WIN MAKE GIVE

WEALTH SERIES

PART EIGHT

INVEST WISELY

benkinney TRAINING

IMPORTANT

Nothing in this course constitutes investment advice, performance data or any recommendation that any security, portfolio of securities, investment product, transaction or investment strategy is suitable for any specific person.

We cannot assess anything about your personal circumstances, your finances, or your goals and objectives, all of which are unique to you, so any opinions or information contained on this course are just that – an opinion or information.

You should not use my advice to make financial decisions and I highly recommend you seek professional advice from someone who is authorized to provide investment advice.

Win Make Give Series

INVEST WISELY

"How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case."

- Robert G. Allen -

Part Eight - Invest Wisely

All of the lessons we've covered have been preparing us for this point: investing wisely. The biggest problem individuals encounter on this journey is that they don't have money set aside to invest. They don't have money available to invest because they aren't saving like crazy, becoming a student of money, increasing their income, or they're paying too much in taxes.

We all want to do the fun stuff - investing! However, if we don't do the "pre-work," we haven't earned the right to invest yet.

Once you have done the work, then you will need a plan. If you're feeling excited about investing in the future but you don't know where to begin, then today is your day. Today you're going to learn how to invest in a variety of different "buckets" - I call these the Buckets of Wealth. Part Eight is an introduction into investing.

If this gets you excited and you want to learn more about investing then I have a solution for you: the **Win Make Give Investing Series**, which I'll also be offering for **FREE** for a limited amount of time. You'll learn all about how to invest in financial instruments: Retirement Accounts, 401(k)s, IRAs, Self-Directed IRAs, Stocks, Bonds, Mutual Funds and Index Funds.

Second, we'll cover investing in real estate, like rental properties, flipping homes, owner financing, and commercial real estate.

Third, we'll cover how to invest in, launch, buy, and build businesses.

Enjoy the rest of the Wealth Series and take a bolder step by going to winmakegive.com/investing to sign up now!

Invest Wisely - Five Buckets of Wealth

BUCKETS OF WEALTH: Write some notes below about each bucket.

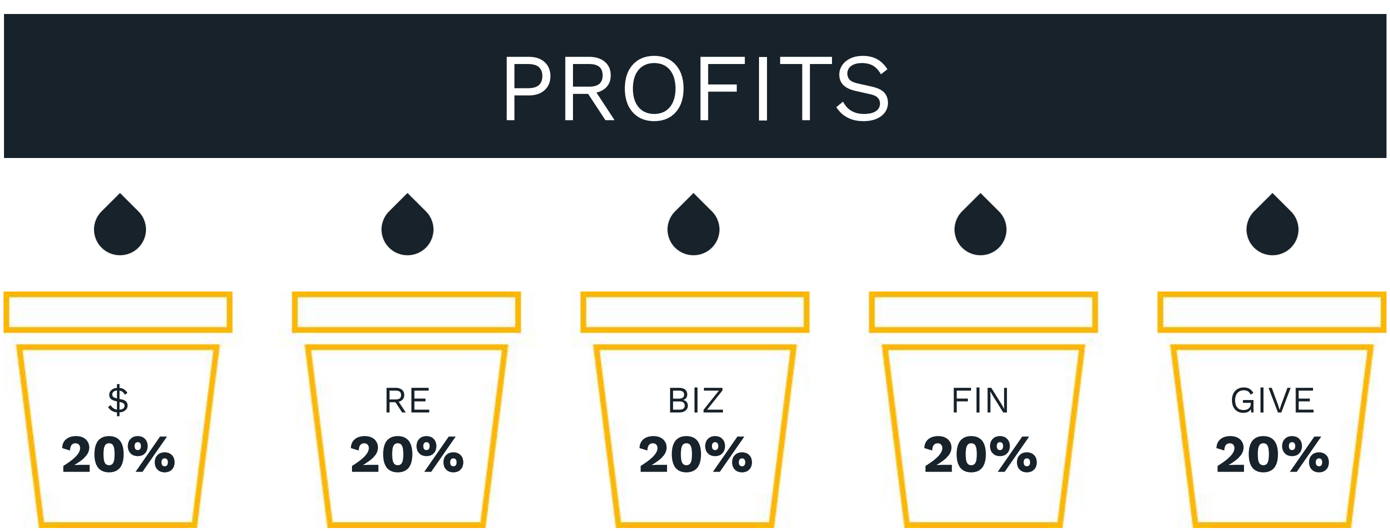
1. Liquid reserves

2. Real estate investments

3. Start, own, buy, invest in businesses

4. Leverage financial instruments

5. Create a legacy / help family / pay off debt / be generous



Why “Buckets of Wealth?”

