
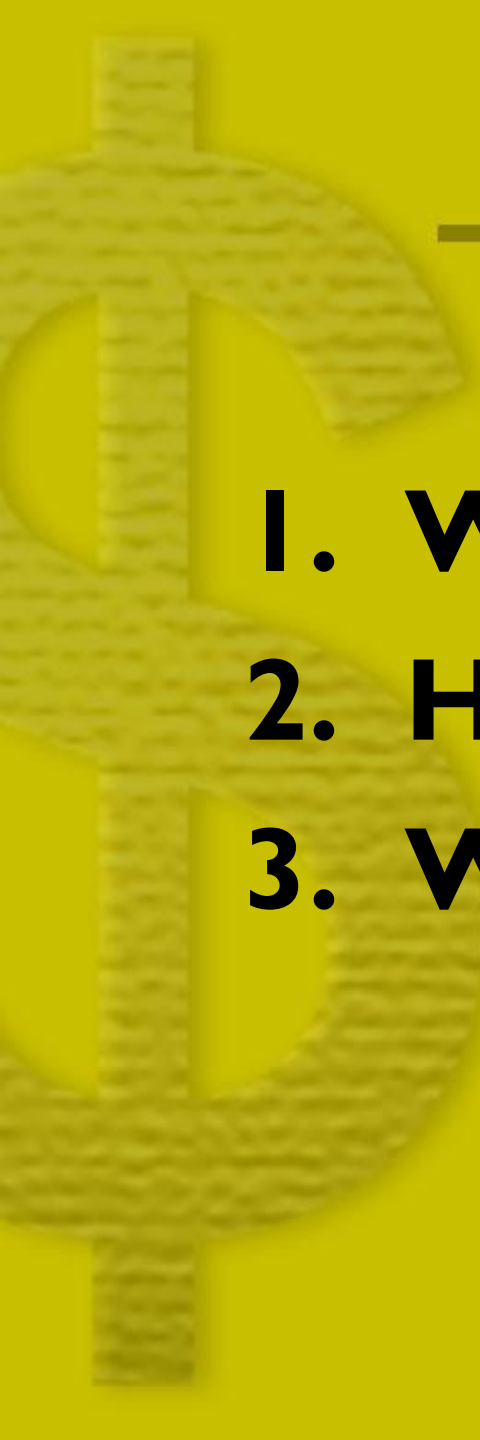


**Mr. Kubeny's
Million Dollar
Pre\$entation**



What are some
frequently asked
Questions about
\$?

- 
-
- 1. When should I save?**
 - 2. How much should I save?**
 - 3. Where should I save?**

It all starts with TAXES!

You must understand your individual tax situation to really answer the questions.

What is gross income?

The money reported in box 1 on your W-2 form(s).

Plus

The money you made in interest in your bank accounts, CD's, etc.

What is taxable income?

Gross Income minus personal exemptions and deductions.

What are personal exemptions?

**What you can claim for yourself
and each dependent.**

\$3,500 for 2008.

What are deductions?

The standard deduction, which is used by nearly two-thirds of taxpayers, depends upon your filing status.

- **Singles standard deduction \$5,450.**
- **Married couples filing jointly standard deduction \$10,950.**



What about tax
rates?

2008 tax rates and brackets

For **single** taxpayers

If <u>taxable income</u> is at least . . .	But not more than . . .	Your tax is:
\$0	\$8,025	10% of the amount over \$0
\$8,026	<u>\$32,550</u>	\$802.50 plus 15% of the amount over \$8,025
\$32,551	\$78,850	\$4,481.25 plus 25% of the amount over \$32,550
\$78,851	\$164,550	\$16,056.25 plus 28% of the amount over \$78,850
\$164,551	\$357,700	\$40,052.25 plus 33% of the amount over \$164,550
\$357,701	No limit	\$103,791.75 plus 35% of the amount over \$357,700

