$554,560
36	\$0	\$20,000	59	\$0	\$598,880
37	\$0	\$20,000	60	\$0	\$645,760
38	\$0	\$20,000	61	\$0	\$695,200
39	\$0	\$20,000	62	\$0	\$747,200
40	\$0	\$20,000	63	\$0	\$801,760
41	\$0	\$20,000	64	\$0	\$858,880
42	\$0	\$20,000	65	\$0	\$918,560
43	\$0	\$20,000			\$980,800

INSTRUCTOR NOTES:

1. Discuss the points on the slide using the information in the column to the right.
2. Distribute the “Compound Interest and Time (Rate of Return = 10%)” handout. For further examples, you can use the Excel spreadsheet for this handout to show the differences in time and rate of return. Before making the presentation, open the spreadsheet included with this module and practice entering numbers for different scenarios. Note that you can change the percentage rate on the right of the worksheet, as well as the annual amount invested. (\$3,000/year = \$250/month or \$125/pay period.)

SECTION BACKGROUND INFORMATION

Compound interest, simply defined, is when the earnings on the dollars you save or invest accumulate earnings of their own.

In the first column, Plan A, \$3,000 is committed each year for six years (a total of \$18,000 out-of-pocket) starting at age 21. Without ever saving another cent, if the money was to grow at 10 percent per year with no withdrawals, the plan would be worth over \$1 million by age 65.

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SLIDE 6: THE EFFECTS OF COMPOUND INTEREST AND TIME: PLAN B

The Effects of Compound Interest and Time: Plan B

Age	Payment	Total	Age	Payment	Total
21	\$0	\$0	44	\$0	\$14,379
22	\$0	\$0	45	\$0	\$15,213
23	\$0	\$0	46	\$0	\$16,081
24	\$0	\$0	47	\$0	\$16,984
25	\$0	\$0	48	\$0	\$17,924
26	\$0	\$0	49	\$0	\$18,904
27	\$0	\$0	50	\$0	\$19,928
28	\$0	\$0	51	\$0	\$20,999
29	\$0	\$0	52	\$0	\$22,121
30	\$0	\$0	53	\$0	\$23,297
31	\$3,000	\$3,000	54	\$0	\$24,531
32	\$3,000	\$6,000	55	\$0	\$25,827
33	\$3,000	\$9,000	56	\$0	\$27,189
34	\$3,000	\$12,000	57	\$0	\$28,622
35	\$3,000	\$15,000	58	\$0	\$30,131
36	\$3,000	\$18,000	59	\$0	\$31,721
37	\$3,000	\$21,000	60	\$0	\$33,397
38	\$3,000	\$24,000	61	\$0	\$35,164
39	\$3,000	\$27,000	62	\$0	\$37,028
40	\$3,000	\$30,000	63	\$0	\$38,995
41	\$3,000	\$33,000	64	\$0	\$41,071
42	\$3,000	\$36,000	65	\$0	\$43,263
43	\$3,000	\$39,000	66	\$0	\$45,587
44	\$3,000	\$42,000	67	\$0	\$48,051
45	\$3,000	\$45,000	68	\$0	\$50,662
46	\$3,000	\$48,000	69	\$0	\$53,428
47	\$3,000	\$51,000	70	\$0	\$56,357
48	\$3,000	\$54,000	71	\$0	\$59,458
49	\$3,000	\$57,000	72	\$0	\$62,740
50	\$3,000	\$60,000	73	\$0	\$66,212
51	\$3,000	\$63,000	74	\$0	\$69,884
52	\$3,000	\$66,000	75	\$0	\$73,765
53	\$3,000	\$69,000	76	\$0	\$77,865
54	\$3,000	\$72,000	77	\$0	\$82,194
55	\$3,000	\$75,000	78	\$0	\$86,762
56	\$3,000	\$78,000	79	\$0	\$91,580
57	\$3,000	\$81,000	80	\$0	\$96,658
58	\$3,000	\$84,000	81	\$0	\$101,997
59	\$3,000	\$87,000	82	\$0	\$107,608
60	\$3,000	\$90,000	83	\$0	\$113,503
61	\$3,000	\$93,000	84	\$0	\$119,695
62	\$3,000	\$96,000	85	\$0	\$126,198
63	\$3,000	\$99,000	86	\$0	\$133,027
64	\$3,000	\$102,000	87	\$0	\$140,197
65	\$3,000	\$105,000	88	\$0	\$147,724
66	\$3,000	\$108,000	89	\$0	\$155,625
67	\$3,000	\$111,000	90	\$0	\$163,918
68	\$3,000	\$114,000	91	\$0	\$172,621
69	\$3,000	\$117,000	92	\$0	\$181,753
70	\$3,000	\$120,000	93	\$0	\$191,334
71	\$3,000	\$123,000	94	\$0	\$201,385
72	\$3,000	\$126,000	95	\$0	\$211,936
73	\$3,000	\$129,000	96	\$0	\$222,998
74	\$3,000	\$132,000	97	\$0	\$234,591
75	\$3,000	\$135,000	98	\$0	\$246,737
76	\$3,000	\$138,000	99	\$0	\$259,458
77	\$3,000	\$141,000	100	\$0	\$272,777
78	\$3,000	\$144,000	101	\$0	\$286,718
79	\$3,000	\$147,000	102	\$0	\$301,305
80	\$3,000	\$150,000	103	\$0	\$316,563
81	\$3,000	\$153,000	104	\$0	\$332,518
82	\$3,000	\$156,000	105	\$0	\$349,206
83	\$3,000	\$159,000	106	\$0	\$366,664
84	\$3,000	\$162,000	107	\$0	\$384,929
85	\$3,000	\$165,000	108	\$0	\$404,041
86	\$3,000	\$168,000	109	\$0	\$424,041
87	\$3,000	\$171,000	110	\$0	\$444,971
88	\$3,000	\$174,000	111	\$0	\$466,874
89	\$3,000	\$177,000	112	\$0	\$489,794
90	\$3,000	\$180,000	113	\$0	\$513,775
91	\$3,000	\$183,000	114	\$0	\$538,859
92	\$3,000	\$186,000	115	\$0	\$565,000
93	\$3,000	\$189,000	116	\$0	\$592,253
94	\$3,000	\$192,000	117	\$0	\$620,674
95	\$3,000	\$195,000	118	\$0	\$650,319
96	\$3,000	\$198,000	119	\$0	\$681,246
97	\$3,000	\$201,000	120	\$0	\$713,523
98	\$3,000	\$204,000	121	\$0	\$747,211
99	\$3,000	\$207,000	122	\$0	\$782,381
100	\$3,000	\$210,000	123	\$0	\$819,095
101	\$3,000	\$213,000	124	\$0	\$857,417
102	\$3,000	\$216,000	125	\$0	\$897,411
103	\$3,000	\$219,000	126	\$0	\$939,143
104	\$3,000	\$222,000	127	\$0	\$982,681
105	\$3,000	\$225,000	128	\$0	\$1,028,094
106	\$3,000	\$228,000	129	\$0	\$1,075,351
107	\$3,000	\$231,000	130	\$0	\$1,124,531
108	\$3,000	\$234,000	131	\$0	\$1,175,714
109	\$3,000	\$237,000	132	\$0	\$1,228,981
110	\$3,000	\$240,000	133	\$0	\$1,284,414
111	\$3,000	\$243,000	134	\$0	\$1,342,097
112	\$3,000	\$246,000	135	\$0	\$1,402,025
113	\$3,000	\$249,000	136	\$0	\$1,464,294
114	\$3,000	\$252,000	137	\$0	\$1,528,911
115	\$3,000	\$255,000	138	\$0	\$1,595,984
116	\$3,000	\$258,000	139	\$0	\$1,665,621
117	\$3,000	\$261,000	140	\$0	\$1,737,941
118	\$3,000	\$264,000	141	\$0	\$1,813,064
119	\$3,000	\$267,000	142	\$0	\$1,891,011
120	\$3,000	\$270,000	143	\$0	\$1,971,914
121	\$3,000	\$273,000	144	\$0	\$2,055,911
122	\$3,000	\$276,000	145	\$0	\$2,143,154
123	\$3,000	\$279,000	146	\$0	\$2,233,701
124	\$3,000	\$282,000	147	\$0	\$2,327,711
125	\$3,000	\$285,000	148	\$0	\$2,425,344
126	\$3,000	\$288,000	149	\$0	\$2,526,661
127	\$3,000	\$291,000	150	\$0	\$2,631,834
128	\$3,000	\$294,000	151	\$0	\$2,741,031
129	\$3,000	\$297,000	152	\$0	\$2,854,424
130	\$3,000	\$300,000	153	\$0	\$2,972,181
131	\$3,000	\$303,000	154	\$0	\$3,094,474
132	\$3,000	\$306,000	155	\$0	\$3,221,481
133	\$3,000	\$309,000	156	\$0	\$3,353,384
134	\$3,000	\$312,000	157	\$0	\$3,490,361
135	\$3,000	\$315,000	158	\$0	\$3,632,601
136	\$3,000	\$318,000	159	\$0	\$3,780,304
137	\$3,000	\$321,000	160	\$0	\$3,933,681
138	\$3,000	\$324,000	161	\$0	\$4,092,944
139	\$3,000	\$327,000	162	\$0	\$4,258,311
140	\$3,000	\$330,000	163	\$0	\$4,429,914
141	\$3,000	\$333,000	164	\$0	\$4,607,911
142	\$3,000	\$336,000	165	\$0	\$4,792,564
143	\$3,000	\$339,000	166	\$0	\$4,984,041
144	\$3,000	\$342,000	167	\$0	\$5,182,534
145	\$3,000	\$345,000	168	\$0	\$5,388,331
146	\$3,000	\$348,000	169	\$0	\$5,601,714
147	\$3,000	\$351,000	170	\$0	\$5,823,061
148	\$3,000	\$354,000	171	\$0	\$6,052,664
149	\$3,000	\$357,000	172	\$0	\$6,290,711
150	\$3,000	\$360,000	173	\$0	\$6,537,504
151	\$3,000	\$363,000	174	\$0	\$6,793,341
152	\$3,000	\$366,000	175	\$0	\$7,057,614
153	\$3,000	\$369,000	176	\$0	\$7,330,711
154	\$3,000	\$372,000	177	\$0	\$7,612,944
155	\$3,000	\$375,000	178	\$0	\$7,904,711
156	\$3,000	\$378,000	179	\$0	\$8,206,414
157	\$3,000	\$381,000	180	\$0	\$8,518,461
158	\$3,000	\$384,000	181	\$0	\$8,841,284
159	\$3,000	\$387,000	182	\$0	\$9,175,211
160	\$3,000	\$390,000	183	\$0	\$9,520,664
161	\$3,000	\$393,000	184	\$0	\$9,878,061
162	\$3,000	\$396,000	185	\$0	\$10,247,814
163	\$3,000	\$399,000	186	\$0	\$10,630,461
164	\$3,000	\$402,000	187	\$0	\$11,026,414
165	\$3,000	\$405,000	188	\$0	\$11,436,111
166	\$3,000	\$408,000	189	\$0	\$11,859,964
167	\$3,000	\$411,000	190	\$0	\$12,298,411
168	\$3,000	\$414,000	191	\$0	\$12,751,964
169	\$3,000	\$417,000	192	\$0	\$13,220,061
170	\$3,000	\$420,000	193	\$0	\$13,703,214
171	\$3,000	\$423,000	194	\$0	\$14,201,961
172	\$3,000	\$426,000	195	\$0	\$14,716,814
173	\$3,000	\$429,000	196	\$0	\$15,248,311
174	\$3,000	\$432,000	197	\$0	\$15,796,964
175	\$3,000	\$435,000	198	\$0	\$16,362,311
176	\$3,000	\$438,000	199	\$0	\$16,945,014
177	\$3,000	\$441,000	200	\$0	\$17,545,561
178	\$3,000	\$444,000	201	\$0	\$18,164,514
179	\$3,000	\$447,000	202	\$0	\$18,802,411
180	\$3,000	\$450,000	203	\$0	\$19,459,764
181	\$3,000	\$453,000	204	\$0	\$20,137,111
182	\$3,000	\$456,000	205	\$0	\$20,835,064
183	\$3,000	\$459,000	206	\$0	\$21,554,111
184	\$3,000	\$462,000	207	\$0	\$22,294,814
185	\$3,000	\$465,000	208	\$0	\$23,057,661
186	\$3,000	\$468,000	209	\$0	\$23,843,214
187	\$3,000	\$471,000	210	\$0	\$24,652,111
188	\$3,000	\$474,000	211	\$0	\$25,484,964
189	\$3,000	\$477,000	212	\$0	\$26,342,311
190	\$3,000	\$480,000	213	\$0	\$27,224,764
191	\$3,000	\$483,000	214	\$0	\$28,132,911
192	\$3,000	\$486,000	215	\$0	\$29,067,364
193	\$3,000	\$489,000	216	\$0	\$30,028,711
194	\$3,000	\$492,000	217	\$0	\$31,017,664
195	\$3,000	\$495,000	218	\$0	\$32,034,711
196	\$3,000	\$498,000	219	\$0	\$33,080,564
197	\$3,000	\$501,000	220	\$0	\$34,155,811
198	\$3,000	\$504,000	221	\$0	\$35,261,164
199	\$3,000	\$507,000	222	\$0	\$36,397,311
200	\$3,000	\$510,000	223	\$0	\$37,564,964
201	\$3,000	\$513,000	224	\$0	\$38,764,711
202	\$3,000	\$516,000	225	\$0	\$39,997,264
203	\$3,000	\$519,000	226	\$0	\$41,263,411
204	\$3,000	\$522,000	227	\$0	\$42,563,864
205	\$3,000	\$525,000	228	\$0	\$43,899,311
206	\$3,000	\$528,000	229	\$0	\$45,271,564
207	\$3,000	\$531,000	230	\$0	\$46,681,411
208	\$3,000	\$534,000	231	\$0	\$48,129,664
209	\$3,000	\$537,000	232	\$0	\$49,617,111
210	\$3,000	\$540,000	233	\$0	\$51,144,764
211	\$3,000	\$543,000	234	\$0	\$52,712,511
212	\$3,000	\$546,000	235	\$0	\$54,321,264
213	\$3,000	\$549,000	236	\$0	\$55,972,011
214	\$3,000	\$552,000	237	\$0	\$57,664,764
215	\$3,000	\$555,000	238	\$0	\$59,400,411
216	\$3,000	\$558,000	239	\$0	\$61,180,064
217	\$3,000</				

