

Preface



Dear Personal Finance Professors and Personal Finance Students,

Is the recession over? Is economic recovery underway? Or, are we in a double-dip recession? While this debate goes on, unemployment remains high at 10 percent and the housing crisis continues at the time of this writing. The economic meltdown that began in late 2007 rivals that of the “Great Depression” and has affected governments, companies, and individuals both in the United States and around the world.

Hopefully, by the time you read this material, the economy will be steadily improving. Still, it is important to remember the old adage, “History is a great teacher.” In order to avoid the problems that many people have experienced during the recent economic crisis, you must manage your money in order to obtain freedom from financial worries. That’s what the new 10th edition of *Personal Finance* is all about. As authors, we want to provide you with the information you need to develop a financial plan that will enable you to achieve your financial goals.

In this edition, we address the real and changing financial needs and dilemmas of students. For example, the book guides students through career planning and discusses the importance of identifying their own strengths and weaknesses as well as opportunities and threats within their chosen field. In a time when finding a job is especially challenging, the book also suggests actions for improving employability in tough economic times. In addition, *Personal Finance*, 10e addresses getting and staying out of debt; financing college education; managing a future financial crisis; and investing in conservative securities to minimize losses during economic downturns.

For ten editions, we have been keenly aware that our customers are students *and* instructors. With each revision, we have asked instructors for suggestions that would help professors teach better and help students learn more efficiently. And with each edition, we have incorporated these suggestions and ideas to create what has become a best-selling *Personal Finance* text. We are also proud to say that we have included extensive student feedback in our text and program features. We can only say *thank you* for your suggestions, ideas, and support. Without you—both instructors and students—we would have no reason to write a *Personal Finance* text.

A text should always be evaluated by the people who use it. We welcome your comments, suggestions, and questions. Finally, we invite you to examine the visual guide that follows to see how Kapoor/Dlabay/Hughes can help students obtain financial security and success.

Welcome to the new tenth edition of *Personal Finance*.

Sincerely,

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PERSONAL FINANCE OFFERS YOU EVERYTHING YOU HAVE ALWAYS EXPECTED . . . AND MORE!

The primary purpose of this book is to help you apply the personal finance practices you learn from the book and from your instructor to your own life. The following *new* features of the ninth edition expand on this principle. You can use them to assess your current personal financial literacy, identify your personal finance goals, and develop and apply a personal finance strategy to help you achieve those goals. (*For a complete list of all of the features in Personal Finance, 9th ed., refer to the Guided Tour on pages xiv–xix.*)

NEW HOW TO BOXES

Much of understanding personal finance is knowing what steps to take in order to put your financial plan into practice. Sure, opening up a brokerage accounts or filing your taxes online sounds like a great idea, but how do you get started? The new *How To* boxes walk students through such scenarios, giving them practical information and strategies for successful money management.

NEW MY LIFE STAGES

Personal finance is, first and foremost, personal. A financial plan will change depending on a person's goals, lifestyle and especially age. These boxes, located at the end of each chapter, encourage students to think about how their financial action items will change depending on their stage in life.