Imagine a chair that you sit on to protect your wealth, like Scrooge McDuck’s pile of money in “Ducktales” or Smaug in the Hobbit. If your chair only had one leg, would you be able to balance? What about two? NO!

Similarly, most people put all of their eggs in one basket when it comes to their investing strategy. Maybe all your investing money is in your retirement account, or it’s all tied up in real estate, or stocks. The problem with only choosing one “bucket” is that if one of these legs were to fall out - if the stock market or housing market crashes suddenly, for example - you’d still be sitting upright.

In other words, the goal of the Five Buckets of Wealth is to equally and proportionally distribute wealth through these five buckets in order to be financially protected through your variety of investments.

It doesn’t matter how much you have to invest - it’s time to develop the habit! For example, if you have $100 a month to put away, put $20 in each type of “bucket.” You could use separate bank accounts with direct deposit to make it easier on yourself, or go old school and use envelopes or old Folgers Coffee cans like my Grandpa.

To be clear, we aren’t putting this money away to sit forever - we’re separating our excess money five ways so it’s set aside and ready to invest when the opportunity arises.

CASH RESERVES

"Money without brains is always dangerous."

- Napoleon Hill -

Cash & Cash Equivalent Reserve

Please refer to your Net Worth tracker and Personal Budget and Expense Model to find the numbers for this exercise.

THE MODEL

Personal monthly required + optional expenses x 4 months = personal required expenses

$ ______________ + $ ______________ x 4 = [ ]

Business monthly expenses x 4 months = business required expenses

$ ______________ + $ ______________ x 4 = [ ]

Rentals = monthly mortgage + expenses x 4 months = real estate reserves

$ ______________ + $ ______________ x 4 = [ ]

EXCESS RESERVES:

20% → 1. Cash account - different bank

20% → 2. Real estate purchase account

20% → 3. Business investment account

20% → 4. Stocks, retirement, bonds account

20% → 5. Giving / gifting / foundation

REAL ESTATE INVESTING

"Ninety percent of all millionaires become so through owning real estate."

- Andrew Carnegie -

Real Estate Investing Model

Download the spreadsheets provided with this lesson from the Win Make Give website. Play with the variables and see what owning real estate could do for you and your retirement.

1. Own your own home
2. Rent out home & buy 2nd one
3. Rent out 2nd home & buy 3rd one
4. Rent out 3rd home & buy 4th home
5. Rent out 4th home & buy 5th one

BENEFITS OF THIS MODEL

Slow growth, low down payment, and the following financial benefits:

1. Appreciation

2. Principal reduction

3. Tax benefits / savings

4. Rental income

5. Depreciation

5 Home, 30 Year Financial Model

Assumptions:

- 4% annual home appreciation
- 5% down payment applied to each purchase
- 2.5% annual increase in rent
- 5% rental income loss
- 25% rental net operating margin
- Natural increase in interest rates through the years

Home #1			2018	2023	2028	2033	2038	2043	2047
Year Purchased	1	Market Value of Home	$312,222	$381,223	$465,471	$568,339	$693,940	$847,298	$994,049
Purchase Price	300,000	Rental Net Cashflow	0	23,078	55,322	91,804	133,080	179,780	221,521
Down Payment	15,000	Unpaid Principal Balance	280,602	255,196	222,994	182,178	130,446	64,875	0
Annual Interest Rate	4.75%	**Cumulative Growth of Net Worth**	**$31,620**	**$149,104**	**$297,800**	**$477,965**	**$696,574**	**$962,203**	**$1,215,570**
Rent Payments	1,950								

Home #2			2018	2023	2028	2033	2038	2043	2047
Year Purchased	3	Market Value of Home	$0	$439,950	$537,177	$655,891	$800,841	$977,824	$1,147,182
Purchase Price	375,000	Rental Net Cashflow	0	14,067	52,431	95,836	144,945	200,507	250,169
Down Payment	18,750	Unpaid Principal Balance	0	333,369	297,616	251,846	193,253	118,243	43,366
Annual Interest Rate	4.95%	**Cumulative Growth of Net Worth**	**$0**	**$120,648**	**$291,992**	**$499,881**	**$752,533**	**$1,060,087**	**$1,353,985**
Rent Payments	2,438								