2008 tax rates and brackets

For **married** couples filing jointly*

If <u>taxable income</u> is at least . . .	But not more than . . .	Your tax is:
\$0	\$16,050	10% of the amount over \$0
\$16,051	\$65,100	\$1,605 plus 15% of the amount over \$16,050
\$65,101	\$131,450	\$8,962.50 plus 25% of the amount over \$65,100
\$131,451	\$200,300	\$25,550 plus 28% of the amount over \$131,450
\$200,301	\$357,700	\$44,828 plus 33% of the amount over \$200,300
\$357,701	No limit	\$96,770 plus 35% of the amount over \$357,700

* Or qualifying widow or widower

Here are two examples of how this all works

Single		Married (1 kid)	
Gross Income	\$50,000.00	Gross Income	\$100,000.00
- Personal Exemption	3,500.00	- Personal Exemptions	10,500.00
- Standard Deduction	5,450.00	- Standard Deduction	10,950.00
= Taxable Income	41,050.00	= Taxable Income	78,550.00
10% Tax	802.50	10% Tax	1,605.00
15% Tax	3,678.75	15% Tax	7,357.50
25% Tax	2,125.00	25% Tax	3,362.50
Total Tax	6,606.25	Total Tax	12,325.00
Marginal Tax Bracket	13.2%	Marginal Tax Bracket	12.3%

The key is to minimize the amount of income you are being taxed on in the 25% bracket.



So, how do I do that?



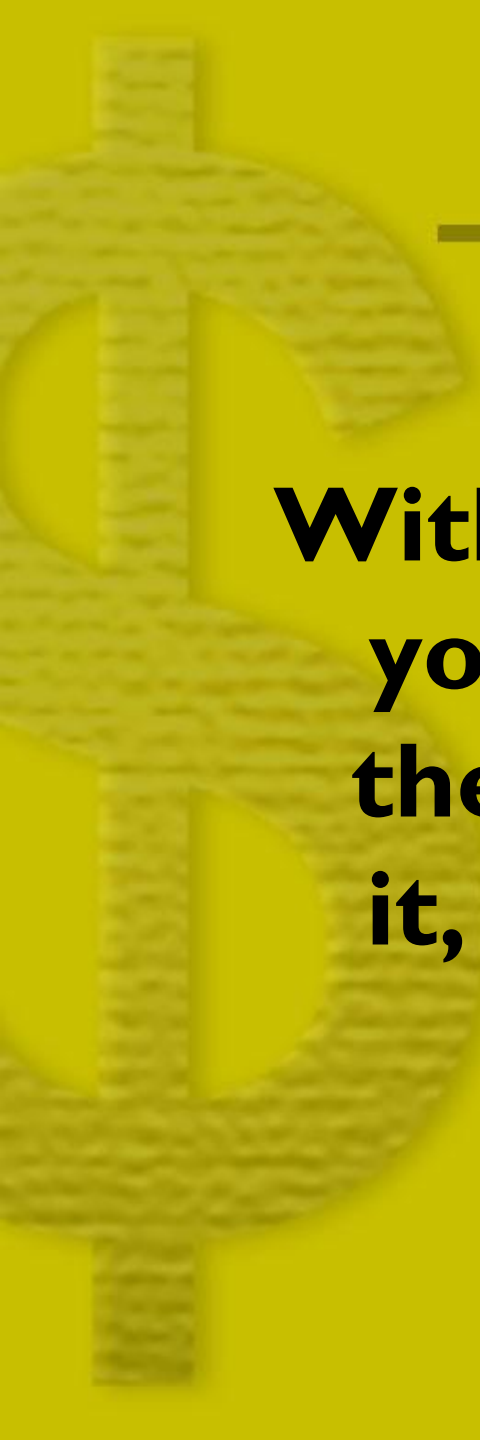
**By sheltering gross income in tax
deferred vehicles like:**

Tax Deductible IRA's

401(k)'s

403(b)'s/TSA's


457's



**With these investment vehicles,
you do **NOT** pay any taxes on
the income **NOW**, you shelter
it, but you will pay taxes upon
withdrawing the money
LATER.**



So, what's cool
about that?



While your money is being sheltered, you can invest it and allow your gains to grow and be sheltered right along with your contributions.