Chapter	Selected Topics	Benefits for the Teaching and Learning Environment
Chapter 1	<i>New content:</i> S-M-A-R-T approach for financial goals	Reminds students that their financial goals should be Specific, Measureable, Action-oriented, Realistic, and Time-based
	<i>New feature:</i> Coping during difficult financial times	Provides practical actions related to financial planning in times of economic change
	<i>New content:</i> Financial planning phone apps	Creates awareness among students regarding the use of smart phone apps for various financial decision
Chapter 2	<i>New content:</i> Social entrepreneurship as a career option	Encourages students to consider careers that mix traditional business practices with innovation to address social concerns such as hunger, disease, poverty, and education
	<i>New content:</i> A personal SWOT analysis	Guides students to identify and analyze their Strengths, Weaknesses, Opportunities, and Threats when planning a career
	<i>New feature:</i> Applying for a job online	Emphasizes the actions when researching and applying for employment opportunities
	<i>Expanded coverage:</i> Elevator pitch	Points out the importance of a short, persuasive, focused summary of experiences and skills used when networking
	<i>New content:</i> Career strategies in a weak job market	Suggests actions for improving employability in difficult economic times
	<i>Enhanced content:</i> salary negotiations	Guidelines for improved value on the job and to enhance salary potential
Chapter 3	<i>Enhanced visual:</i> Financial documents not to keep	Expands student awareness of updating and maintaining a system for personal finance documents.
	<i>Expanded coverage:</i> Wise spending tips	Creates awareness of spending actions that can save households \$500 a month or more
	<i>Revised visual:</i> Planning and implementing a budget	Provides an expanded overview of the process for students to develop and use a budget
Chapter 4	<i>Expanded content:</i> Types of tax credits	Provides student awareness of recent federal income tax credits
	<i>New content:</i> Wise use a tax refund	Suggests guidelines for do's and don'ts regarding the tax refunds
	<i>Updated content:</i> Recent tax law changes.	Updates students on the key changes for planning a tax strategy and for filing their income tax return.
	<i>New feature:</i> Filing taxes online	Offers a detailed discussion for the e-filing process
	<i>Revised feature:</i> Tax scams	Emphasizes potential fraudulent actions associated with taxes.
	<i>Updated content:</i> Tax saving strategies	Suggests actions to reduce taxes based on various spending and investing activities
Chapter 5	<i>New content:</i> Banking phone apps	Creates awareness regarding the use of smart phone apps for banking activities and using a "virtual wallet"
	<i>Expanded coverage:</i> Benefits of asset management accounts	Details potential benefits of a consolidated financial services account

Chapter	Selected Topics	Benefits for the Teaching and Learning Environment
	<p><i>New feature:</i> Where to keep your money</p> <p><i>Enhanced content:</i> Early withdrawal penalties</p> <p><i>New content:</i> Cross-cultural financial services</p> <p><i>Updated content:</i> FDIC insurance</p>	<p>Suggests steps to take when comparing and selecting a financial institution</p> <p>Discussion of penalties for early withdrawal for certificates of deposit</p> <p>Provides insight into financial services used* by various cultures in the United States and around the world</p> <p>Presents updated information on recent changes for federal deposit insurance</p>
Chapter 6 Introduction to Consumer Credit	<p><i>New Did You Know? feature</i></p> <p><i>New coverage:</i> Stored Value (or gift) Cards</p> <p><i>New Did You Know? feature</i></p> <p><i>New coverage:</i> Counterfeit credit and debit cards</p> <p><i>Expanded coverage:</i> Determining debt-to-equity ratio</p> <p><i>New Did You Know? feature</i></p> <p><i>New How To . . . feature</i></p> <p><i>New coverage:</i> Credit Card Accountability, and Disclosure Act of 2009 (The Credit Card Act)</p> <p><i>New boxed feature:</i> Financial Planning for Life Situations</p> <p><i>Updated coverage:</i> Exhibit 6-11</p> <p><i>New self-test problems</i></p> <p><i>Updated Financial Planning case</i></p>	<p>Provides information that in 2010, 185 million debit card holders will use 525 million cards for 41 trillion transactions amounting to over \$1.65 trillion.</p> <p>Discusses that over the past decade, the stored value cards have grown rapidly. Today, gift cards are used for many purposes.</p> <p>Provides information that of the \$87 billion in gift cards purchased in 2009, approximately 6 percent, or \$5 billion will go unused.</p> <p>Explains how new technology is making it more difficult to use, alter, or counterfeit credit and debit cards.</p> <p>Provides a new example of determining debt-to-equity ratio.</p> <p>Shows how FICO score is determined.</p> <p>Explains the five steps on how to improve your credit score.</p> <p>Discusses how the Credit Card Act of 2009 provides most sweeping changes in credit card protections for you since the Truth in Lending Act of 1968.</p> <p>Provides detailed information on new credit card rules beginning on February 22, 2010.</p> <p>Includes the important provisions of the Credit Card Accountability, Responsibility, and Disclosure Act of 2009.</p> <p>Includes the new self-test problems and their solutions.</p> <p>The end-of-chapter case is updated to reflect 2009 data from the Federal Trade Commission.</p>
Chapter 7 Choosing a Source of Credit: The Costs of Credit Alternatives	<p><i>Updated coverage:</i> Medium-priced and expensive loans</p> <p><i>New coverage:</i> Student loans and impact of the financial crisis.</p> <p><i>New Exhibit 7-2:</i> Federal Student Loans</p> <p><i>New update of student loan programs</i></p> <p><i>New Financial Planning for Life Situations box</i></p>	<p>Provides the most recent data on credit unions, interest rates, and average household credit card debt.</p> <p>Discusses how current financial crisis has caused many challenges for families with college-bound students.</p> <p>Summarizes the kinds of loans that are available to students.</p> <p>Explains that beginning July 1, 2010, federal student loans are no longer available from private lenders.</p> <p>Provides information on various sources available to students and their families seeking funding help for college.</p>