Home #3			2018	2023	2028	2033	2038	2043	2047
Year Purchased	5	Market Value of Home	$0	$507,723	$619,928	$756,930	$924,209	$1,128,457	$1,323,904
Purchase Price	468,750	Rental Net Cashflow	0	0	45,644	97,286	155,714	221,819	280,906
Down Payment	23,438	Unpaid Principal Balance	0	432,417	393,596	343,151	277,601	192,423	106,255
Annual Interest Rate	5.25%	**Cumulative Growth of Net Worth**	**$0**	**$75,307**	**$271,976**	**$511,065**	**$802,322**	**$1,157,853**	**$1,498,555**
Rent Payments	3,047								

Home #4			2018	2023	2028	2033	2038	2043	2047
Year Purchased	7	Market Value of Home	$0	$0	$715,428	$873,535	$1,066,583	$1,302,294	$1,527,850
Purchase Price	585,938	Rental Net Cashflow	0	0	33,384	94,826	164,342	242,992	313,292
Down Payment	29,297	Unpaid Principal Balance	0	0	514,673	459,457	386,808	291,224	193,449
Annual Interest Rate	5.50%	**Cumulative Growth of Net Worth**	**$0**	**$0**	**$234,139**	**$508,904**	**$844,117**	**$1,254,063**	**$1,647,693**
Rent Payments	3,809								

Home #5			2018	2023	2028	2033	2038	2043	2047
Year Purchased	9	Market Value of Home	$0	$0	$825,639	$1,008,102	$1,230,889	$1,502,911	$1,763,213
Purchase Price	732,422	Rental Net Cashflow	0	0	0	0	0	0	0
Down Payment	36,621	Unpaid Principal Balance	0	0	667,331	607,514	527,826	421,668	311,866
Annual Interest Rate	5.75%	**Cumulative Growth of Net Worth**	**$0**	**$0**	**$890,729**	**$1,133,010**	**$1,435,485**	**$1,813,665**	**$2,183,770**
Rent Payments	4,761								

Net Worth of 5 Homes in 30 Years	**$31,620**	**$345,059**	**$1,986,636**	**$3,130,825**	**$4,531,031**	**$6,247,871**	**$7,899,572**

10 Home, 30 Year Financial Model

Home #1	
Year Purchased	1
Purchase Price	300,000
Down Payment	15,000
Annual Interest Rate	4.75%
Rent Payments	1,950

	2018	2023	2028	2033	2038	2043	2047
Market Value of Home	$312,222	$381,223	$465,471	$568,339	$693,940	$847,298	$994,049
Rental Net Cash Flow	0	23,078	55,322	91,804	133,080	179,780	221,521
Unpaid Principal Balance	280,602	255,196	222,994	182,178	130,446	64,875	0
Cumulative Growth of Net Worth	**$31,620**	**$149,104**	**$297,800**	**$477,965**	**$696,574**	**$962,203**	**$1,215,570**

Home #2	
Year Purchased	3
Purchase Price	345,000
Down Payment	17,250
Annual Interest Rate	4.75%
Rent Payments	2,243

	2018	2023	2028	2033	2038	2043	2047
Market Value of Home	$0	$404,754	$494,203	$603,420	$736,774	$899,598	$1,055,407
Rental Net Cash Flow	0	12,942	48,237	88,169	133,349	184,466	230,155
Unpaid Principal Balance	0	305,999	272,316	229,624	175,513	106,928	39,070
Cumulative Growth of Net Worth	**$0**	**$111,697**	**$270,123**	**$461,965**	**$694,609**	**$977,136**	**$1,246,492**

Home #3	
Year Purchased	5
Purchase Price	396,750
Down Payment	19,838
Annual Interest Rate	4.75%
Rent Payments	2,579

	2018	2023	2028	2033	2038	2043	2047
Market Value of Home	$0	$429,737	$524,707	$640,666	$782,251	$955,126	$1,120,552
Rental Net Cash Flow	0	0	38,633	82,343	131,796	187,748	237,759
Unpaid Principal Balance	0	364,998	329,767	285,112	228,513	156,775	85,797
Cumulative Growth of Net Worth	**$0**	**$64,739**	**$233,573**	**$437,896**	**$685,534**	**$986,099**	**$1,272,513**