**The theory is that you shelter
the money you would have paid
25% tax on today, and
withdraw it later and HOPE to
pay only 15% later.**

But, how will I know
what tax percentage
I will pay later?

GOOD QUESTION!

The answer depends upon:

-
- **When is later?**
 - **How old will you be when you want/need the money?**
 - **You have to wait until age 59 ½ to withdrawal it without any penalties (10%) from the IRS.**

-
- **How much income will you have later (what tax bracket)?**
 - **Will you still be working?**
 - **Will you still have a mortgage?**
 - **Will you have any exemptions for your children?**
 - **How have your investments performed?**

-
- **What will politicians do with the tax brackets?**
 - **Will they raise or lower the percentages?**
 - **Will they raise or lower the thresholds?**



What is my advice?

-
- **The Single should shelter \$2125 (\$175/month) into a tax deductible vehicle.**
 - **The Married Couple should shelter \$3362.50 (\$280/month) into a tax deductible vehicle.**

However, some experts say that even IF you THINK you will be in a lower tax bracket later, you still should not put money in a tax shelter until you have first maxed out a relatively new kind of investment vehicle.

-
- **And, what if I don't have any income in the 25% bracket?**
 - **Or, what if I want to put additional dollars away?**
 - **Where should I put my money then?**

GREAT QUESTIONS!

**The Answer is a no-
brainer, in a.....**

ROTH

IRA!



Did you catch that?

Make this promise to yourself:


**“I promise I will START a ROTH
IRA before 2009!”**

What is a Roth IRA,
and why should I
start one?


A Roth IRA is an AFTER tax investment vehicle that took effect in 1998 after a senator from Delaware sponsored a bill for it—his name was William Roth.



**It is A “FREE” gift
from Uncle Sam!**



**Nothing is “FREE”
you say!**



MOST of the time you are right,
but there is one time when free
really does mean free...

TAX FREE!

"A Roth IRA is worth more than a conventional IRA because withdrawals from it are forever tax-free..."

Quote from *Should you donate an IRA?* by Laura Saunders, Forbes (p. 242, 9/6/99).

Article by Erin Burt, (Kiplinger, 3/9/06, updated 2008)

Quotes:


One of the smartest money moves a young person can make is to invest in a Roth IRA. When you're just getting started investing, the Roth should be your first stop -- even before you open a regular, taxable account, or contribute to a workplace retirement-savings plan. The only exception is if your employer offers a match on your 401(k) contributions.

**Article by Bill Donoghue (MarketWatch,
12/11/07)**

Quotes:

You will never retire on the money you save for retirement; you will retire on the money you make on the money you save for retirement. To make money on your retirement investments, get as much as you can into a Roth IRA as soon as you can. All of your profits will be free from income taxes after you hold them in your Roth IRA at least five years.

**Why did Uncle Sam
give me this “free”
gift?**



**The truth is he
wanted to give you
incentive to save for
your own
retirement.**

**He is worried that
Americans are not
saving ANY money
(national saving rate
is negative).**

He is worried about the future of social security (which only replaces a fraction of working income regardless).

**He is worried about
the trend of
decreasing employer
sponsored pension
plans--401(k)'s.**



Who Can Establish a Roth IRA?

Any individual who has taxable compensation or self-employment income (earned by sole proprietors and partners) for the year may establish and fund a Roth IRA.

To be eligible to make a participant contribution, the individual must have a modified adjusted gross income (MAGI) that is less than a certain amount, depending on the tax-filing status of the individual.

Here are the MAGI limits for 2008:

Category	Income Limit to fully fund	Maximum Limit to fund
Single	<\$99,000	<\$114,000
Married	<\$156,000	<\$166,000



How much can I
contribute?

	Age 49 and Below	Age 50 and Above
<u>1998–2001</u>	\$2,000	\$2,000
<u>2002–2004</u>	\$3,000	\$3,500
<u>2005</u>	\$4,000	\$4,500
<u>2006–2007</u>	\$4,000	\$5,000
<u>2008*</u>	\$5,000	\$6,000

***Starting in 2009, contribution limits will increase in \$500 increments based on inflation.**

What are the
advantages of a Roth
IRA?