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SLIDE 8: THE EFFECTS OF COMPOUND INTEREST AND TIME: PLAN D

The Effects of Compound Interest and Time: Plan D

Age	Payment	Total	Age	Payment	Total	(Growth rate of 10%)
21	\$0	\$0	44	\$0	\$14,503	
22	\$0	\$0	45	\$0	\$15,953	
23	\$0	\$0	46	\$0	\$17,548	
24	\$0	\$0	47	\$0	\$19,303	
25	\$0	\$0	48	\$0	\$21,233	
26	\$0	\$0	49	\$0	\$23,356	
27	\$0	\$0	50	\$0	\$25,692	
28	\$0	\$0	51	\$0	\$28,261	
29	\$0	\$0	52	\$0	\$31,087	
30	\$0	\$0	53	\$0	\$34,196	
31	\$0	\$0	54	\$0	\$37,616	
32	\$0	\$0	55	\$0	\$41,378	
33	\$0	\$0	56	\$0	\$45,516	
34	\$0	\$0	57	\$0	\$50,068	
35	\$0	\$0	58	\$0	\$55,075	
36	\$10,000	\$10,000	59	\$0	\$60,582	
37	\$10,000	\$20,000	60	\$0	\$66,640	
38	\$10,000	\$30,000	61	\$0	\$73,304	
39	\$10,000	\$40,000	62	\$0	\$80,634	
40	\$10,000	\$50,000	63	\$0	\$88,698	
41	\$10,000	\$60,000	64	\$0	\$97,567	
42	\$10,000	\$70,000	65	\$0	\$107,324	
43	\$10,000	\$80,000	66	\$0	\$118,056	
44	\$10,000	\$90,000	67	\$0	\$129,862	
45	\$10,000	\$100,000	68	\$0	\$142,848	
46	\$10,000	\$110,000	69	\$0	\$157,133	
47	\$10,000	\$120,000	70	\$0	\$172,846	
48	\$10,000	\$130,000	71	\$0	\$190,031	
49	\$10,000	\$140,000	72	\$0	\$208,834	
50	\$10,000	\$150,000	73	\$0	\$229,318	
51	\$10,000	\$160,000	74	\$0	\$251,650	
52	\$10,000	\$170,000	75	\$0	\$275,915	
53	\$10,000	\$180,000	76	\$0	\$302,307	
54	\$10,000	\$190,000	77	\$0	\$330,941	
55	\$10,000	\$200,000	78	\$0	\$361,935	
56	\$10,000	\$210,000	79	\$0	\$395,529	
57	\$10,000	\$220,000	80	\$0	\$431,882	
58	\$10,000	\$230,000	81	\$0	\$471,270	
59	\$10,000	\$240,000	82	\$0	\$513,997	
60	\$10,000	\$250,000	83	\$0	\$560,396	
61	\$10,000	\$260,000	84	\$0	\$611,036	
62	\$10,000	\$270,000	85	\$0	\$666,340	
63	\$10,000	\$280,000	86	\$0	\$726,974	
64	\$10,000	\$290,000	87	\$0	\$793,671	
65	\$10,000	\$300,000	88	\$0	\$867,039	
66	\$10,000	\$310,000	89	\$0	\$947,747	
67	\$10,000	\$320,000	90	\$0	\$1,036,524	
68	\$10,000	\$330,000	91	\$0	\$1,134,177	
69	\$10,000	\$340,000	92	\$0	\$1,241,595	
70	\$10,000	\$350,000	93	\$0	\$1,359,755	
71	\$10,000	\$360,000	94	\$0	\$1,489,734	
72	\$10,000	\$370,000	95	\$0	\$1,632,708	
73	\$10,000	\$380,000	96	\$0	\$1,789,984	
74	\$10,000	\$390,000	97	\$0	\$1,963,181	
75	\$10,000	\$400,000	98	\$0	\$2,154,100	
76	\$10,000	\$410,000	99	\$0	\$2,373,910	
77	\$10,000	\$420,000	100	\$0	\$2,625,301	

INSTRUCTOR NOTES:

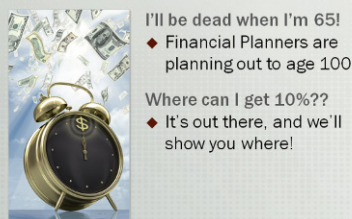
1. Use the information in the column to the right to guide your discussion.
2. Note that Scenario D is based on receiving the \$30,000 Redux bonus at the 15-year point and investing it under the TSP installment plan.

SECTION BACKGROUND INFORMATION

Plan D shows investment of a \$30,000 lump sum over three years (\$10,000 per year) starting at age 36. Using the same growth rate of 10 percent, the investment would only grow to \$477,335.

SLIDE 9: PROJECTION OBJECTIONS

Projection Objections



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Some Marines object to these projections. Objections include, “But I’ll be dead by the time I’m 65!” Actually, financial planners are planning out to 100 years of age these days. Another common objection is, “You can’t get 10 percent anywhere that I know of!” Again, this is not true. Reasonable investment returns and where to get them will be discussed later in this program.

Earlier, a figure of \$500,000 might have seemed impossible. After looking at these scenarios and how invested money, through the “magic” of compound interest and time, can grow into substantial sums, it clearly is possible (and easy if you start early) to reach twice that figure!

Keep in mind that this is an average return over time and includes the effects of inflation. According to

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Standard and Poor's (S&P), the average annual compounded rate of return for the S&P 500 (including reinvestment of dividends) from January 1970 to December 2009 was 10.1 percent. Even including the Great Depression, the average annual compounded rate of return from 1926 to 2008 was 9.68 percent.

SLIDE 10: THE FINANCIAL PLANNING PYRAMID



INSTRUCTOR NOTES:

1. Use the information in the column to the right to guide your discussion.
2. Distribute the “Financial Planning Pyramid” handout to participants.

SECTION BACKGROUND INFORMATION

With the Financial Planning Pyramid, building wealth can be easy, if you follow a few simple steps. What is the first thing to do? The Financial Planning Pyramid provides a simple and organized approach to achieving your financial goals. As always, when we are talking about goal setting, keep in mind the SMART principle. A SMART goal is specific, measurable, attainable, realistic, and time constrained. For this session, we are going to look at the Saving and Investment levels of the pyramid.

Once your management tools are in place, there is another level to emphasize before you start investing — establishing savings. Although you can certainly save and invest at the same time, you should focus on establishing your savings, especially emergency savings, before you concentrate on the investment levels.

The Financial Planning Pyramid shows that a sound savings plan consists of three components. These do not actually need to be three separate accounts (although some people find it easier to keep the money separate that way) but should be three separate “accountings.”

Emergency Fund: These are cash reserves set up in a safe, easy-to-access savings account to provide money for unexpected financial situations, such as emergency leave to visit a sick parent, car repairs, etc. You should strive to have one to three months of your monthly expenses and debt payments set aside in your emergency fund.

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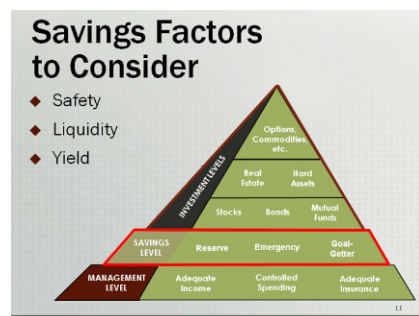
STANDARDIZED CURRICULUM

Reserve Fund: Money should be available in savings to cover expenses that are predictable but do not occur on a monthly basis, such as car insurance, regular maintenance, taxes, birthdays, anniversaries and holiday spending. Calculate the annual expense, divide it by 12, and put that amount aside monthly.

Goal-Getter Fund: The purpose of this fund is to provide savings for short-term goals (money needed in less than five years). This can be for big purchases such as buying a car, putting a down payment on a house or a special vacation or can be for smaller special purchases such as a new laptop, flat screen TV, carpeting or furniture.

Next we will explore various savings vehicles to house the funds you have set aside for future needs. You will notice that we do not include the basic checking/share draft account in this list. Unless your checking/share draft account accrues interest, it is not a good option for the maintenance of your savings.

SLIDE 11: SAVINGS FACTORS TO CONSIDER



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Where do you put your money when you are building your savings funds? Typically, you will use some type of savings vehicle. Before discussing the different types available, though, it is important to understand the three main factors used to evaluate the appropriateness of a saving or investing vehicle (or “product”). These factors are safety, liquidity and yield; the “S-L-Y” factors.

Safety: When you save and/or invest \$1, you want to be certain you at least will get your \$1 back. Is the account insured? How safe is the principal? Some products guarantee you’ll get your money back, but others do not. You could lose some or all of what you invested. Another concept that is associated with safety is risk as it relates to level of uncertainty an individual can comfortably manage. Some individuals are somewhat risk-adverse and are looking for saving and investing vehicles with a large measure of safety

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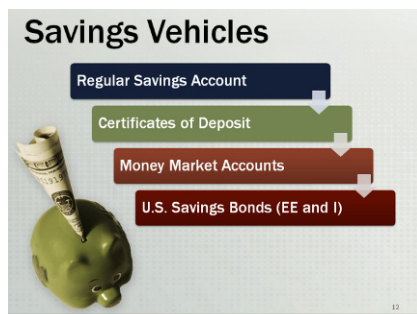
STANDARDIZED CURRICULUM

and a low measure of risk. Others have a higher threshold for uncertainty and are comfortable with a lower measure of safety.

Liquidity: How quickly and easily can you access your money? Some money is available immediately, such as money in a savings or checking account. Other money could take a long time to have in hand, such as equity in a real estate investment.

Yield (or rate of return): The yield is how much money your savings or investments earn. Some financial vehicles, such as a savings account, usually have a low rate of return, while others, like a growth stock, have the potential for high returns. When considering the “S-L-Y” factors, it is important to know that you never can have all three working in your favor — there always will be a trade-off. The trade-off you are willing to accept will depend on your goals and your time frame for the money you have. For example: For your emergency fund, safety and liquidity will be most important, so you will have to sacrifice some yield.

SLIDE 12: SAVINGS VEHICLES



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

There are four basic options to save: savings accounts, certificates of deposit, money market accounts, and U.S. savings bonds. Each should be evaluated in view of safety, liquidity and yield:

- Regular savings account
- Certificates of deposit
- Money market accounts
- U.S. savings bonds (EE and I)

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SLIDE 13: REGULAR SAVINGS ACCOUNTS

Regular Savings Accounts



- ◆ Safety: Guaranteed up to \$250,000
- ◆ Liquidity: No restrictions on withdrawals
- ◆ Yield: Generally the lowest interest rate
- ◆ Bank or Credit Union

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Safety: Guaranteed up to \$250,000 (per Social Security number) if federally insured.

Liquidity: Restrictions on withdrawals will vary with the institution; some may charge for any withdrawal or for any withdrawal over a certain number. However, federal regulation limits the number of withdrawals and/or transfers that may be made from a savings account by telephone/PC transfer, pre-authorized transfer, debit card. You are limited to six withdrawals and/or transfers from your savings account each monthly statement cycle by pre-authorized transfer, or telephone/PC transfer (including bill payments). And, if the account permits transfers by debit card, no more than three of the six limited transfers may be by check or debit card.

Yield: Generally carry lowest rates of interest. The current average rate is less than .62 percent (as of February 2011).

Go to your local credit union or bank to open a regular savings or share savings account.

The Federal Deposit Insurance Corporation protects the majority of banks. Credit union accounts have similar protection from the National Credit Union Administration. Both organizations are backed by the U.S. government and insure as much as \$250,000 per account, per individual. This means that accounts are insured against a loss up to a balance of \$250,000, even if the financial institution were to fail. (Note: The rate increased from \$100,000 to \$250,000 in 2009; however, the higher rate is only guaranteed through Dec. 31, 2013.)

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SLIDE 14: CERTIFICATES OF DEPOSIT

Certificates of Deposit

- ◆ Safety: Guaranteed up to \$250,000, if insured
- ◆ Liquidity: Invested for a fixed period, if liquidated before that - some interest may be forfeited
- ◆ Yield: Average for 1-year is .90 %
- ◆ Bank, Credit Union or brokerage
- ◆ Usually a minimum of \$500

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

A certificate of deposit (CD) is a deposit of a fixed sum of money for a fixed period of time.

Safety: Guaranteed up to \$250,000 if federally insured.

Liquidity: Funds are invested for a fixed period, usually six months to five years. CDs may be liquidated at any time, but if it is before the maturity date, some interest may be forfeited.

Yield: Higher than savings deposits; the longer the term, the higher the yield. The average rate or return is for a one-year CD is .90 percent (as of February 2011).