Home #4	
Year Purchased	7
Purchase Price	456,263
Down Payment	22,813
Annual Interest Rate	5.00%
Rent Payments	2,966

	2018	2023	2028	2033	2038	2043	2047
Market Value of Home	$0	$0	$557,095	$680,211	$830,535	$1,014,081	$1,189,718
Rental Net Cash Flow	0	0	25,996	73,840	127,971	189,215	243,956
Unpaid Principal Balance	0	0	398,031	352,577	294,242	219,379	144,481
Cumulative Growth of Net Worth	**$0**	**$0**	**$185,060**	**$401,474**	**$664,264**	**$983,918**	**$1,289,194**

Home #5	
Year Purchased	9
Purchase Price	524,702
Down Payment	26,235
Annual Interest Rate	5.00%
Rent Payments	3,411

	2018	2023	2028	2033	2038	2043	2047
Market Value of Home	$0	$0	$591,482	$722,197	$881,800	$1,076,675	$1,263,154
Rental Net Cash Flow	0	0	9,720	62,089	121,341	188,378	248,297
Unpaid Principal Balance	0	0	475,256	427,948	367,235	289,318	211,366
Cumulative Growth of Net Worth	**$0**	**$0**	**$125,946**	**$356,338**	**$635,906**	**$975,734**	**$1,300,084**

10 Home, 30 Year Model Continued

Home #6			2018	2023	2028	2033	2038	2043	2047
Year Purchased	**11**	Market Value of Home	$0	$0	$627,991	$766,775	$936,229	$1,143,133	$1,341,122
Purchase Price	603,407	Rental Net Cash Flow	0	0	0	46,417	111,273	184,651	250,237
Down Payment	30,170	Unpaid Principal Balance	0	0	564,779	515,542	452,353	371,259	290,128
Annual Interest Rate	5.00%	**Cumulative Growth of Net Worth**	**$0**	**$0**	**$63,211**	**$297,650**	**$595,149**	**$956,524**	**$1,301,231**
Future Rent Payment:	3,922								

Home #7			2018	2023	2028	2033	2038	2043	2047
Year Purchased	**13**	Market Value of Home	$0	$0	$0	$814,104	$994,018	$1,213,693	$1,423,903
Purchase Price	693,918	Rental Net Cash Flow	0	0	0	26,031	97,021	177,340	249,130
Down Payment	34,696	Unpaid Principal Balance	0	0	0	618,932	555,116	472,191	388,301
Annual Interest Rate	5.25%	**Cumulative Growth of Net Worth**	**$0**	**$0**	**$0**	**$221,203**	**$535,923**	**$918,842**	**$1,284,731**
Rent Payments	4,510								

Home #8			2018	2023	2028	2033	2038	2043	2047
Year Purchased	**15**	Market Value of Home	$0	$0	$0	$864,355	$1,055,374	$1,288,608	$1,511,793
Purchase Price	798,006	Rental Net Cash Flow	0	0	0	0	77,705	165,620	244,201
Down Payment	39,900	Unpaid Principal Balance	0	0	0	737,105	673,318	589,394	503,546
Annual Interest Rate	5.50%	**Cumulative Growth of Net Worth**	**$0**	**$0**	**$0**	**$127,250**	**$459,760**	**$864,834**	**$1,252,448**
Rent Payments	5,187								

Home #9			2018	2023	2028	2033	2038	2043	2047
Year Purchased	**17**	Market Value of Home	$0	$0	$0	$0	$976,797	$1,192,666	$1,399,234
Purchase Price	800,000	Rental Net Cash Flow	0	0	0	0	45,581	129,469	204,450
Down Payment	40,000	Unpaid Principal Balance	0	0	0	0	702,701	627,312	550,194
Annual Interest Rate	5.50%	**Cumulative Growth of Net Worth**	**$0**	**$0**	**$0**	**$0**	**$319,677**	**$694,824**	**$1,053,490**
Rent Payments	5,200								

Home #10			2018	2023	2028	2033	2038	2043	2047
Year Purchased	**19**	Market Value of Home	$0	$0	$0	$0	$901,817	$1,101,116	$1,291,828
Purchase Price	800,000	Rental Net Cash Flow	0	0	0	0	0	0	0
Down Payment	40,000	Unpaid Principal Balance	0	0	0	0	728,904	663,567	595,987
Annual Interest Rate	5.75%	**Cumulative Growth of Net Worth**	**$0**	**$0**	**$0**	**$0**	**$172,914**	**$437,549**	**$695,841**
Rent Payments	5,200								