-
- **Contributions can be made after age 70 ½ (unlike the age limitation of a traditional IRA).**
 - **Contribution eligibility is not restricted by active participation in an employer's retirement plan.**

- **You may withdraw contributions at any time without taxes or penalties (flexibility and liquidity).**
- **Withdrawals of earnings upon death or disability, for first time home-buying or after age 59 ½ are tax-free provided a 5 year wait has occurred.**

What are the
disadvantages of a
Roth IRA?

-
- **Premature withdrawals in excess of contributions are fully taxable and are also subject to an early withdrawal penalty.**
 - **Contributions are limited each year (\$5000/year maximum < 50, \$6000/year maximum > 50 for 2008).**

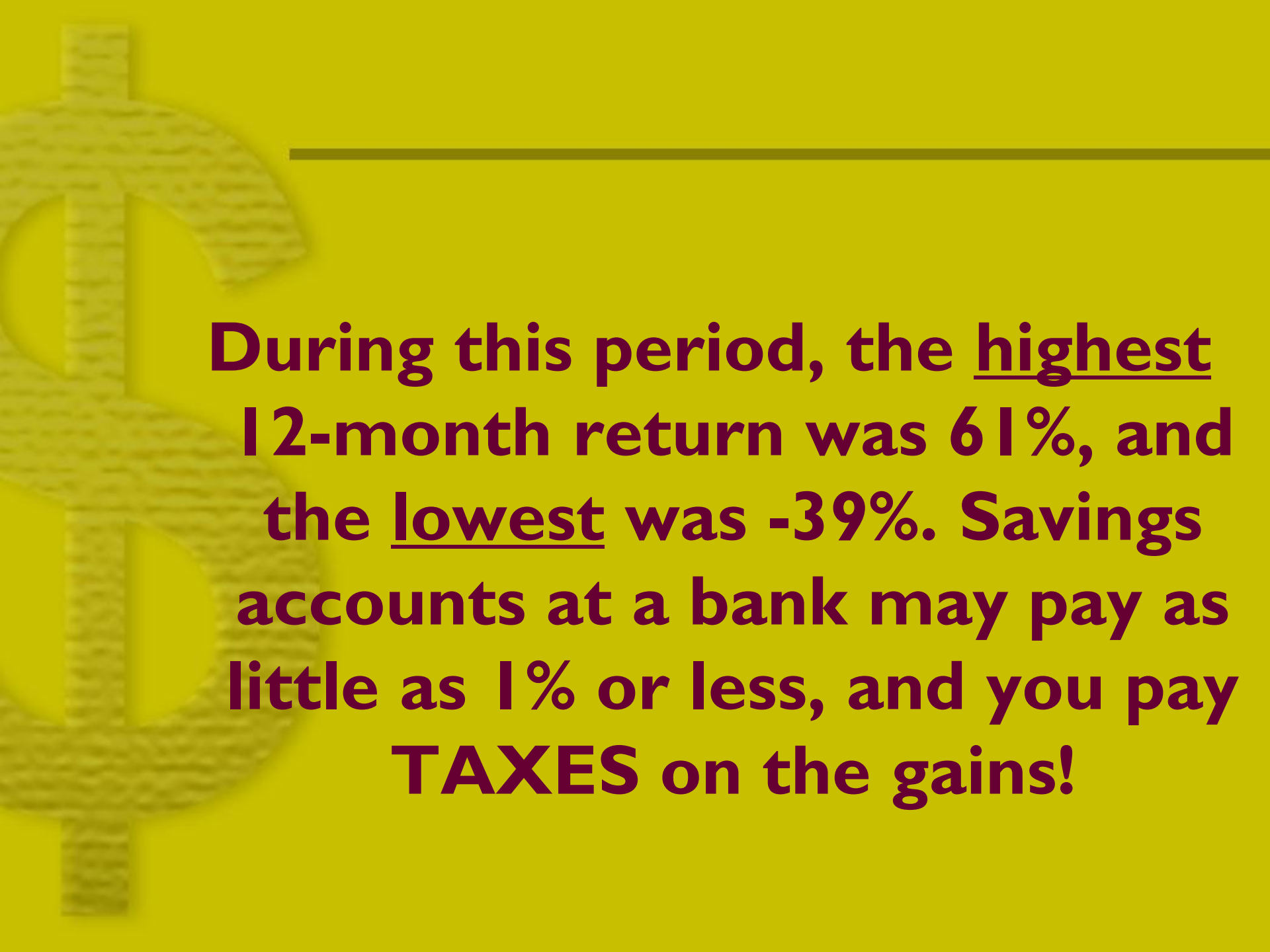
-
- **There is a phase-out rule for high income persons. “*Rich*” people can’t contribute.**
 - **There is no immediate tax savings (you must live into retirement age to personally take full advantage of it.)**