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	<p><i>New example:</i> Minimum payment</p> <p><i>New coverage:</i> Cost of credit</p> <p><i>New Did You Know? feature</i></p> <p><i>New How To . . . feature</i></p> <p><i>Expanded coverage:</i> Personal Bankruptcy</p> <p><i>Updated Exhibit 7-7</i></p> <p><i>Updated coverage:</i> Personal bankruptcy</p> <p><i>New coverage:</i> Bankruptcy case filing fees</p> <p><i>New Did You Know? feature</i></p> <p><i>New self-test problems</i></p>	<p>Details what information all credit card issuers must include with their application for credit cards.</p> <p>Includes new information on cost of credit and the Credit Card Accountability, Responsibility and Disclosure Act of 2009.</p> <p>Cautions readers what collections agencies can't do and how to file a complaint against collection agencies.</p> <p>Provides step-by-step advice on how to choose a credit counselor.</p> <p>Cautions that declaring a bankruptcy should be a last resort because it severely damages credit rating.</p> <p>Provides an up-to-date data on personal bankruptcies.</p> <p>Discusses how the new bankruptcy law seemed to slow bankruptcy filings.</p> <p>Explains what are the filing fees and what information a debtor must provide to the court.</p> <p>Cautions how a personal bankruptcy can cause an immediate drop in your credit report score.</p> <p>Provide practice self-test problems and their solutions.</p>
Chapter 8	<p><i>Reorganized feature:</i> Analyzing consumer purchases</p> <p><i>New visual:</i> Wise online buying</p> <p><i>Updated coverage:</i> Common consumer complaint and frauds</p> <p><i>New feature:</i> How to file in small claims court.</p>	<p>Consolidates coverage of unit pricing, net present value of consumer purchases, and buying matrix</p> <p>Practical actions for online buying research and purchasing decisions</p> <p>Discussion of fraudulent business practices that surface in weak economic times and as a result of expanded technology</p> <p>Provides detailed step-by-step actions for filing and presenting a small claims court case.</p>
Chapter 9	<p><i>New content:</i> Price-to-rent ratio</p> <p><i>New content:</i> Rent-to-buy options</p> <p><i>Reorganized content:</i> Mortgage application process</p> <p><i>Updated content:</i> Types of mortgages</p> <p><i>New content:</i> Housing phone apps</p> <p><i>Updated content:</i> Closing costs</p>	<p>Provides a guideline for determining the desirability of owning over renting</p> <p>Discussion of lease-to-purchase and rent-with-option actions available to renters to become homeowners.</p> <p>Communicates the steps commonly taken when working with a mortgage company to obtain a home loan</p> <p>Additions and deletions of various mortgage types based on marketplace trends</p> <p>Creates awareness among students regarding the use of smart phone apps for home buying activities</p> <p>Revised amounts are presented for home purchase settlement costs</p>
Chapter 10	<p><i>Enhanced content:</i> Underinsured motorist coverage</p> <p><i>Updated feature:</i> Filing an auto insurance claim</p> <p><i>Enhanced content:</i> Umbrella policy</p>	<p>Communicates the distinction between uninsured and underinsured auto insurance coverage</p> <p>Provides a checklist of actions to consider to determine if it is financially appropriate to file an auto insurance claim</p> <p>Explains added liability coverage as a result of a personal catastrophe policy</p>