	2018	2023	2028	2033	2038	2043	2047
Net Worth of 10 Homes in 30 Years	**$31,620**	**$260,801**	**$942,140**	**$2,343,844**	**$4,774,777**	**$7,771,564**	**$10,639,082**

Get the **5 and 10 Year, 30 Home Calculator** at winmakegive.com

Tax Benefits of Real Estate

DEPRECIATION:

Residential rental property (buildings or structures) and structural components can be depreciated by 27.5 years using the general depreciation system or 40 years using the alternative depreciation system.

1031 EXCHANGES:

Section 1031 defers tax on swaps of like-kind real estate done in a timely manner.

PRIMARY RESIDENCE:

Gains from the sale of a taxpayer's primary personal residence are excluded from capital gains taxation up to $500,000 for married couples and $250,000 for single individuals if the taxpayer has lived in the home for two of the last five years.

MORTGAGE INTEREST DEDUCTION:

The mortgage interest deduction allows homeowners to deduct part of the cost of their mortgage on their taxes. The new tax plan will limit the portion of a mortgage on which you can deduct interest to $750,000, as compared to the current limit of $1 million. Homeowners with existing mortgages will be able to continue to receive the current deduction.

PROPERTY TAX DEDUCTION:

The new tax plan has a limit of $10,000 on the amount of state and local property taxes that can be deducted from a homeowner’s federal taxes.

Investing in Businesses

"Business and investing are team sports."

- Robert Kiyosaki -

Investing in Business

When you invest in a business, you either invest in a proven MODEL or in a proven PERSON. Your confidence in the business will be determined by your confidence and review of the following:

1. Mission, Vision, and Values
2. Business Plan
3. Organizational Chart
4. FInancial Statements and Profit Margins
5. Cash Reserves and Tangible Assets
6. Product or Service
7. Pricing Model
8. Marketing Plan
9. Leadership Team
10. Business Risk Analysis

Investing in Businesses

Why investing in businesses is one of the fastest ways to both grow and lose wealth.

Valuations of Businesses

There are a number of ways a company can be valued, including:

COMPARABLE METHOD: This takes into consideration similar active, pending, and sold businesses that operate in the same industry, location, or both.

MARKET CAPITALIZATION: This is the simplest method of business valuation. It is calculated by multiplying the company's share price by its total number of shares outstanding.

TIMES REVENUE METHOD: Under this business valuation method, a stream of revenues generated over a certain period of time is applied to a multiplier For example, a tech company may be valued at 3-5x revenue, while a service firm may be valued at 0.5x revenue.

NET INCOME MULTIPLIER: Net income multiplier is often a more accurate picture of the real value of a small to medium sized company often 1-3 times net income (averaged over a period of years.).

BOOK VALUE: This is the value of shareholders' equity of a business as shown on the balance sheet statement. The book value is derived by subtracting total liabilities of a company from its total assets.

LIQUIDATION VALUE: This is the net cash that a business will receive if its assets were liquidated and liabilities were paid off today.

What would you value your business today at?

Financial Instruments

"Someone is sitting in the shade today because someone planted a tree a long time ago."

- Warren Buffett -

Financial Instruments - Stocks

You have probably heard a popular definition of what a stock is: “A stock is a share in the ownership of a company. Stock represents a claim on the company's assets and earnings. As you acquire more stock, your ownership stake in the company becomes greater.” Unfortunately, this definition is incorrect in some key ways.

To start with, stockholders do not own corporations; they own shares issued by corporations. But corporations are a special type of organization because the law treats them as legal persons. In other words, corporations file taxes, can borrow, can own property, can be sued, etc. The idea that a corporation is a “person” means that the corporation owns its own assets. A corporate office full of chairs and tables belong to the corporation, and not to the shareholders.

This distinction is important because corporate property is legally separated from the property of shareholders, which limits the liability of both the corporation and the shareholder. If the corporation goes bankrupt, a judge may order all of its assets sold – but your personal assets are not at risk.

What shareholders own are shares issued by the corporation, and the corporation owns the assets. If you own 33% of the shares of a company, it is incorrect to assert that you own one-third of that company; it is instead correct to state that you own 100% of one-third of the company’s shares. Shareholders cannot do as they please with a corporation or its assets. A shareholder can’t walk out with a chair because the corporation owns that chair, not the shareholder. This is known as the “separation of ownership and control.”