Minimum deposits (usually at least \$500) are required. These often are called share certificates at credit unions. Go to your local credit union, bank or brokerage to purchase a CD.

SLIDE 15: MONEY MARKET ACCOUNTS

Money Market Accounts

- ◆ Safety: Guaranteed up to \$250,000, if insured
- ◆ Liquidity: Generally no restriction on withdrawals
- ◆ Yield: Low but higher than savings account - Average is .71 %
- ◆ Bank, Credit Union or brokerage
- ◆ May have a large minimum deposit, required minimum balance, and fees for withdrawals

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Money market accounts are interest-earning savings accounts offered by FDIC-insured institutions, with limited transaction privileges.

Safety: Safe but may not be federally insured, depending on where the account is maintained. A money market deposit account at a bank or credit union should be insured up to \$250,000 per account. A money market account held at a brokerage or through a mutual fund typically will not be insured.

Liquidity: Money market accounts may have a large minimum deposit required, a required minimum balance, fees for withdrawals, and/or limited check-writing privileges. Restrictions follow the same regulation governing savings account withdrawals, which limits the number of withdrawals and/or transfers that may be made from a savings account by telephone/PC transfer, pre-authorized transfer, or debit card. You are limited to six withdrawals and/or transfers from your savings account each monthly statement cycle by pre-authorized transfer, or telephone/PC transfer (including bill payments). And,

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if the account permits transfers by debit card, no more than three of the six limited transfers may be by check or debit card.

Yield: Generally low but higher than regular savings. The yield varies with changes in interest rates. Money market accounts may be attractive if rates are rising rapidly. The current national average rate is .71 percent (as of February 2011).

Go to your local credit union, bank or a brokerage to open a money market account. Remember that many brokerages may help you open a money market fund account, which will not be insured. For savings purposes, an insured money market account is best.

SLIDE 16: U.S. SAVINGS BONDS: SERIES EE

U.S. Savings Bonds: EE

- ◆ Safety: Guaranteed
- ◆ Liquidity: Can be redeemed after 12 months, subject to a 3 month interest penalty if held for less than 5 years
- ◆ Yield: Fixed rate of return determined twice a year
- ◆ Bank, Credit Union or savingsbonds.gov
- ◆ Minimum investment of \$25
- ◆ No commissions or fees

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Safety: Guaranteed by the U.S. Treasury.

Liquidity: Can be redeemed after 12 months but subject to a three-month interest penalty if held for less than five years.

Yield: A fixed rate of return determined twice a year. The current rate is 0.6 percent (valid from November 2010 through April 2011).

Series EE bonds are an easy, convenient and disciplined way to begin your investing. The S-L-Y trade-off is that the yield is relatively low. If you are going to invest in savings bonds, make it a part of your investment plan but not all of it. Features of Series EE bonds include:

- Available in either paper form or electronic form.
- Minimum investment is \$25.
- Paper bonds are purchased for half of their face value; the value of the bond builds over time to achieve full face value (“original maturity”). For example an EE bond with a face value of \$100 is purchased for \$50. It is guaranteed to reach its face value in 20 years. Electronic bonds are purchased at full face value and build additional value over time due to the interest earned. Another term for face value is par value.

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- Risk is lower than most investments, because the principal (amount you invested) and interest (amount your money earned) are backed by the full faith and credit of the U.S. government.
- Convenient to purchase from a bank, credit union, or directly from the government at <http://www.savingsbonds.gov>.
- There are no commissions or fees.
- Interest earned on savings bonds is exempt from state and local taxes, and federal taxes are postponed until you redeem the bonds.
- Interest earned on bonds purchased by a person age 24 or older and used to pay certain qualified education expenses may be excluded from gross income. In other words, these can be an important element of an education savings plan for a child. (The bonds must be issued in the parent's name, not the child's, to get this tax benefit.)
- Savings bonds earn interest for 30 years. They can be redeemed as early as 12 months after purchase, but if cashed in within five years of purchase there is a three-month interest penalty. Rates of interest change every six months.
- If the paper bond has not reached face value within 20 years, the government automatically will make an adjustment to the interest earned so the bond can be redeemed at face value.
- Patriot Bonds are a version of paper EE bonds sold directly through financial institutions since 10 December 2001 and a way for Americans to express their support of our nation's anti-terrorism efforts. The only differences between regular EE bonds and the Patriot Bonds are the special imprint of "Patriot Bond" at the top of the document and the fact that the proceeds are deposited into a general fund that includes contributions to anti-terrorism efforts.

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SLIDE 17: U.S. SAVINGS BONDS: SERIES I

U.S. Savings Bonds: I

- ◆ Safety: Guaranteed
- ◆ Liquidity: Can be redeemed after 12 months, subject to a 3 month interest penalty if held for less than 5 years
- ◆ Yield: Has two parts--a fixed rate of return and a variable, semi-annual inflation rate
- ◆ Bank, Credit Union or savingsbonds.gov
- ◆ Minimum investment is \$25 (electronic form) or \$50 (paper form)
- ◆ No commissions or fees

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Safety: Guaranteed by the U.S. Treasury.

Liquidity: Can be redeemed after 12 months but subject to a three-month interest penalty if held for less than five years.

Yield for Series I Bonds: Yield is indexed for inflation and has two parts: a fixed rate of return and a variable, semi-annual inflation rate. The current rate is 0.74 percent (valid from November 2010 through April 2011).

Like Series EE bonds, Series I bonds are an easy, convenient and disciplined way to begin investing. The S-L-Y trade-off is that the yield is relatively low. Features of Series I bonds include:

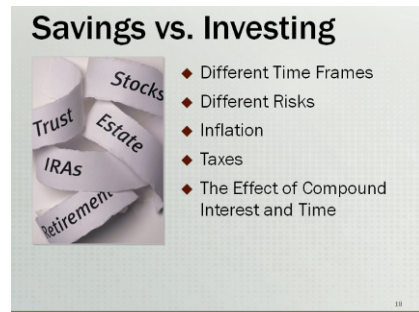
- Available in either paper form or electronic form.
- Minimum investment is \$25 (electronic form) or \$50 (paper form).
- Purchased at full face value, whether electronic or paper.
- Risk is lower than most investments, because the principal (amount you invested) and interest (amount your money earned) are backed by the full faith and credit of the U.S. government.
- Convenient to purchase from a bank, credit union, or directly from the government at <http://www.savingsbonds.gov>.
- There are no commissions or fees.
- Interest earned on savings bonds is exempt from state and local taxes, and federal taxes are postponed until you redeem the bonds.
- Interest earned on bonds purchased by a person age 24 or older and used to pay certain qualified education expenses may be excluded from gross income. In other words, these can be an important element of an education savings plan for a child. (The bonds must be issued in the parent's name, not the child's, to get this tax benefit.)

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- Savings bonds earn interest for 30 years. They can be redeemed as early as 12 months after purchase, but if cashed in within five years of purchase there is a three-month interest penalty. Rates of interest change every six months.

SLIDE 18: SAVING VS. INVESTING



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

What is the difference between saving and investing? After working on the Management Level of the Financial Planning Pyramid, savings becomes the next critical step toward financial security. Do not start an investment plan until you have a solid emergency fund for a safety net. However, for long-range goals, it is important to get a better rate of return than is available with savings vehicles, and it is here that we move up the pyramid to look at investment options.

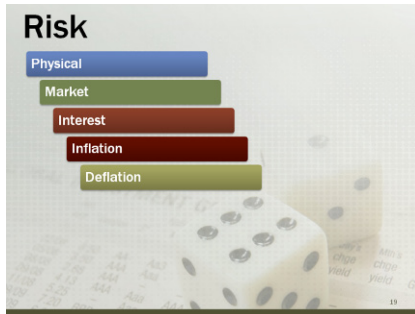
How does investing differ from savings? They differ in the time frame in which the money is needed; in the higher risk associated with investment vehicles; in the effect of inflation and taxes on investment earnings; and in the significant effect of compound interest and time.

As discussed earlier, it is most appropriate to use savings vehicles for short-term financial goals — money to be used in five years or less. If the money is needed for a goal in five or more years, investment vehicles that offer the potential for a higher yield are the best option. This is because in the short term, money that is placed in investments is subject to market fluctuations, and the investor has a higher risk of losing money. The longer your investment horizon (the distance from making the investment to using the investment), the better your ability to lower some of the risk of market fluctuations.

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SLIDE 19: RISK



INSTRUCTOR NOTES:

1. Discuss the points on the slide using the information in the column to the right.
2. Distribute the “Investing for the Long Haul” handout.

SECTION BACKGROUND INFORMATION

Risk is inherent in each type of investment vehicle. These risks differ, depending on what investment product is used. Many people never invest their money because they are afraid of losing any of it — they do not want to take on any risk whatsoever — so they keep all their money in a low-earning savings vehicle. Unfortunately, doing that may mean they never will achieve their financial goals, because they never take advantage of the bigger earnings available in the investment market.

Investment styles or philosophies are as individual as the investors involved. Each person will have their own personal goals and risk-tolerance. However, they can be grouped in general categories.

Ultraconservative investors are only comfortable with no risk of a loss to their savings/investing vehicles. In reality, these people are not investors but savers, utilizing federally insured savings account, CDs, savings bonds and other Treasuries for short-, intermediate- and long-term planning.

Conservative investors are willing to accept very little risk with the understanding that their level of return is going to be less. They seek moderate current income and preservation of capital. Typical conservative investment vehicles are Treasuries and municipal bonds, high-quality corporate bonds and stocks, balanced mutual funds, CDs and annuities.

Moderate investors are willing to endure some risk to achieve capital gains through slow and steady growth in investment value as well as some current income. Typical moderate investment vehicles are dividend-paying common stocks, growth and income mutual funds, high-quality corporate bonds, government bonds and real estate.

Aggressive investors seek high returns, primarily through capital gains, and will accept high levels of risk to achieve their objectives. Typical aggressive

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investment vehicles are common stock of new or fast-growing companies, high-yield junk bonds, aggressive-growth mutual funds, limited real estate partnerships, futures and precious metals.

Additionally, gender frequently has some influence on investment style. Men tend to be risk-takers, have more types of investments and trade more frequently.

Women lean toward conservatism, concentrate their investments into fewer accounts or individual investments, and trade less often. Other ways to categorize investment style can be by long-term goals such as value, growth or income.

Some risk can be minimized through diversification (not committing all your money in one investment type), which will be addressed later. Some risk also can be minimized by investing for the long term, as discussed above. In fact, the riskiest thing you can do with your money is to do nothing at all. Risk is not something to be feared but is something to be managed. Knowledge of investing will help you manage risk. Among the most common types of risk are:

- **Physical risk:** Theft, loss of principal.
- **Market risk:** The prices of investments move up and down due to influences and events that operate independently of a particular investment, such as economic, social or market conditions, fluctuations in investor preferences, or political factors. Also called systemic risk. This is what most people consider when they weigh the risks of investing. If an investment drops in price, you have lost money at that point (assuming you have sold). Savvy investors often will invest more of their money when the market is “down” in value, because they see it as a big sale, and what could be a better time to buy than when a sale is in progress?
- **Interest rate risk:** The price of some investments fluctuates with changes in interest rates,

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particularly previously issued fixed-income investments. During economic expansion, stock prices rise, interest rates rise, current-issue bond prices remain steady but the price of bonds previously issued at a lower interest rate decreases, stock prices rise. When the business cycle goes into contraction, stock prices tend to fall. The federal government tends to lower the federal funds interest rate. The prime interest rate (linked to the federal fund rate) falls, making it cheaper for corporations to borrow money to expand their business. The price of bonds previously issued at a higher interest rate increase.

- **Inflation risk:** Probably the greatest risk to the future purchasing power of your money over the long term is the risk that an investment's return may be diminished or reversed by the cumulative effects of inflation. To keep ahead of inflation in your long-term savings/investments, you will need to accept a greater degree of other risks. An annual inflation rate of 3 percent will cut the value of your money in half in 20 years.

Inflation is an increase in the cost of goods and services. Inflation means what costs \$1 today will cost more than \$1 in the future; for example, \$100 in 1980 had the same buying power as \$264.57 in 2010 (30 years).

The current inflation rate is 1.6 percent (as of January 2011). Historically, the annual rate of inflation also referred to as the consumer price index (CPI), has averaged about 3 percent during the past 90 years.

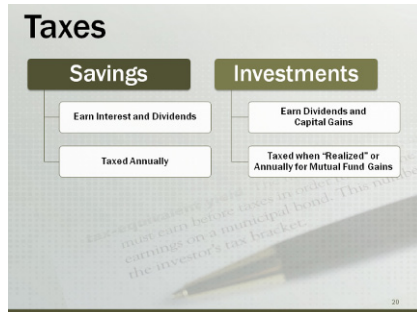
- **Deflation risk:** The chance that the general price level in the economy might drop, thereby reducing the investment's value. Typically seen in houses, real estate and other ownership investments.

The Intermediate Saving and Investing class will discuss how to evaluate risk.

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SLIDE 20: TAXES



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Along with risk and inflation, taxes become a bigger consideration when working with managing investments, and therefore they provide another difference between saving and investing. Taxes are calculated differently depending on the type of investment account opened and the length of time the investment is held.

Regular savings and investment accounts: There are three types of accounts that have an effect on taxes. The first is a regular savings or investment account that has no special tax treatment associated with it. Money earned on these accounts is taxed as follows:

On savings: Earnings on your savings are taxed each year. If you earn interest or dividends on your savings and/or checking account, you will receive a statement from the bank or credit union at tax time indicating how much you earned. You must include it as interest income on your IRS Form 1040, and you will be taxed on it at your ordinary tax rate. Taxes on savings typically are minimal because earnings are minimal.