May I see some
examples of how it
works?

Of course, just *Google*:
“bankrate Roth IRA calculator”
**to input any hypothetical
examples.**

**What is expected
rate of return?**

The actual rate of return is largely dependent on the type of investments you select. From January 1970 to December 2007, the average compounded rate of return for the S&P 500, including reinvestment of dividends, was approximately 11.4% per year (source: www.standardandpoors.com).



During this period, the highest 12-month return was 61%, and the lowest was -39%. Savings accounts at a bank may pay as little as 1% or less, and you pay **TAXES on the gains!**

**How do you actually
start a Roth IRA?**




It's surprisingly easy to set up a retirement account and to begin investing in your future.


But, before you invest...

-
- **Tuck away two months of income for short-term emergencies.**
 - **Pay off your credit card debt. At the very least, make significant headway on your debt and have a plan for its elimination.**

Where do I open a
Roth IRA?




Deciding where to open your Roth IRA is the most difficult part of the process! Many financial institutions offer IRAs. Each place has its own strengths and weaknesses. It's important to search for a company that suits *your* needs.



Don't fret about finding the perfect match — find a good match and then get the IRA in motion. Questions to ask during your research include:

-
- **Is there a minimum initial investment? Minimum Contributions?**
 - **What sorts of fees are assessed to the account?**
 - **Does the company offer automatic contributions?**


-
- **Is it possible to download statements automatically into Quicken?**
 - **What investment options are available? Can you invest in stocks? Mutual funds? Real estate?**
 - **How reputable is the provider?**



Some banks and credit unions offer IRA's. A local credit union, for example, has Roth accounts, but they're limited to certificates of deposit (CD's).

TRADITIONAL & ROTH IRA CERTIFICATES


TERM	MINIMUM	DIVIDEND PERIOD	RATE	ANNUAL PERCENTAGE YIELD (APY)
12 month	500	Quarterly	2.85 %	2.88 %
24 month	500	Quarterly	3.40 %	3.44 %
36 month	500	Quarterly	3.85 %	3.91 %
48 month	500	Quarterly	4.10 %	4.16 %



If you're willing to make some decisions on your own, you can open a self-directed IRA through a mutual fund company or through an online discount brokerage.

The Big Three
Fidelity, Vanguard, or T. Rowe Price.

I call these fund families the Big Three not only because they're **ENORMOUS, but also because they have a variety of funds that cover every investment style and segment you could wish for.**

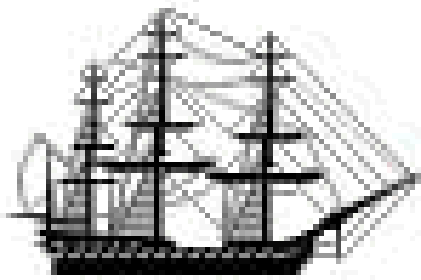


I explored each company's web site to discover what sorts of Roth IRA options they offered for beginning investors. Here's what I found:



Smart move.™

- **Offers a no-fee IRA.**
- **There's a \$2,500 minimum initial deposit, but this is waived if you commit to \$200/month automatic contributions.**
- **They offer 4,500 mutual funds, about a quarter of which have no transaction fee.**



Vanguard®

- **Also offers a no fee IRA.**
- **To do this, you must start with \$1000 in the company's STAR fund. (The STAR fund is a mutual fund of mutual funds, a safe choice for beginners.)**
- **Additional contributions require a minimum of \$100 *unless* you use their Automatic Investment Plan, in which case the minimum is \$50.**

Let's look closer at this actual fund.