Financial Instruments - Bonds

A bond is **a fixed income investment in which an investor loans money to an entity** (typically corporate or governmental) **which borrows the funds for a defined period of time at a variable or fixed interest rate**. Bonds are used by companies, municipalities, states and sovereign governments to raise money and finance a variety of projects and activities. Owners of bonds are debtholders, or creditors, of the issue

THERE ARE THREE MAIN CATEGORIES OF BONDS:

1. Corporate bonds are issued by companies.
2. Municipal bonds are issued by states and municipalities.
3. U.S. Treasury bonds (more than 10 years to maturity), notes (1-10 years maturity)

TAX FREE MUNICIPAL BONDS:

If you're looking for a safe investment that is likely to deliver slow yet steady returns over the long haul, and where you don't have to pay federal or local taxes, a tax-free municipal bond might be a good option. In order to avoid local taxes, simply invest in a local (city or state) municipal bond.

HOW TO SAVE TAXES WHILE INVESTING IN BONDS:

Tax-free municipal bonds where you experience neither a capital gain nor a capital loss, nor is the bondholder subject to any alternative minimum tax.

Bonds held in a tax-advantaged account, such as a Roth IRA or a 529 college savings plan.

Financial Instruments - Bonds

Total return of a bond can come from multiple sources:

1. **Interest on the bond**

2. Reinvest the returns every 6 to 12 months. The *reinvestment rate* is probably the most important because of the power of compound interest.

The only kinds of bond where the reinvestment rate is not a factor are called zero-coupon bonds, where one payment is made at maturity.

Example: Suppose you buy a 30-year, $1,000 bond that pays 6 percent on a semiannual basis. If you spend the $30 you collect twice a year, at the end of 30 years, and your total annual rate of return is 6 percent simple interest.

Now suppose that each time your received the $30 checks, you immediately reinvest them at the same coupon rate. Over the course of 30 years, that pile of reinvested money grows at an annual rate of 6 percent *compounded* and you instead wind up with $5,891.60

Financial Instruments - Mutual Funds

Mutual funds come in many varieties. There are index funds, stock funds, bond funds, money market funds and more. Each of these may have a different investment objective and strategy along with its unique risks, volatility, and fees and expenses.

Types of Mutual Funds:

GROWTH FUNDS: Growth fund managers will add stocks to the fund portfolio that show a high probability of capital appreciation.

AGGRESSIVE GROWTH FUNDS: Aggressive growth funds are similar to growth funds, except that they invest in companies that are less well-established.

INTERNATIONAL STOCK AND BOND FUNDS: International funds invest in companies outside the U.S. They may invest in securities issued by companies that are located in several countries within a particular region of the world, like Europe or Asia, or they may focus on a single country, such as Japan.

INDEX FUNDS: An index fund invests in securities within a particular benchmark index and according to the specific composition of that index. For instance, a common index fund available to investors is one that mirrors the S&P 500 Index.

What should I choose?

Financial Instruments - Stocks

Which financial instruments should I start with? IRA? 401(k)?

TIP: Download the Acorns App on your phone and explore IRA options.

Financial Instruments - 401(k) & 403(b)

Since its inception in 1978, the 401(k) plan has grown to be the most popular type of employer-sponsored retirement plan in America. Many employers use their 401(k) plans as a means of distributing company stock to employees. Few other plans can match the relative flexibility that 401(k)s offer.

WHAT IS A 401(K) PLAN?

By definition, a 401(k) plan is an arrangement that **allows an employee to choose between taking compensation in cash or deferring a percentage of it to a 401(k) account** under the plan. The amount deferred is usually not taxable to the employee until it is withdrawn or distributed from the plan. However, if the plan permits, an employee can make 401(k) contributions on an after tax basis (these accounts are known as Roth 401k), and these amounts are generally tax-free when withdrawn.

CONTRIBUTION LIMITS

For 2020, the maximum amount of compensation that an employee can defer to a 401(k) plan is $19,500. Employees age 50 by the end of the year and older can also make additional catch-up contributions of up to $6,000. The maximum allowable employer/employee joint contribution limit remains at $57,000.