On investments: Earnings on your investments come in a couple of forms — interest (on government and corporate bonds) dividends (on stock) you keep in your portfolio, and capital gains on stocks you sell during the year. At the end of each year, tax statements are sent out noting the earnings on investments, and these earnings need to be included on tax returns.

Basis: Basis represents the cost of the investment or property in “after-tax” dollars and is used by the IRS to determine the amount of gain or loss realized from a sale. With respect to property, basis may increase over time if the owner makes improvements to the property. For investments, such as stocks and bonds, the cost basis also includes trading fees.

Here is an example of how capital gains taxes on investment vehicles can work: One share of stock is purchased for \$50 and sold for \$60. The difference

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between the purchase price and the higher selling price is called a capital gain. In this example, the capital gain of \$10 will be taxed based on how long the investment was held and on the investor's income-tax bracket. Investments held one year or less, that is 365 days or less are said to have been held short-term. Investments held more than one year, 366 days or longer, are said to have been held long term. Taxes are due only if there is a capital gain. If the investment is sold for less than the purchase price, the difference is called a capital loss. In some circumstances, these types of losses can be used to offset gains when paying income taxes.

Mutual funds, on the other hand, pass capital gains to the investor every year, regardless of whether shares are sold. This will be discussed later in this program. For now, be sure to keep all financial statements in order to calculate taxes due correctly.

Short-term capital gains (on investments held 1 year or less) are taxed at the investor's ordinary income tax rate. Long-term capital gains (on investments held more than 1 year) are taxed at zero percent for taxpayers in the 10 and 15 percent tax bracket, and 15 percent for taxpayers in the 25, 28, 33 and 35 percent tax brackets. The zero percent rate is expected to expire at the end of 2010 and bump to 15 percent. This decision will be made in 2011.

SLIDE 21: TAXES ON TAX-ADVANTAGED ACCOUNTS

Taxes on Tax-Advantaged Accounts

Tax-deferred:

- ◆ Taxes are deferred until you withdraw money
- ◆ Employer or individually sponsored
- ◆ TSP, 401(k), SIMPLE IRA, Traditional IRA, SEP-IRA

Tax-advantaged:

- ◆ Roth IRA
- ◆ Non-deductible Traditional IRA

SECTION BACKGROUND INFORMATION

Tax-deferred accounts allow the investor to delay paying taxes on earnings. They typically are used for retirement planning. There are two main categories of tax-deferred accounts:

Employer sponsored: Tax-deferred accounts can be employer sponsored such as the Thrift Savings Plan and civilian retirement plans such as a 401(k), 403(b), Savings Incentive Match Plan for Employees (SIMPLE) IRA. An immediate benefit of these accounts is that the contributions made to them are deducted from paychecks before income taxes are

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INSTRUCTOR NOTES:

1. Discuss the points on the slide using the information in the column to the right.
2. For information on retirement plans, attend a Retirement Planning workshop at your local Marine Corps Community Services Center, or visit your Command Financial Specialist.

calculated, so taxable pay is reduced today. Another advantage to employer-sponsored plans can be matching contributions. Matching contributions are essentially free money, if offered, and you should always try to take advantage of the matching maximum.

Individually sponsored: Tax-deferred accounts can also be individually sponsored such as a Traditional IRA, Spousal IRA (same as a Traditional IRA but funded for a spouse who has little or no earned income by the spouse with earned income) and Keogh plan or Simplified Employee Pension-Individual Retirement Account (SEP-IRA) for self-employed individuals.

The money earned on these types of accounts is taxed when it is withdrawn at the investor's ordinary income tax rate at the time of withdrawal. Additionally, the withdrawal may be subject to an additional 10% penalty if you are not yet age 59 ½.

There are two types of tax-advantaged IRA accounts:

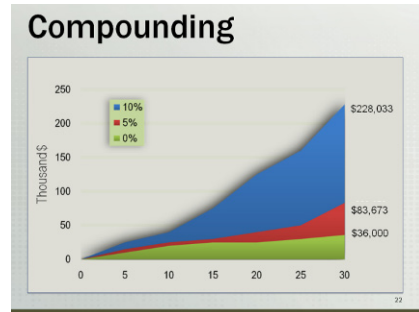
Roth IRA account: The Roth IRA is a type of after-tax account. The money put into a Roth IRA cannot be deducted from income before taxes, so the contribution is considered an "after-tax" contribution. Contributions can be withdrawn at any time with no tax consequences. Earnings withdrawn from an account less than five years old are subject to taxes like ordinary income and may be subject to an additional 10% penalty if you are less than 59 ½ years of age. All withdrawals (contributions and earnings) made after age 59 ½ are entirely tax exempt.

Non-deductible traditional IRA: This is a Traditional IRA account that consists of non-deductible contributions. If an individual is covered by a retirement plan at work and their modified adjusted gross income exceeds the IRS limitations, they cannot deduct their contributions to a Traditional IRA. Earnings on this type of account are taxed as ordinary income at the time of withdrawal.

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SLIDE 22: COMPOUNDING



INSTRUCTOR NOTES:

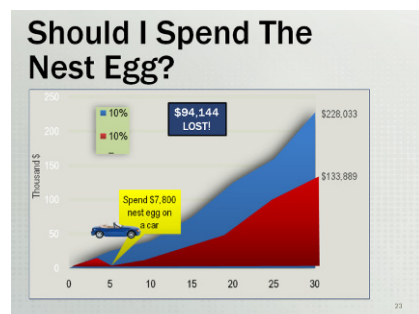
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SECTION BACKGROUND INFORMATION

The only way to overcome taxes and inflation is to put the power of compound interest and time to work with a long-term, disciplined investment plan. Here is one more example of how money can grow over time. Over 30 years, \$100 saved monthly with no interest will equal \$36,000.

The same amount accumulating earnings at 5 percent will grow to about \$83,673. This amount with a 10 percent rate of return grows to about \$228,033. This example, along with earlier examples, shows again that the greater the rate of return and the longer your money works for you, the more you eventually will earn. Compound interest is a powerful force.

SLIDE 23: SHOULD I SPEND THE NEST EGG?



INSTRUCTOR NOTES:

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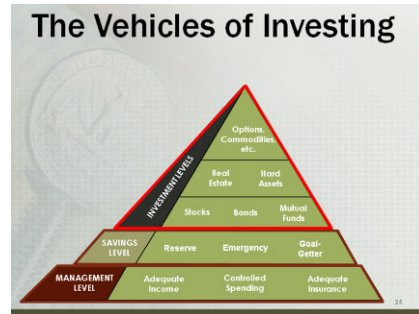
SECTION BACKGROUND INFORMATION

What an investment can do on paper is often different from what investors do in real life. Unfortunately, when some people see their money begin to add up, they feel a temptation to spend. Using the above example, what if, after five years of saving, the investor decided to use the approximately \$7,800 that had grown (at 10 percent) to buy a car? Continued investing at the same rate would grow only to \$133,889 instead of the \$228,033 if all of the money had been left to grow. In other words, you could say that the car did not cost you \$7,800 but \$94,144 when you account for the lost growth. The message? Save regularly, and leave it alone to grow.

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SLIDE 24: INVESTMENT VEHICLES



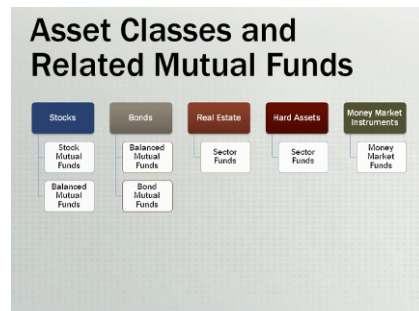
INSTRUCTOR NOTES:

1. Discuss the points on the slide using the information in the column to the right.
2. Distribute the “Thinking About Investing and Investing Resources” handouts to participants.

SECTION BACKGROUND INFORMATION

So far, this program has considered the magic of compound interest and time; the Saving level of the Financial Planning Pyramid; the differences between saving and investing; and some characteristics of both saving and investing vehicles, namely safety, liquidity and yield. Moving up the pyramid to the Investment level, one can see that various tools are available to help us achieve our investment goals. Let’s now explore some of the more popular and useful investments available.

SLIDE 25: ASSET CLASSES AND RELATED MUTUAL FUNDS



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

There are three main types of asset classes available to investors. An asset class is a group of securities that have similar characteristics, behave similarly in the marketplace and are subject to similar laws.

There are equities (stocks), fixed-income (bonds) and cash equivalents (money market instruments). Everything else is a combination of these three. When you invest in equity — when you buy a stock — you become an owner. When you invest in fixed-income — buy a bond — you become a lender. Often fixed-income securities also are known as debt securities, but this is good debt, the kind where people owe you money. A well-planned financial portfolio will have a combination of equities, fixed-income and cash, depending on investment goals, time frame and risk.

The Financial Planning Pyramid lists some of the better-known forms of equity and debt: stocks (equity); bonds (fixed-income or debt); mutual funds (explained below); real estate; hard assets (things you can touch)

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such as investment-grade precious metals (gold or silver) and collectible items; and a few others. Several of these are worthy of a more detailed discussion because they are the best investments for Marines and their families. As with any investment you must research these to determine if they are true investments. Not all items sold as “collectible items” are true investments and not all “jewelry” that are gold or silver are true investments.

SLIDE 26: EQUITY: STOCKS

Equity: Stocks

- ◆ Represent ownership
- ◆ Returns from dividends and capital gains
- ◆ Rate of Return is 8 - 10%
- ◆ Can be purchased through a brokerage, an employer investment plan, or directly from issuing company
- ◆ Higher risk than bonds
- ◆ Need from 10 - 30 to diversify
- ◆ Best choice for long-term growth

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Stocks are the classic equity investment. You can buy stocks in U.S. companies, foreign companies, large companies, small companies, startup companies, emerging markets, companies that analysts think will grow (growth), and companies that analysts think currently are selling at a bargain (value). You can also buy stocks based on market sectors such as consumer goods, financial, industrial, technology, healthcare, utilities, etc.

There are two classes of stocks:

- **Common** stocks represent ownership in a company. Holders of common stock exercise control by electing a board of directors and voting on corporate policy. Common stockholders are on the bottom of the priority ladder for ownership structure. In the event of liquidation, common shareholders have rights to a company's assets only after bond holders, preferred shareholders and other debt holders have been paid in full.
- **Preferred** stock is a class of ownership in a corporation that has a higher claim on the assets and earnings than common stock and generally has a dividend that must be paid out before dividends to common stockholders and the shares usually do not have voting rights.

Returns come from dividends and/or an increase in stock prices; dividends represent profits passed to shareholders. Dividends can be paid directly to the

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investor or they can be reinvested in additional company stock through a dividend reinvestment plan (DRIP). While the return on individual stocks varies greatly, the American stock market as represented by the S&P 500 has averaged an annual return of 8 percent to 10 percent for the past 80+ years.

Stocks can be purchased through a brokerage (online or in person); through an employer investment plan; or directly from the company that sells the stock.

Employer investment plans, also known as employee stock option plans (ESOPs), come in different forms and are not just for high-ranking executives.

However, ESOPs can be somewhat complicated and should be well-researched, including overall rules and tax consequences, before used.

Stocks (as well as mutual funds) may issue shares (pieces of ownership in the same company or mutual fund) in different classes (mentioned above). Each class may have different benefits, such as voting rights or valuation, or different costs associated. It is important when evaluating stocks and/or mutual funds that you are researching the correct class.

Developing an individual stock portfolio takes research and time. Financial experts suggest having 10 to 30 different stocks in a portfolio to be well-diversified.

With stock investment (as well as mutual funds), one of the tried and true tenets for success is “buy low, sell high.” It may seem simplistic, but many times people get nervous about short-term prices/returns, ignore their long-term investment plan and sell their stock at an inopportune time, losing money.

Stocks normally are the best long-term way to beat inflation and represent the best opportunity for long-term growth of your money.

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SLIDE 27: FIXED INCOME: BONDS

Fixed Income: Bonds

- ◆ Represent money owed to investor
- ◆ Issued by companies and governments
- ◆ Should research the bond rating
- ◆ 3.7 – 5.5% Rate of Return
- ◆ Moderate Liquidity
- ◆ Provide Fixed-Income Payments
- ◆ Reliable Income
- ◆ Typically Purchased from a Brokerage

INSTRUCTOR NOTES:

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SECTION BACKGROUND INFORMATION

Companies and governments issue bonds to fund their day-to-day operations or to finance specific projects. When you buy a bond, you are lending your money for a certain period of time to the issuer, be it General Electric or Uncle Sam. In return, bond holders get back the loan amount plus interest payments, which usually are distributed twice a year.

- Bonds represent money owed to the investor — an IOU.
- Companies and governments (i.e., local, state and federal governments) issue bonds.
- Bonds can be safe (guaranteed by the full faith and credit of the U.S. government); have a high risk of default (if a company is heading toward bankruptcy, etc.); or fall somewhere in between. As an investor, you need to research the rating of a bond to ensure you buy only ones that match your risk tolerance. A bond rating represents the opinion of an outsider regarding the quality of the issuing organization. Two of best known independent advisory services for bond ratings are Moody's Investors Service and Standard & Poor's.
- Bond returns have averaged between 3 and 5.5 percent during the past 81 years.
- Bonds are moderately liquid, however, you will not likely get money out of a bond the same day you need it.
- Bonds have a fixed interest payment, so they usually provide a reliable stream of income.
- Bonds typically are purchased through a brokerage.