<http://quicktake.morningstar.com/FundNet/TotalReturns.aspx?Country=USA&Symbol=VGS TX>



- **T. Rowe Price charges \$10/year for Roth IRA accounts until you have a balance above \$5,000, after which there is no fee.**
- **You need \$1,000 to open your IRA, but this minimum goes away if you sign up to contribute at least \$50/month with the Automatic Asset Builder.**
- **There are no sales fees or commissions.**



**How do I open
a Roth IRA?**

Here's a secret: opening a Roth IRA is *easy*.

- **Have you ever filled out a job application?**
- **Have you ever applied for a credit card?**
- **Have you ever opened a bank account?**
- **That's exactly what the process is like to start a Roth IRA.**




Here is some other fund performance data:

http://www.weabenefits.com/home/uploadedFiles/z_docs/Retirement/Shared Retirement Brochures/Investments/performance report.pdf



Now what?

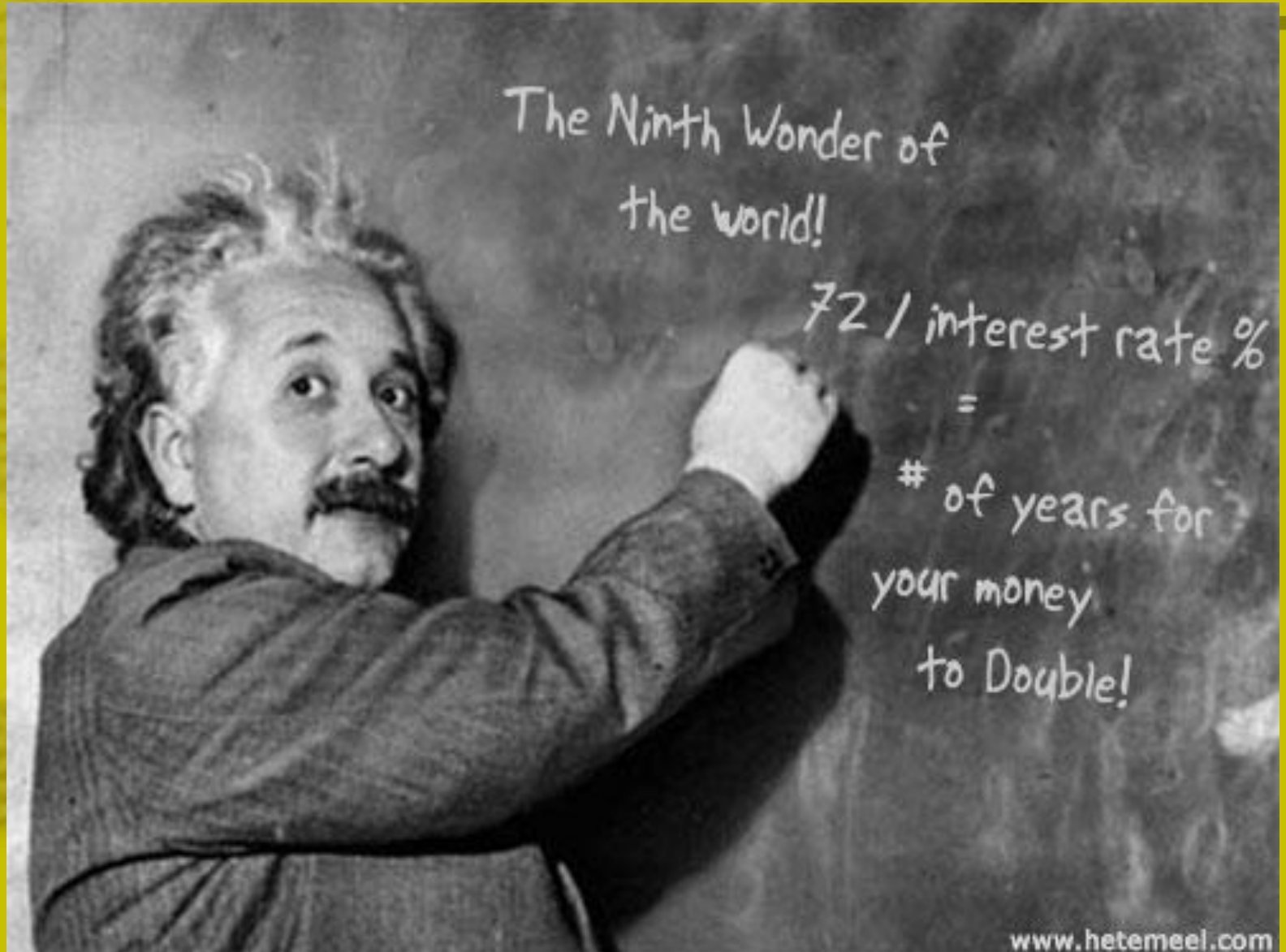


**That's all there is to it. Really.
The most difficult part of this
process is deciding where to
open an account.**



Here are some Tips
and Tricks:

The Rule of 72



Percentage Return	72 Divided by Return	Years to Double Money
20%	72 divided by 20	3.6
19%	72 divided by 19	3.8
18%	72 divided by 18	4.0
17%	72 divided by 17	4.2
16%	72 divided by 16	4.5
15%	72 divided by 15	4.8
14%	72 divided by 14	5.1
13%	72 divided by 13	5.5
12%	72 divided by 12	6.0
11%	72 divided by 11	6.5
10%	72 divided by 10	7.2
9%	72 divided by 9	8.0
8%	72 divided by 8	9.0
7%	72 divided by 7	10.3
6%	72 divided by 6	12.0
5%	72 divided by 5	14.4
4%	72 divided by 4	18.0
3%	72 divided by 3	24.0