THE DIFFERENCE BETWEEN A 401(K) & A 403(B) RETIREMENT PLAN

The basic difference is that a 403(b) is used by nonprofit companies, religious groups, school districts, and governmental organizations. The law allows these organizations to be exempt from certain administrative processes that apply to 401(k) plans. In other words, administrative costs for a 403(b) are lower.

Notes - 401(k) & 403(b)

IRA

IRA stands for **Individual Retirement Account**, and it's basically a savings account with big tax breaks, making it an ideal way to sock away cash for your retirement. A lot of people mistakenly think an IRA itself is an investment – but it's just the basket in which you keep stocks, bonds, mutual funds and other assets.

An IRA differs from other types of retirement accounts such as 401(k)s. Those accounts are provided by your company, whereas the most common types of IRAs are accounts that you open on your own.

There are several different types of IRAs, including traditional IRAs, Roth IRAs, SEP IRAs, and SIMPLE IRAs. Each has eligibility restrictions based on your income or employment status. SEP and SIMPLE IRAs can only be opened by self-employed individuals and small business owners. All types of IRAs have caps on how much you can contribute each year and penalties if you withdraw your money before the designated retirement age.

ROTH IRA

Benefits: No taxes on withdrawals of contributions

No taxes on earnings*

No required minimum distributions (RMDs) for as long as you live

No age limit to open the IRA or contribute to it

Considerations: Eligibility and contribution amounts could be limited by your income

Contributions can't be deducted

TRADITIONAL IRA

Benefits: Contributions may be tax-deductible

Earnings grow tax deferred

Eligibility not limited by income

Considerations: No contributions Allowed after age 70½

RMDs must start at age 70½

A portion of your withdrawals may be taxable

SEP IRA

A SEP, or Simplified Employee Pension, is **a retirement savings plan established by employers**, including self-employed individuals (independent contractors, sole proprietorships or partnerships) **for the benefit of their employees**.

Employers may make tax-deductible contributions on behalf of eligible employees –including the business owner– to their SEP IRAs. The employer is allowed a tax deduction for plan contributions that do not exceed the statutory limit.

SEP IRA contributions are made to each eligible employee's SEP IRA on a discretionary basis. That means that the employer can choose to contribute (or not) each year. However, if the employer does contribute, it must contribute the same percentage of compensation to all employees eligible for the plan, up to the contribution limit.

Employees do not pay taxes on SEP plan contributions. However, distributions of these amounts plus any earnings are subject to income taxes.

An employee (including the business owner) who is eligible to participate in his or her employer's SEP plan must establish a traditional IRA to which the employer will deposit SEP contributions. Some financial institutions require the traditional IRA to be labeled as a SEP IRA before they will allow the account to receive SEP contributions.

Self-Directed IRA

WHAT IS A SELF-DIRECTED IRA?

A self-directed individual retirement account (SDIRA) is **an individual retirement account (IRA) in which the investor is in charge of making all the investment decisions**. The self-directed IRA provides the investor with greater opportunity for asset diversification outside of the traditional stocks, bonds and mutual funds. All securities and investments are held in an account administered by a custodian or trustee.

BREAKING DOWN A SDIRA

A self-directed IRA is a type of traditional or Roth IRA. A SDIRA is used to save for retirement and is structured to facilitate withdrawals at a specified age. Self-directed IRAs differ from traditional and Roth IRAs only by the assets they hold. Designed for do-it-yourself investors, they allow the owner to invest in a much broader array of securities than with a traditional or Roth IRA.

A SDIRA is managed by the plan owner and can function as a very broad investment portfolio. Its portfolio options are much broader than basic eligible securities for traditional and Roth IRAs offered by brokerage firms. As such, it requires greater initiative and due diligence by the plan owner.

NOTE: SDIRA investors have much broader investment options for investing in SDIRAs. SDIRAs can include nearly any type of investment. They can accommodate private placements, private securities, real estate, limited partnerships, precious metals, commodities, crowdfunding investments and more. Life insurance is not permitted in a SDIRA.

Roth IRA Conversions

When you convert from a Traditional IRA to a Roth IRA -a process also known as creating a “backdoor” Roth IRA- you generally pay income tax on the contributions. The taxable amount that is converted is added to your income taxes, and your regular income rate is applied to your total income. If the amount is large enough, it may raise your tax bracket for the year in which you do the conversion.