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SLIDE 28: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents

- ◆ Vehicles of cash management in an investment profile
- ◆ Maximizing interest earnings while minimizing fees on all of your funds kept readily available

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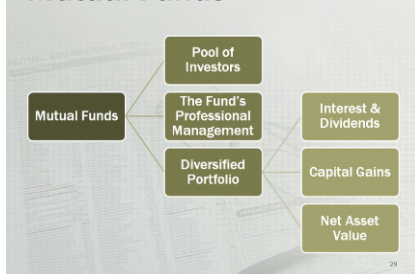
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SECTION BACKGROUND INFORMATION

Cash and cash equivalents are the vehicles of cash management in an investment profile. Cash management is maximizing interest earnings and minimizing fees on all of your funds kept readily available for your living expenses, emergency fund, reserve fund and goal getter fund as well as monies available for other saving or investing opportunities. As discussed previously with regards to savings, typical cash and cash equivalent vehicles are interest-bearing checking/share draft accounts, savings account, CDs and money market accounts.

SLIDE 29: MUTUAL FUNDS

Mutual Funds



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Mutual funds provide an alternative to selecting individual stocks or bonds. A mutual fund is a company that pools money from many investors and invests in the different asset classes or some combination of them. The combined holdings are called a mutual fund's portfolio. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate. Mutual funds make money for shareholders in several ways:

- The investments the fund owns may pay dividends (stocks) or interest (bonds).
- When the manager sells an investment for a profit, there will be a capital gain.
- There will be an increase in share price (net asset value) if the fund performs well.
- Dividends and capital gains must be paid regularly to the fund's shareholders. Many people choose to reinvest this money into their account.

Whether they take the money or reinvest it, income tax still must be paid on the profits at the end of the year (unless the mutual fund is a tax-deferred account, which will be discussed later).

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SLIDE 30: ADVANTAGES AND DISADVANTAGES OF MUTUAL FUNDS



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Mutual funds offer a number of advantages:

Active professional management: An individual who invests in an actively managed mutual fund is hiring a professional money manager to research, select and monitor the performance of the portfolio. Actively managed mutual funds will achieve results that are above, equal to or below the market rate principally because the portfolios generally have many fewer stocks than are listed in an index and because of the vast difference in skill level among fund managers. The challenge with actively managed funds is to find funds managed by a consistently successful and lucky manager. Research services, such as Morningstar, make this task easier with their wealth of information and screening tools to help you find the mutual fund(s) which meet your individual investment philosophy and needs.

Passive professional management: An individual who invests in a passively managed mutual fund is selecting a fund that is based on a standing index (such as the S&P 500, as represented by the C Fund in TSP). This means that the composition of the fund will reflect the composition of the underlying index. There is not a manager behind the scenes making the investment decisions. Index funds will always achieve slightly less than the market rate of return owing to fund expenses.

Diversification: Mutual funds can offer automatic and immediate diversification. When you diversify, you put your money in a mixture of individual securities; if one performs poorly, the others may make up for it. Diversification helps spread the risk and also the opportunity. This can be difficult to do for a new investor developing a portfolio independently. It takes time, education and larger investment amounts. Mutual funds make diversification easy and cost effective.

Liquidity: Shares can be redeemed at net asset value (less any fees and charges) at any time.

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Affordability: Some mutual funds accommodate investors who do not have a lot of money to invest by setting relatively low dollar amounts for initial purchases, subsequent monthly purchases, or both.

There are some disadvantages:

Costs despite negative returns: Sales charges, annual fees and other expenses must be paid annually whether or not the fund makes money. This is frequently referred to as the expense ratio. Many key investment experts cite the expense ratio as one of the best indicators of a fund's success. The lower the ratio, the better the return. Your average managed mutual fund can have an expense ratio of 2-4%. The expense ratio for all Thrift Savings Plan participants in 2010 was 0.025%. Also, there is the possibility of having to pay taxes even when the fund performed poorly, depending on when the shares were purchased.

Lack of control: The portfolio is determined by the manager, not the investor. The investor may not be able to determine the exact makeup of the portfolio at any given time.

Price uncertainty: Net asset value may not be computed until many hours after a redeem order has been placed. Mutual funds generally calculate their net asset value after the major U.S. exchanges close.

Not insured: Mutual funds are not federally insured like deposits in a bank or credit union. You can lose your money.

Complex records: Mutual funds can be complex when it comes to tracking purchases, sales and earnings over long periods of time. Keep all end-of-year statements.

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SLIDE 31: LESSONS LEARNED

Lessons Learned

- ◆ Stocks can yield higher potential earnings than bonds
- ◆ The higher the potential yield, the higher the risk
- ◆ Stocks and bonds should be diversified
- ◆ A good investment depends on the time horizon, objective, risk tolerance and age
- ◆ Young investors should be owners rather than lenders
- ◆ Bonds can provide a stream of income

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Lessons learned from this discussion of types of ownership classes?

- It should be clear that an investor can have higher potential earnings by putting money in the stock market than by putting it in bonds or in a savings product.
- There always is the S-L-Y trade-off to consider. The higher the potential yield of an investment, the higher the risk (lower the safety). We already said you always should be prepared to lose money, but you also should expect a decent rate of return if you have done your homework.
- A well-balanced portfolio will contain a combination of asset classes (stocks, bonds, cash), and the stocks and bonds chosen should be diverse as well.
- Assets are neither good nor bad, but there are good and bad uses. Which investment is best for an investor depends on the time horizon, objective, risk tolerance and age.
- For young people starting to invest, over long periods of time it usually is better to be an owner (stocks) rather than a lender (bonds). Stocks have a higher return over extended periods than bonds and will provide the greater opportunity for long-term growth.
- Use bonds and dividend-paying stocks to receive a stream of income (useful for those in retirement).

Deciding where to invest can be complex! It can be, but it does not need to be. Several options make investing so easy that it almost takes care of itself!

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SLIDE 32: CHOOSING A MUTUAL FUND

Choosing a Mutual Fund

- ◆ Goals and objectives
- ◆ Fund performance
- ◆ Management
- ◆ Prospectus and annual report
- ◆ Services
- ◆ Costs
- ◆ Transferring to a different account or company

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Common types of mutual funds are:

- Funds invested in the stock market
- Funds invested in the stock market and bond market
- Funds invested in the bond market
- Funds invested in the money market

There are thousands of mutual funds available — how do you choose one? You can narrow the field by looking at the following:

Your goals and objectives: The objective of the fund should match your objective. For example, if you just want your money to grow, go with a large “growth” fund.

The fund’s performance history: Although past performance is not an indicator of future performance, sometimes that is all the information you have available. Look at the fund’s returns over one, three, five and 10 years. The returns should be at least as good as other funds in its category and its benchmark index.

Management: The manager’s performance history and length of time with the fund may help in the decision. The longer the manager has been with the fund, the more you can rely on getting the same returns the fund has earned in the past.

Costs: There are costs to buying mutual funds. You can buy “no-load” funds, where no commission is charged, or “load” funds.

A “load” is a sales commission you will pay to the person who sold you the fund. Loads can be as high as 8.5 percent and can be assessed when the fund is purchased (front-load) or redeemed (contingent deferred sales charge or back-load). Front loads decrease your initial investment dollars and therefore the principal from which earnings grow. Back loads

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decrease the principal and earnings paid to you. If you are going to buy a mutual fund with a load, be sure you are satisfied with the services of the person who is selling the fund.

Funds also will have annual expenses (you will not see them taken out of your account, but they affect fund performance). All loads, expenses and fees are disclosed in the fund prospectus.

Services: Many mutual funds are part of a larger organization (called a “family” of funds) that will offer many funds with different investment objectives. Investors may be permitted to transfer money to a different fund at little or no charge as their goals or investment outlook changes. Some funds allow withdrawals by check-writing. Other services also may be available.

Prospectus and annual report: Mutual funds can be purchased through a full-service broker, discount broker, financial planner, a bank or credit union investment adviser, or directly and easily from a fund family via the phone and the mail. A financial service professional can provide a prospectus and an annual report for a mutual fund. When dealing with a fund directly, the prospectus will be sent when you request information on the fund. It also may be helpful to consult additional sources of information on mutual funds before investing. A wide range of information is available, and most of the information you need can be found easily by consulting rating services such as Morningstar or Lipper.

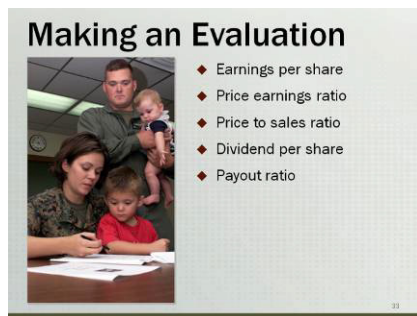
Transferring to a different account or company: At times, individuals find themselves dissatisfied with a particular mutual fund or management company. When a mutual fund is held outside of a tax-advantaged account (IRA or Roth IRA), transferring the assets or money is simply a matter of selecting a new fund and/or manager, and determining whether the assets can be directly transferred or need to be liquidated and the money transferred to the new fund/manager. Any

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taxes owed would be calculated and the old fund/manager will issue an IRS Form 1099-R or 5948. However, when assets are held inside a tax-advantaged account, it may be possible to have a trustee-to-trustee transfer between the accounts in a non-reportable manner with no 1099-R or 5498 needing to be issued. For this rule to be in effect the transfers must occur directly between the trustees of the accounts or retirement plans of the same type. If the individual requests that the proceeds of any sale be paid to them for deposit into the next account, the trustee-to-trustee privilege is voided and there could be tax consequences. Examples of trustee-to-trustee: transfer from a traditional IRA to another traditional IRA where both accounts have the same owner; transfer from a qualified employer-sponsored plan to another qualified employer-sponsored plan where the employer is the same for both plans.

SLIDE 33: MAKING AN EVALUATION



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Whether you're researching a mutual fund or an individual stock or bond, there are many tools available to assist you in your decision making. Yahoo!Finance, MSN Money, Morningstar and SaveandInvest.org all have a wealth of information regarding saving and investing. Additionally, Morningstar provides one of the premier mutual fund/stock database and evaluation tools in the market and it is available to Marines and their family members at no cost — The Morningstar Investment Research Center. With this tool you have access to:

- In-depth data reports and proprietary, independent Morningstar analyst reports on a wide variety of stocks, mutual funds and exchange-traded funds.
- Innovative evaluation tools for funds and stocks.
- Robust screening and portfolio tools.
- Online classrooms regarding basic and advanced investing.

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You can access this tool via the online library at Military OneSource.

There are a number of ratios you can use to assess performance. When you are evaluating an individual stock or a mutual fund keep in mind that each corporation keeps detailed financial records, the records are submitted to the Securities Exchange Commission who, in turn makes the filings available to the public. The ratios below reflect data extracted from the company's financial filings:

- **Earnings per share (EPS or E/S):** net profit after taxes minus dividends on preferred shares divided by number of outstanding common shares.
- **Price-earnings ratio (P/E):** market price of common stock divided by EPS.
- **Price to sales ratio (PSR):** market price of common stock divided by the annual sales per share. This ratio is thought to identify overpriced stocks, i.e. the lower the PSR, the less likely the stock is overpriced
- **Dividend per share:** annual dividend paid to common stock divided by number of common shares outstanding.
- **Payout ratio:** dividends per share divided by earnings per share.

The Intermediate Saving and Investing class will expand on these ratios and their relationship to investing.

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SLIDE 34: THE MARKET

The Market



- ◆ The Dow
- ◆ The NASDAQ
- ◆ The S&P 500
- ◆ The Wilshire 4500
- ◆ The Wilshire 5000
- ◆ The Barclays Capital US Aggregate
- ◆ The NYSE
- ◆ The AMEX
- ◆ Nikkei
- ◆ EAFE

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INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

This would be a good time to discuss a term that is used frequently but may not be understood completely. When you hear “the market” on the television, usually as in, “Today the market was...” to what does the term refer?

The Dow: The Dow Jones industrial average tracks the daily gains and losses of 30 very large corporations selected from the major sectors of the economy. The group consists of high-quality stocks whose behaviors are believed to reflect overall stock market activity. In other words, the Dow is an index. An index is a tool for comparing your investment’s performance against other similar investments. It is a measurement of the combined average performance of groups of similar securities. For the Dow, they take the value of all 30 stocks, run a formula on it each day (like an average), and then track the changes in that number every day.

The NASDAQ: The North American Securities Dealers Automated Quotation System. The NASDAQ is a computerized trading system on which stocks (typically smaller companies or high-tech companies) are bought and sold. The NASDAQ is not a bricks-and-mortar place. Every day, an average of all the stocks traded on the NASDAQ is computed, and the change in that index, the NASDAQ Composite Index, is reported daily.

The S&P 500: The Standard and Poor’s 500 is an index that tracks the large-company stock population. S&P is a financial research and publishing company. The S&P tracks 500 large American stocks. It is like the Dow, only it includes more companies, and in fact the components of the S&P 500 can comprise 70 to 75 percent of the economic base of this country.

The Wilshire 4500: This is an index of small-company stocks that reflects the rest of the market not included in the S&P 500.

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The Wilshire 5000: This is an index of 5,000 companies designed as a measure of the entire U.S. stock market.

The Barclays Capital U.S. Aggregate Index: This is an index designed to measure both government and corporate bonds. This index formerly was known as the Lehman Brothers U.S. Aggregate Bond Index.