2%	72 divided by 2	36.0
1%	72 divided by 1	72.0

Which would you choose?


\$5 Million Dollars

or

**A penny doubled everyday
for 30 days?**

\$5 Million Dollars or a penny doubled everyday for 30 days?


1	\$	0.01
2	\$	0.02
3	\$	0.04
4	\$	0.08
5	\$	0.16
6	\$	0.32
7	\$	0.64
8	\$	1.28
9	\$	2.56
10	\$	5.12




11	\$	10.24
12	\$	20.48
13	\$	40.96
14	\$	81.92
15	\$	163.84
16	\$	327.68
17	\$	655.36
18	\$	1,310.72
19	\$	2,621.44
20	\$	5,242.88

21	\$	10,485.76
22	\$	20,971.52
23	\$	41,943.04
24	\$	83,886.08
25	\$	167,772.16

26	\$	335,544.32
27	\$	671,088.64
28	\$	1,342,177.28
29	\$	2,684,354.56
30	\$	5,368,709.12



**If you choose the
\$5 million,
You just threw away
\$368,709.12**



**Mr. Kubeny's
Miser
to Millionaire
Strategy**

The year you get your first REAL career job, live like you are basically a broke college student—put every single dollar away that you possibly can into a long-term investment vehicle—just one year do this and you will be set for life!

Remember those
frequently asked
questions about \$?



**I. When should I
save?**



NOW!!!!!!

**(It “costs” too much
to wait)**



2. How much should I save?



**It all depends on your
individual financial
goals.**



Where should I save?

In a

Roth IRA!

ACTIVITY

- **Go to some of the sites highlighted in this presentation and do some exploring.**
- **Create some financial hypothetical situations for yourself.**
- **Create two or three financial goals: at least one short-term and one long-term.**
- **Submit a one-page summary informing me how you will use the information presented to you in class today.**