NOTE: if the money in your Traditional IRA is post-tax money (you did not take a deduction on the money you contributed), you may not owe tax when you convert to a Roth IRA. Tax-savvy investors want to pay as little income tax as possible. Converting to a Roth IRA allows you to make smart tax moves that will save money in the long run.

If you anticipate your income dropping significantly in a certain year (and increasing in following years), you could plan a conversion for the low-income year. Since your income is lower, you may be in a lower tax bracket when you convert. Similarly, if the government announced tax-rate increases to go into effect in the following year, a conversion in the current year would save income tax.

Converting to a Roth IRA will guarantee that you will owe no additional income tax on the converted funds -and any money those funds will earn before you withdraw them- during retirement. The balance in your portfolio will be what you can tap in retirement, and you won’t have to calculate an after-tax balance.

529 Plans

A 529 plan is **a tax-advantaged savings plan designed to encourage saving for future college costs**. 529 plans, legally known as “qualified tuition plans,” are sponsored by states, state agencies, or educational institutions and are authorized by Section 529 of the Internal Revenue Code.

529 plans offer unsurpassed income tax breaks. Although contributions are not deductible, earnings in a 529 plan grow federal tax-free and will not be taxed when the money is taken out to pay for college.

If assets in a 529 are used for something other than qualified education expenses, you'll have to pay both federal income taxes and a 10% penalty on the earnings. An interesting side note is that if the beneficiary gets a full scholarship to college, the penalty for taking the cash is waived.

Also, a contribution of $14,000 a year or less qualifies for the annual federal gift tax exclusion.

Under special rules unique to 529 plans, you can gift a lump sum of up to $70,000 ($140,000 for joint gifts) and avoid federal gift tax, provided you make an election to spread the gift evenly over five years.

About two-thirds of the states that offer a state income tax deduction for 529 college-savings plan contributions let anyone who is a resident of that state take a deduction, even if you don't own the account - whether you are a parent, relative or friend. The remaining states let you deduct contributions only if you're the account owner. In that case, you might want to open an account for your grand-
daughter so that you can qualify for the deduction, even if her parents already have an account for her.

There’s no limit to the number of 529 accounts that can be opened for one beneficiary.

HSA Plans for Retirement

A HSA (health savings account) is **a tax-exempt trust or custodial account that can be set up to pay for future medical expenses.** In order to be eligible to open a HSA, the individual (or trustee) must be covered by a high deductible health plan.

One of the biggest and most unpredictable costs of retirement is paying for healthcare. It is a fact of life that as you get older, your body starts to break down. This often leads to a big increase in medical expenses in your retirement years.

A HSA can benefit retirees in several different ways. First, all medical expenses that you incur can be paid for with funds in the account. You won't owe any taxes on withdrawals
if the funds are used for healthcare costs. As long as the funds are used for medical expenses, the growth in the account is essentially tax free.

If you are fortunate enough to remain relatively healthy during your working years and don't incur a lot of medical expenses, you could build up a significant balance in your HSA. What you don't use for medical expenses can be withdrawn during retirement (after age 65 or Medicare eligibility) with no penalty. However, you will still need to pay income tax on the funds, just as you would with a traditional IRA distribution.

While certainly a powerful tool for retirement planning, a HSA has one major drawback for retirees. In order to qualify for a HSA, you must purchase an HDHP, or high-deductible health plan. Since these types of health plans have a higher annual deductible than traditional plans, you may have to pay more out-of-pocket medical expenses than you would with a traditional healthcare plan.

Invest Wisely - Reflection

How much can I save each month to invest in my future?

How much is that per bucket?

How much in total reserves will I have before I start investing?

Where will I focus my investments this year? Real Estate? Businesses? Retirement Accounts?

Part Eight Giveaway Question

For those of you participating in the giveaway, make sure to answer this question and save it somewhere you can access later as you will receive a form at the end of the series with a question from each part. This is a requirement for entering to win up to $5,000 to fund your retirement and help you build wealth.

Question: What are the 5 buckets of wealth?

IMPORTANT for LIVE Webinar

- [ ] Revisit all the workbooks and make sure you have the Giveaway questions answered, so you can fill out the giveaway form and be entered to win up to $5,000!
- [ ] Make a plan and set yourself up to start investing in the Five Buckets of Wealth.
- [ ] Familiarize yourself with the 5 and 10 homes in 30 years calculator

Register for the live webinar here: tinyurl.com/wmgcall

Complete the homework & enter the Giveaway here: tinyurl.com/wmgquiz