The NYSE: The New York Stock Exchange is an actual building in New York City where stocks are bought and sold. Also, every day an index for all the stocks traded on the exchange is reported.

The AMEX: The American Stock Exchange is another brick-and-mortar building where stocks are bought and sold, and there also is an index computed on it. It is the second-largest options-exchange market.

The Nikkei: A place in Japan where stocks are bought and sold, and also it has an index computed on it.

The EAFE: Computed by Morgan Stanley, this index tracks the performance of about 1,200 non-U.S. companies representing 21 countries in Europe, Australia, New Zealand and the Far East.

When you hear the term “the market,” it may be in reference to all of these elements taken together. However, when you hear, “For the past 10 years the market returned...” that generally refers to the S&P 500, the broader U.S. market index. These indexes can be a valuable way of determining how your investments are performing. For example, if you hold stocks that are included in the S&P 500 and you want to see if your portfolio returns are keeping up with the market in general, you would compare your portfolio returns with the S&P 500 for the same period. If you held a mutual fund with technology stocks, you would be better to compare the return on your mutual fund to the NASDAQ, as that would be a better comparative index. If most of your stock or mutual fund investments are in foreign companies, you would compare the rate of return on your portfolio with that of the EAFE index.

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A few other terms to be familiar with are:

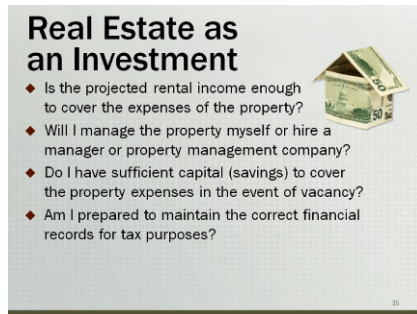
Business cycles: a predictable long-term pattern of alternating periods of growth (recovery) and decline (recession). Also called the economic cycle.

Stock market cycles: the long-term price patterns of the stock market; repeating and periodic up-and-down movements (that can happen in all markets). These are frequently good indicators of the business cycle.

Bear market: a prolonged period where investment prices are decreasing.

Bull market: a prolonged period where investment prices are rising faster than their historical average.

SLIDE 35: REAL ESTATE AS AN INVESTMENT



Real Estate as an Investment

- ◆ Is the projected rental income enough to cover the expenses of the property?
- ◆ Will I manage the property myself or hire a manager or property management company?
- ◆ Do I have sufficient capital (savings) to cover the property expenses in the event of vacancy?
- ◆ Am I prepared to maintain the correct financial records for tax purposes?

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INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Many people look at their home as not just a residence but as an investment. Whether this is a true statement or not can be argued in many different ways. The way in which a primary residence qualifies as an investment is through capital appreciation – you can sell it for more than what you paid for it. In general, this will be the case as long as you don't owe on a home equity loan and have not refinanced it at a higher amount than the original purchase price that may cause you to owe in total more than the realistic selling price of the home. As we all know, real estate markets, just like all other markets go through cycles of appreciation and depreciation. In the military world, one of the risks of investment in a primary residence is the potential risk of having to sell a residence at a less-than-optimal time when being transferred.

Many people choose to mitigate this risk by converting a primary residence into a rental property. Now it truly is an investment. The questions becomes whether it is a profitable investment or not. When considering becoming a landlord, there are many questions to evaluate:

- Based on comparable properties in the area, is the projected rental income enough to cover the expenses of the property?

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- Will I manage the property myself or hire a manager or property management company?
- Do I have sufficient capital (savings) to cover the property expenses in the event of vacancy/evictions/squatters?
- Am I prepared to maintain the correct financial records for tax purposes?

These are just a few of the questions to consider before making the decision to use an individual piece of real estate as an investment.

Owning a home is one of the best known tax benefits available. You are eligible to deduct interest paid on a mortgage, on a home equity loan/line of credit and on property taxes paid. You have to itemize to take advantage of the mortgage deductions. These homeownership tax benefits also apply to rental properties, not only your principal residence.

Mortgage interest payments to purchase or improve rental property (including loan or credit card interest paid on goods or services used in a rental activity), building depreciation, insurance premium payments, and the cost of repairs to rental property are all common examples of tax deductions for landlords of rental properties. These tax advantages allow you to have more money available to you for saving and investing as long as the total expense of renting the property does not decrease your savings or other investment vehicles.

Attend our Home Buying class to determine the best way to evaluate a home as a future investment.

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SLIDE 36: COLLECTIBLES AS INVESTMENTS

Collectibles as Investments

- ◆ A physical asset that appreciates in value over time because it is rare or highly desired
- ◆ Can take a long time to increase in value
- ◆ Offer no income to the investor
- ◆ Value dependent on supply and demand
- ◆ Usually increase along with inflation
- ◆ Time to maturity varies: fads peak quickly while antiques take decades

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Of course, what makes an item collectible is open to interpretation by the person making the purchase. When speaking about collectibles worthy of investing in we can say that generally speaking, a collectible is any physical asset that appreciates in value over time because it is rare or it is desired by many. Many people think of collectibles as things like stamps, coins, fine art or sports cards, but there really are no strict rules as to what is or is not a collectible.

Collectibles can take a very long time to increase in value, and they offer no assurances as to their value in the future. Unlike other investments, collectibles offer no income. The one advantage is that most collectibles increase in value along with inflation.

The value of the collectible can vary widely, but is dependent for the most part on supply and demand. The maturity for a collectible can also widely vary. For fads such as Beanie Babies or Pokémon cards, the price of the collectible can reach its peak very quickly. Other items such as antiques can take several decades before appreciating in value.

SLIDE 37: OPTIONS AND COMMODITIES

Options and Commodities

High risk investments

- ◆ Stock options
 - Special securities that give the holder the right to buy or sell a specific number of shares of a certain stock at a specified price before a specified date
- ◆ Commodities trading
 - Direct physical trading and derivatives trading

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Speculative investments are high-risk investment alternatives that have great potential for profit as well as great potential for loss. These are rather sophisticated investment vehicles and require a much greater level of knowledge and vigilance than the standard investment vehicles. Two of the most common types of speculative investments are options and commodities.

Stock options are special securities that give the holder the right to buy (a call option) or sell (a put option) a specific number of shares of a certain stock at a specified price before a specified date.

Commodities trading is made up of direct physical trading and derivatives trading. One of the most common ways of trading commodities is with futures

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contracts. These are high-risk investments in the anticipated increase or decrease of the market price of commodities and commercial products. Futures contracts are a standardized contract focused on certain agricultural and mining products, are traded through an organized exchange.

The Intermediate Saving and Investing class will discuss speculative investments in greater detail.

SLIDE 38: THE SAVINGS DEPOSIT PROGRAM

The Savings Deposit Program

- ◆ High level of safety and guaranteed high level of return
- ◆ When serving in combat zone
- ◆ Deposit up to \$10,000 per deployment
- ◆ Earn 10% annual interest
- ◆ Can sign up 90 days before deployment to allow savings to begin on 31st day

1. Discuss the points on the slide using the information in the column to the right.
2. Distribute the “Savings Deposit Program” brochure from DFAS.

SECTION BACKGROUND INFORMATION

In the saving and investing world, a tool with a high level of safety and a guaranteed high level of return is very rare. As a Marine, you do have access to just such a tool: The Savings Deposit Program (SDP). The SDP was established to provide members of the uniformed services serving in a designated combat zone the opportunity to build their financial savings.

The SDP allows eligible Marines to earn 10 percent interest on up to \$10,000. Marines must be receiving Hostile Fire Pay and be deployed a minimum of 30 consecutive days in a designated combat zone, or at least one day in each of three consecutive months. Interest in the account accrues quarterly. You may deposit all or part of un-allotted pay including bonuses into the SDP. Deposits can be made by cash, personal check, traveler’s check, money order or allotment. (Note: Reservists can only make deposits by cash, personal check or money order.)

Modifications have been made to TTC660/000 to allow a Marine to elect to participate in SDP up to 90 days prior to deployment. This will allow SDP to automatically begin after 31 days of reporting to an eligible zone. Interest can accrue for up to 90 days after the Marine leaves the eligible zone. In addition, Marines in a combat zone may withdraw amounts of interest accrued over \$10,000 on a quarterly basis.

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Here are two examples:

1. Interest earned on \$6,000 invested in SDP during an eight-month period calculated quarterly would total \$408.38.
2. If a Marine invests \$1,000 dollars initially in SDP and contributes \$700 per month for one year, their total investment would be \$9,400 and interest accrued would be \$569, for a total of \$9,969.

Ten Percent Adds Up! The table below shows the impressive gains from even short-term deposits to an account earning 10 percent, compared to placing it in a regular savings account or doing nothing.

Deposit Amount	Interest Rate	Term	Earned Interest
\$10,000	10%	10 months	\$857.91
\$10,000	4%	10 months	\$337.24
\$10,000	0%	10 months	\$0.00

It is the responsibility of the Marine to close their SDP account and transfer the funds to another account, but only after departing the combat zone. Because interest will continue to accrue on the account up to 90 days after departure from the combat zone, you will want to leave the money in the account for as close to the 90 days as possible in order to earn the most interest. However, any money left in your SDP account beyond the 90 days will become dormant and earn no additional interest.

One final note on the SDP, while military pay earned in a hazardous duty zone is tax-free, the earnings on SDP accounts are taxable.

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SLIDE 39: THE TSP FUNDS

The TSP Funds



- ◆ Government-sponsored retirement plan
- ◆ Defined contribution vs. defined benefit
- ◆ Similar to a 401(k)
- ◆ Open to all military service members
- ◆ Purpose: To provide retirement income

INSTRUCTOR NOTES:

1. Discuss the points on the slide using the information in the column to the right.
2. The fund averages information provided is current as of February 2011 and based on averages as of Dec. 31, 2010. You should update this information annually. When the 10-year averages are negative, it is sometimes helpful to provide averages since inception to illustrate the value of the TSP investments.
3. Distribute the “Thrift Savings Plan: Wealth Building Made Easy” handout.

SECTION BACKGROUND INFORMATION

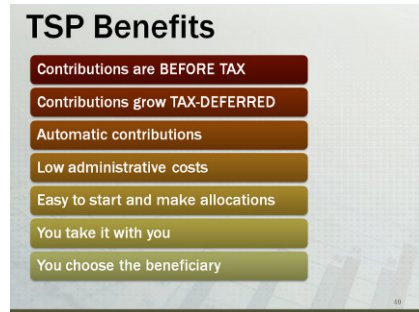
A great way to understand how mutual funds and indexes relate to each other is to consider the Thrift Saving Plan funds. Briefly, the TSP is a retirement savings and investment plan sponsored by the federal government. This plan allows for each member to invest a certain amount of money each month into one of 10 mutual funds. The majority of these funds have a portfolio designed to mimic the performance of some of the indexes just discussed.

The TSP is a retirement savings and investment plan sponsored by the federal government. It is a qualified defined-contribution plan; therefore, it has the same type of savings and tax benefits as a 401(k). The TSP is open to all members of the uniformed services, active-duty and Ready Reserve. With the TSP, you choose to join; you choose the contribution amount, which comes directly out of your pay; you choose the investments from 10 different options; and you own all of your contributions and any earnings.

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SLIDE 40: TSP BENEFITS



INSTRUCTOR NOTES:

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SECTION BACKGROUND INFORMATION

The benefits of participating in the TSP include:

Pre-tax contributions: This means the contribution amount is deducted from gross pay before federal income taxes are calculated, reducing your taxable pay and your annual tax bill.

Contributions grow tax-deferred: You are not taxed on the earnings in the TSP until you make withdrawals.

Contributions are set up to occur automatically: Which presents the opportunity for regular, disciplined investing.

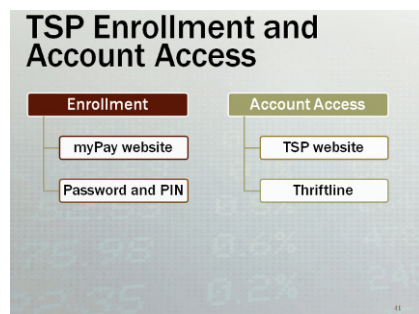
The TSP has low administrative costs and expenses: High costs and expenses can reduce the rate of return.

The TSP is easy: It is easy to start and it is easy to allocate and re-allocate money. Most of the transactions can take place over the phone, at the TSP website or via myPay.

You can take the TSP with you: With the military's regular retirement plan, a member must stay in the military 20 years to get it. With the TSP, the money always belongs to you, and if you leave the service before serving 20 years, the money remains yours.

You can designate beneficiaries: You choose who you would like to receive the funds in the TSP in the event of your death.

SLIDE 41: TSP ENROLLMENT AND ACCOUNT ACCESS



SECTION BACKGROUND INFORMATION

You can enroll in the TSP via your myPay account at any time. The TSP has a telephone customer service line (the “Thriftline”) and a website that makes it simple to check on your account and conduct transactions. After you enroll, the TSP will send you a password and a Personal Identification Number (PIN). Your TSP account number and password are your secure identification for accessing your account at the TSP website and on the Thriftline. The TSP website provides timely account and plan information. Here

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INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

you will find rates of return, performance history, daily share prices and fact sheets on each fund. You can view your participant statement online to check on the status of your account and to make changes to your account. However, to enroll in TSP or to start, change or cancel contribution amounts, you must go through your myPay account.

The TSP website provides calculators to help you determine the future value of your investment, estimate loan payments, and determine what monthly payments your account could provide in the future. In addition, the website provides a link to the American Savings Education Council (ASEC) retirement-planning calculator.

SLIDE 42: TSP CONTRIBUTIONS

TSP Contributions

- ◆ How much are you investing now
- ◆ How much of your investment dollars can be committed to retirement investments
- ◆ If you have a Roth IRA
- ◆ How long will the money be invested
- ◆ Your age and investing experience
- ◆ When in doubt, **MAX IT OUT!**

INSTRUCTOR NOTES:

1. Discuss the points on the slide using the information in the column to the right.
2. You should periodically check the TSP website for any new legislation or changes to existing policies — such as matching funds. Update the instructor's guide and PowerPoint slides as necessary.

SECTION BACKGROUND INFORMATION

How much you should invest in the TSP, and which fund you choose, depends on several factors such as:

How much you are investing now: If you already have an aggressive investment plan in place, the TSP may or may not fit into it. If you are new to investing, the TSP may offer an excellent way to get started on an automatic investment plan.

Considering your overall investing goals, how much of your investment “budget” can you commit to retirement: It may not be wise to commit all of your available investment dollars to the TSP, since you need to consider that this money is “tied up” until age 59½.

Contributions to your Roth IRA: If you are contributing to the TSP, and it means you have to decrease the amount going to your Roth IRA, see a tax advisor or financial specialist for your best options.

When you will need access to this money: The TSP is designed to help achieve long-term retirement-planning goals. If you are going to use the money you put into the TSP for anything other than retirement, it may not be the best alternative.

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Your age: The younger you are, the more you should consider the TSP as a part of your retirement plan.

Your knowledge about investing: The TSP is an especially attractive option for people new to investing or who do not want to take a lot of time to do their own research.

If you're just not sure: There is a general rule in retirement planning that states, "When in doubt, max it out." This is true for any tax-deferred investment opportunities.

Once enrolled in the TSP, you can contribute up to 100 percent of your basic pay each month in 2011 ("elective deferral"), as long as it does not exceed the total elective deferral limit of \$16,500 (2011). This annual limit may be increased in later years by cost-of-living adjustments. The TSP cannot accept contributions that exceed the elective deferral limit. You can also contribute up to 100 percent of any incentive and special pays (including bonuses) up to the annual limit. When receiving tax-exempt combat-zone pay, you can contribute up to the lesser of \$49,000 (2011) each year or 100 percent of pay.

In addition to contributions from your pay, you can also transfer funds from a traditional IRA or eligible employer plan into your TSP account. Transfers into the TSP can be done at any time, even after you separate from military service. Transfers require that you complete Form TSP-60, Request for a Transfer into the TSP, and forward the form to the administrator of your IRA. Your administrator will certify that it is an eligible retirement plan and then submit the form to the TSP Service Office.

Catch-up contributions are supplemental tax-deferred contributions available to TSP account holders age 50 or older who are already contributing the maximum amount of regular TSP contributions for which they are eligible, up to the maximum IRS elective deferral limit of \$16,500 (2011). Catch-up contributions have their own annual limit of \$5,500 in 2011, with additional

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annual limit increases indexed to inflation.

Although matching funds for the TSP have been authorized by the Department of Defense, it is up to each service if and when to offer this benefit. At this time, no matching funds have been offered by the Department of the Navy.

Make sure you have adequate income to pursue a savings and investment plan and that you have adequate insurance. Save from the top of your spending plan versus the bottom (do not save whatever is left after your expenses are paid; make your savings and investments a regular expense, too.) Set up a savings allotment — you will not miss it if you do not see it — or join the TSP.

SLIDE 43: INDEX-BASED FUND OPTIONS

Index-Based Fund Options

Fund	Description/Volatility	2010 Returns
G	Government securities/low	2.81%
F	Government, corporate and mortgage-backed bonds/low to moderate	6.71%
C	Stocks of large and medium-sized U.S. companies/moderate	15.06%
S	Stocks of small to medium-sized U.S. companies not included in the C fund/moderate to high	29.06%
I	International stocks of 21 developed countries/moderate to high	7.94%

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

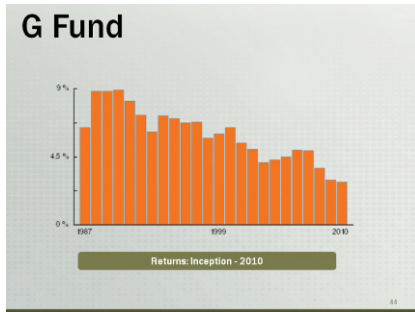
Market risk, the ups and downs of the stock market, is what most people think of when they consider the risks of investing. There is risk involved in every type of investment tool, and the tendency of investments to experience these ups and downs is referred to as volatility. These risks differ, depending on what investment product is used, although risk can be minimized through diversification. The TSP offers five investment opportunities with varying levels of risk or volatility: G Fund, F Fund, C Fund, S Fund and I Fund.

TSP funds are all index-based investments. TSP investments do not have a fund manager who selects investments based on a changing market. Instead, TSP funds are a selection of a large, widely diversified number of stocks (or bonds) that represent the index chosen to track. Many financial experts maintain that this is one of the best ways to invest for the long term.

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SLIDE 44: G FUND



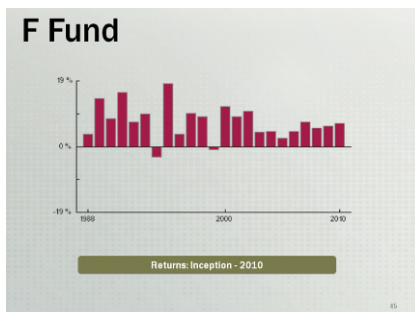
INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

G Fund: The Government Securities Investment Fund, which invests in special, non-traded U.S. Treasury securities guaranteed against any loss. The G Fund has a low level of volatility and a 10-year average return of 4.26 percent as of the end of 2010.

SLIDE 45: F FUND



INSTRUCTOR NOTES:

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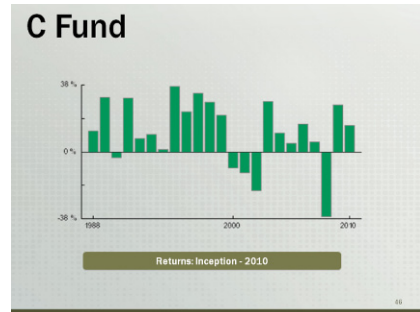
SECTION BACKGROUND INFORMATION

F Fund: The Fixed Income Index Investment Fund invests in government and corporate bonds and is designed to track the Barclays Capital U.S. Aggregate Index. The F Fund has a low to moderate level of volatility and a 10-year average return of 5.91 percent as of the end of 2010.

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SLIDE 46: C FUND



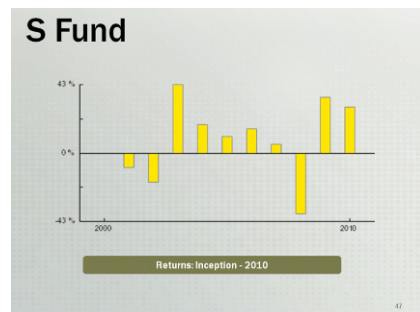
INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

C Fund: The Common Stock Index Investment Fund, which invests in stocks in the S&P 500 Index. The C Fund has a moderate level of volatility and a 10-year average return of 1.42 percent as of the end of 2010. However, the average return since inception (1988) is 9.55 percent.

SLIDE 47: S FUND



INSTRUCTOR NOTES:

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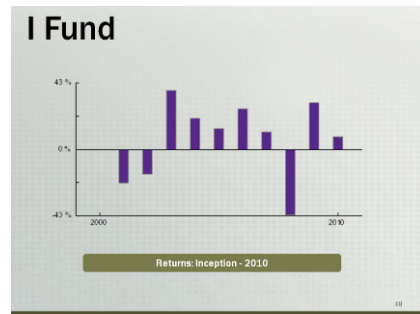
SECTION BACKGROUND INFORMATION

S Fund: The Small Capitalization Stock Index Investment Fund, which invests in small- and medium-size companies in the U.S. and is designed to track the Dow Jones U.S. Completion Total Stock Market Index. The S Fund has a moderate to high level of volatility and a five-year average return of 5.48 percent as of the end of 2010. The S fund average return since inception in 2001 is 7.14 percent.

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SLIDE 48: I FUND



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

I Fund: The International Stock Index Investment Fund, which invests entirely in non-U.S. companies and is designed to track the EAFE Index. The I Fund has a moderate to high level of volatility and a five-year average return of 2.61 percent and an average return since inception of 4.43 percent as of the end of 2010.

SLIDE 49: LIFECYCLE (L) FUNDS

Lifecycle (L) Funds

Fund	Description/Volatility	2010 Returns
L 2050	Time horizon for use of funds is 2045 or later	Not yet available
L 2040	Time horizon for use of funds is 2035 or later	13.89%
L 2030	Time horizon for use of funds is 2025 - 2034	12.48%
L 2020	Time horizon for use of funds is 2015 - 2024	10.59%
L Income	Funds used currently	5.74%

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

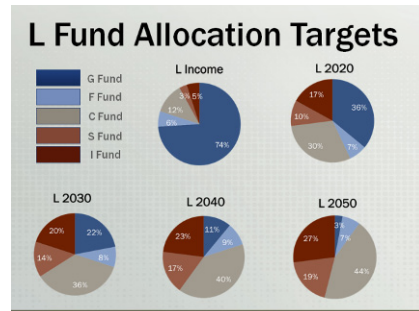
SECTION BACKGROUND INFORMATION

Lifecycle, or L Funds, consist of five pre-packaged portfolios with professionally determined asset allocation among the G, F, C, S and I Funds. The L Funds are professionally managed to meet your retirement timeline. Assets are rebalanced daily, maintaining your portfolio mix. Assets are reallocated quarterly (redistributed among the available funds), creating a more conservative (less risk) mix with age. When a fund reaches maturity (reaches the year it is named for), it rolls to the next more conservative fund and a new fund is added.

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SLIDE 50: L FUND ALLOCATION TARGETS



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

These pie charts show how the mix of funds is rebalanced over time. As you can see, as the fund date approaches, the assets are moved from more-volatile to less-volatile funds, until ultimately, in the L Income fund, three-quarters of the money is in the guaranteed G fund. Below are the average annual returns on the L funds since their inception in 2005.

SLIDE 51: L FUND ANNUAL RETURNS

L Fund Annual Returns

Year	L Income %	L 2020 %	L 2030 %	L 2040 %	L 2050 %
2005	2.15	3.40	3.59	3.92	--
2006	7.59	13.72	15.00	16.53	--
2007	5.56	6.87	7.14	7.36	--
2008	-5.09	-22.77	-27.50	-31.53	--
2009	8.57	19.14	22.48	25.19	--

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Year	L income %	L 2020 %	L 2030 %	L 2040 %	L 2050 %
2006	7.59	13.72	15.00	16.53	--
2007	5.56	6.87	7.14	7.36	--
2008	-5.09	-22.77	-27.50	-31.53	--
2009	8.57	19.14	22.48	25.19	--
2010	5.74	10.59	12.48	13.89	--

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SLIDE 52: TSP INVESTMENT OPTIONS



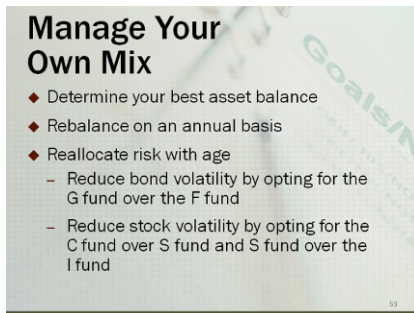
INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

There are two investment approaches to using the TSP. The first is to choose your own investment mix from the G, F, C, S and I funds. The second is to choose one of the L funds with a time horizon (how long until you will begin to use your retirement income) that matches your retirement date.

SLIDE 53: MANAGE YOUR OWN MIX



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Managing your own mix: If you choose to manage your own mix, you need to determine the correct asset balance based on your age, time horizon and risk tolerance. You can allocate your contributions to any of the five TSP investment funds in any whole percentage amount. The longer your time horizon, the more aggressive you can usually be with your investments. Diversifying your investments by contributing to more than one fund will allow you to reduce the level of risk. However, you will need to rebalance your mix on an annual basis and reduce your risk as you get closer to retirement age. For example, you may want to move bond money from the F fund to the G fund or move stock money from the I and S Funds to the C Fund.

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SLIDE 54: LET L FUNDS MANAGE YOUR MIX

Let L Funds Manage Your Mix

Choose the fund that fits your investment objective and time horizon

Investment Objectives			Time Horizons	
Fund	Growth	Preservation of assets	If your time horizon is:	Choose
L 2050	High	Very low	2045 and later	L 2050
L 2040	High	Low	2025 through 2044	L 2040
L 2030	Moderate/High	Low	2015 through 2034	L 2030
L 2020	Moderate	Moderate	Now through 2024	L 2020
L Income	Low	High	Now withdrawing	L Income

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Let the L funds manage your mix: You can keep it simple by letting the L funds manage the mix for you. Simply choose the fund that fits your time horizon by determining when you will need to use the money. Since L funds are a professionally designed mix and are reallocated quarterly, you do not have to worry about allocations of funds either now or in the future. Below are the fund objectives and different L fund time horizons.


Time Horizon	Choose
2045 and later	L 2050
2025 through 2044	L 2040
2015 through 2034	L 2030
Now through 2024	L 2020
Now withdrawing	L Income

Fund	Growth	Preservation of Assets
L 2050	High	Very Low
L 2040	High	Low
L 2030	Moderate/High	Low
L 2020	Moderate	Moderate
L Income	Low	High

SLIDE 55: TSP LOAN PROGRAM

TSP Loan Program

- ◆ General purpose loan
- ◆ Primary residence loan
- ◆ Minimum \$1,000
- ◆ Maximum \$50,000
- ◆ Low rate of interest
- ◆ Principal and interest repaid to your account



SECTION BACKGROUND INFORMATION

While you are a member of the uniformed services, the TSP loan program gives you access to the money that you have contributed to your TSP account and the earnings on that money. You must be in a pay status to obtain a loan, because your regular monthly loan payments are made through payroll deductions. Reservists who drill only monthly (or less) should think seriously before taking a loan, because they may be unable to make the required monthly payments. Missed payments could result in negative tax consequences.

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INSTRUCTOR NOTES:

1. Discuss the points on the slide using the information in the column to the right.
2. Most of this information is at an intermediate level; provide a simple overview.

There are two types of loans — a general-purpose loan and a loan for the purchase of a primary residence. You can apply for a general-purpose loan with a repayment period of one to five years, or you can apply for a residential loan with a repayment period of one to 15 years. No documentation is required for a general-purpose loan, but you must submit documentation (such as a contract for the purchase of your residence) to support the amount you are requesting for a residential loan. You may have one general-purpose loan and one residential loan from your TSP account at any one time.

The minimum loan amount is \$1,000. Therefore, you must have at least \$2,000 of your own contributions and qualified earnings on those contributions in your TSP account to apply for a loan. The maximum loan amount is \$50,000, depending on the amount you have contributed to your account, any outstanding TSP loans, and limits set by the Internal Revenue Code. If you have both a civilian and a uniformed services account, the maximum loan amount available for you to borrow will be based on calculations that consider the account balances and outstanding loan balances for both accounts.

The interest rate you pay for the life of the loan is the latest available interest rate for the G Fund at the time your application is processed. The interest you pay on the loan will go into your TSP account, along with repayments of the loan principal. You must pay a one-time fee of \$50 that covers the cost of processing and servicing the loan. The fee is deducted from the proceeds of the loan. Ultimately, what you should remember is that TSP is meant to be a retirement saving and investment program. If you need a loan, you should first look to other resources rather than tapping into your retirement funds.

Although funds are restored to your account when your loan payments are posted, borrowing from your account will affect the final account balance available

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for your retirement. Because the TSP investment funds have different rates of return, the interest you pay on your loan (at the G Fund rate) is likely to be different from the rates of return on the other TSP funds. If you have invested in any fund(s) other than the G Fund, the earnings in your account when your loan is repaid in full are likely to be different from what your earnings would have been if you had not taken the loan. Thus, even though you pay back your loan with interest, you may have less money in your account when you retire than you would if you had not borrowed from it.

If you are thinking about taking a loan from your TSP account, you may want to visit the loan calculator on the TSP website. The loan calculator can help you determine the estimated amount of your loan payments or the length of time it would take you to repay the loan. The calculator automatically uses the current interest rate. Information about applying for a loan and repaying the loan, and other details can be found on the TSP website.

You must wait 60 days from the time your loan is paid in full until you are eligible for another loan of the same type.

Work with your PFM Specialist to see if there is another way to find funding prior to dipping into your investment. You want to avoid paying such high penalties that may financially affect you at tax time and in your future which could cause you to incur debt or need another loan.

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SLIDE 56: AFTER MILITARY SERVICE



INSTRUCTOR NOTES:

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SECTION BACKGROUND

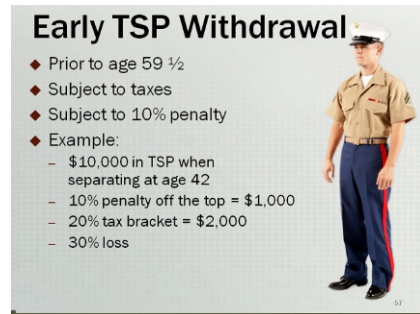
When you separate from military service, there are several withdrawal options within the TSP. If you separate or retire before age 59½, you can:

- Leave your money in the TSP. If your account balance is \$200 or more, you can maintain your TSP account, you can continue to manage your investments and your account can continue earning for you. By federal law, you are required to start making withdrawals from your TSP account by 1 April of the year following either:
 - The year you turn age 70 ½, if you are separated from Federal employment or the uniformed services. **OR**
 - The year you separate from Federal service, if you have already reached age 70 ½.
- Transfer to a rollover IRA or a new employer's plan.
- Continue to contribute through eligible transfers into your TSP. You cannot make direct contributions to your TSP account after you separate from the Marine Corps, however you can transfer additional monies into the account from a Traditional IRA or other eligible plan.
- Withdraw funds. If your account balance is less than \$200, TSP will automatically cash out your account and send you a check for the entire amount. You will be responsible for the income tax as well as any penalty owed (see next section on early withdrawal).

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SLIDE 57: EARLY TSP WITHDRAWAL



Early TSP Withdrawal

- ◆ Prior to age 59 ½
- ◆ Subject to taxes
- ◆ Subject to 10% penalty
- ◆ Example:
 - \$10,000 in TSP when separating at age 42
 - 10% penalty off the top = \$1,000
 - 20% tax bracket = \$2,000
 - 30% loss

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND

Although you can withdraw funds from your TSP account at any time, early withdrawal of funds (before age 59½) will result in a 10 percent penalty and a tax that is determined by your tax bracket. You will also be forfeiting future income from these investments. If, however, you have less than \$200 in your account when you leave military service, it will be automatically cashed out as a withdrawal.

Example:

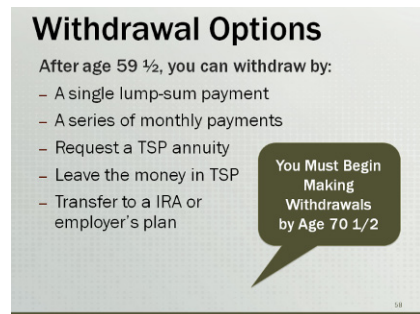
\$10,000 in TSP when separating at age 42

10% penalty off the top = \$1,000

20% tax bracket = \$2,000

30% loss

SLIDE 58: WITHDRAWAL OPTIONS



Withdrawal Options

After age 59 ½, you can withdraw by:

- A single lump-sum payment
- A series of monthly payments
- Request a TSP annuity
- Leave the money in TSP
- Transfer to a IRA or employer's plan

You Must Begin Making Withdrawals by Age 70 1/2

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND

When making withdrawals after age 59½, there are a variety of withdrawal options from which to choose. You can opt to:

- Receive a single lump-sum payment.
- Request a series of monthly payments.
- Request a TSP annuity, in which case you must have at least \$3,500 in your account in order for TSP to purchase the annuity.
- Leave the money in the TSP to continue growing.
- Transfer the money in the TSP to a rollover or conduit IRA or to your new employer's plan (if the plan accepts the money).
- You can also opt for a mixed withdrawal, which is a combination of any of the options listed. Although you are not required to begin making withdrawals at age 59½.
- You are required to begin a minimum annual withdrawal by age 70½.

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How you choose to receive your distribution(s) from your TSP account will be based on a number of factors such as current income needs, projected life span, other sources of income, tax situation. This is not a decision to be made lightly and you may want to consult with a tax professional prior to making your decision.

SLIDE 59: SAVING AND INVESTING TECHNIQUES



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Pay Yourself First

Make sure you have adequate income to pursue a savings and investment plan and that you have adequate insurance. Save from the top of your spending plan versus the bottom (do not save whatever is left after your expenses are paid; make your savings and investments a regular expense, too.) Set up a savings allotment — you will not miss it if you do not see it — or join the TSP.

Participate in the Military Saves Campaign

This program is sponsored by the Consumer Federation of America through an agreement with the Department of Defense. It is designed to encourage you to set your savings goals and provide suggestions and information on how to make that happen. The goal of the program is to help service members and families become financially prepared and put them on the path toward financial freedom. Contact your Command Financial Specialist, Personal Financial Management Specialist (<http://www.usmc-mccs.org/finance/>), or <http://www.militarysaves.com> to enroll.

Maximize Any Tax-Deferred Investment Opportunities

When you have all the necessary savings funds in place, decide how much money you can invest regularly and how much of that amount will go into retirement accounts. Put the maximum amount possible into any tax-deferred opportunities. These would include the TSP, a 401(k) and an IRA. However, once money is put into retirement accounts, it cannot be withdrawn without a penalty. Therefore, it is wise to

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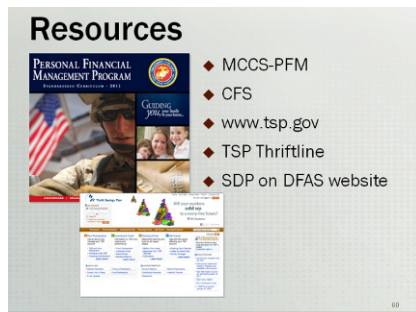
put some of your available dollars into retirement accounts and some into regular, taxable accounts.

Make Regular, Steady Investments

Earlier in this discussion, an example was used that showed the effect of spending money that had accumulated in an investment account. Even if you continue investing at the same rate, you never will catch up to what you could have had if you had not withdrawn your money early. Keep in mind that investment performance is not the same as investor performance. The stock market could be posting a return of 25 percent, but if you are not investing regularly, you will not see your investments grow.

If you have a lump sum of money to invest, research the options, consult a professional and invest it in an appropriate investment vehicle for your goals, time frame and risk tolerance. But if you are like most small investors, you do not have a large sum of money and are investing a smaller amount on a monthly basis. Keep at it, and do not stop the flow of money into your investments.

SLIDE 60: RESOURCES



INSTRUCTOR NOTES:

1. Discuss the points on the slide using the information in the column to the right.
2. Refer to the “Investing Resources” handout.

SECTION BACKGROUND INFORMATION

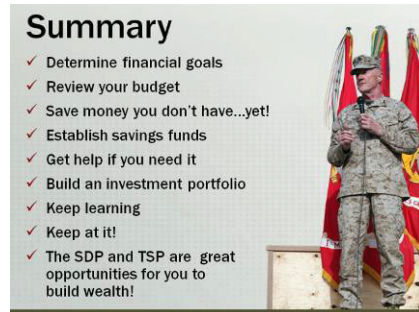
The following are resources for learning more about saving and investing:

- Marine Corps Community Services — Personal Financial Manager
- Command Financial Specialist
- www.tsp.gov
- TSP Thriftline
- SDP on DFAS website

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SLIDE 61: SUMMARY



INSTRUCTOR NOTES:

1. Distribute the "Session Evaluation" handout to participants. Ask that they complete it and return it to you before they leave.
2. Recap the discussion you've had during the session.
3. Answer any remaining questions the participants may have.

SECTION BACKGROUND INFORMATION

The investment markets never have been friendlier to small investors. Employer-provided retirement plans such as the TSP, the Internet and mutual funds make investing easy and effective. Remember: The riskiest thing you can do with your money is to do nothing at all. Inflation will guarantee that you will move away from building wealth as the value of your money erodes. So keep first things first, and put your money where it can grow.

- **Determine financial goals:** Set short- and long-term goals and determine which types of investments are appropriate for the time horizons associated with each.
- **Review your budget:** Cut expenses, pay down your debt and determine how much you can put into savings and investments each month. Pay yourself just like you would pay any other bill — except pay yourself first!
- **Save money you do not have ... yet!** Commit a portion of every future raise to your investment plan. You do not have it now, so you will not miss it when you invest it.
- **Establish emergency, reserve and Goal-Getter savings funds:** Goals should include having three months of expenses in emergency savings and putting aside about 10 percent of net income for long-term goals.
- **If you plan to transition from the military prior to retirement, it is very important that you increase your emergency fund to six months to cover possible employment gap until you are employed.**
- **Get help if you need it:** Talk to trusted family, friends and co-workers and ask how they invest their money. Meet with a financial educator at the Marine Corps Community Services Center for

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additional information. Explore the possibility of hiring a financial professional (such as a certified financial planner) to help you with your plan if you need it.

- **Build an investment portfolio:** Maximize tax-deferred opportunities. Choose a mutual fund or the stock of a company you have researched. Interview and hire a financial professional if you prefer to have assistance. On the Certified Financial Planner Board of Standards website (www.cfp.net/learn) there are some good tips and an interviewing checklist for choosing a financial planner. Additionally, information is available from the U.S. Securities and Exchange Commission (www.sec.gov/investor/brokers.htm) for vetting various financial professionals.
- **Keep learning:** New information is available all the time, and the investment environment changes frequently. Read books and magazines, attend classes, talk to fellow investors, start an investment club. Use websites such as Morningstar (www.morningstar.com) or Yahoo! Finance (<http://finance.yahoo.com>) to research and/or track your investments. Even if you plan to work with a broker, financial planner or other investment adviser, it still will help if you improve your knowledge about how you plan to invest; no one is as interested in your family's financial future as you. A course on investing at a local community college or adult education center can be interesting as well as informative. Free seminars, given by individuals and organizations in financial services as a way to attract potential clients, can be useful as long as you remain on guard for the sales pitch. Scan the Internet or visit the local library and read financial magazines and newspapers.

PERSONAL FINANCIAL MANAGEMENT PROGRAM

STANDARDIZED CURRICULUM

- **Keep at it!** Once you get started, keep at it! Continue saving for short- and long-term goals. It takes time to produce virtually anything worthwhile. Never take money out of your TSP, IRA or other long-term investments for short-term objectives — that's why you have established a Goal-Getter or emergency fund.
- The SDP and TSP offer great opportunities to build wealth!

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