Chapter	<i>Selected Topics</i>	Benefits for the Teaching and Learning Environment	
Chapter 11 Health, Disability, and Long-Term Care Insurance	<i>New coverage:</i> The Patient Protection and Affordable Care Act	Explains the Obama Administration's belief that the Patient Protection and Affordable Care Act, and the Health Care and Education Reconciliation Act will reduce long-term growth of health care costs.	
	<i>Revised coverage:</i> High medical costs	Provides revised and updated information on run-away health care costs.	
	<i>New Did You Know? feature</i>	Emphasizes that the consequences of medical care costs on families can be quite serious.	
	<i>Updated Exhibit 11-1:</i> National health expenditures	Highlights the U.S. national health expenditures from 1960 and projected up to 2016.	
	<i>New Exhibit 11-2:</i> Health care expenditures	Shows how was the U.S. health care dollar spent in 2009.	
	<i>New coverage:</i> Health care costs	Explains how improving health information technology could lower costs and reduce medical errors.	
	<i>New coverage:</i> Reducing personal medical costs	Describes what steps individuals can take to reduce their own health care costs.	
	<i>New How To . . . feature</i>	Explains how individuals can appeal health care insurance claims decisions.	
	<i>New Did You Know? feature</i>	Illustrates that the average cost of a family health insurance policy offered by employers was \$13,375 in 2009.	
	<i>New coverage:</i> Maintaining health insurance	Cautions that since the cost of not being insured is very high, make sure to maintain your health insurance if you lose your job.	
	<i>New example:</i> Calculating deductibles	Provides a mathematical example of deductible and coinsurance provisions.	
	<i>New Did You Know feature</i>	Shows the 2009 average costs of long-term care in nursing homes and other such facilities.	
	<i>New How To . . . feature</i>	Provides tips on using and choosing an HMO.	
	Chapter 12 Life Insurance	<i>Updated Financial Planning for Life's Situations box</i>	Updates the information on how HSA plans will work in 2010.
		<i>Revised Did You Know? feature</i>	Updates Medicare Part A deductible increases since 1987.
<i>Updated Exhibit 11-5</i>		Adds new information about medical savings accounts (MSAs) and how they work.	
<i>New Did You Know? feature</i>	Shows how fighting Medicare fraud can pay you \$1,000.		
<i>New coverage:</i> Health Insurance and the Patient Protection and Affordable Act of 2010	Describes the key provisions of the Patient Protection and Affordable Act of 2010.		
<i>Revised coverage:</i> Disability income insurance	Explains that every year, 12 percent of the adult U.S. population suffers a long-term disability.		
<i>New Self-Test Problems</i>	Provide chapter self-test problems and their solutions.		
<i>Updated coverage:</i> Life insurance	Provides updated information on life insurance policies and their face value in 2009.		
<i>Revised coverage:</i> Exhibit 12-1	Illustrates expectations of life and expected deaths by race, sex, and age, in 2006.		
<i>New Did You Know? feature</i>	Provides information on stock and mutual life insurance companies.		

Chapter	<i>Selected Topics</i>	Benefits for the Teaching and Learning Environment
	<p><i>Updated Did You Know? feature</i></p> <p><i>Revised Exhibit 12-5</i></p> <p><i>Updated Exhibit 12-6</i></p> <p><i>Revised Exhibit 12-8</i></p> <p><i>New How To . . . feature</i></p> <p><i>New coverage: The Health Care and Education Reconciliation Act of 2010</i></p> <p><i>New Self-Test problems</i></p> <p><i>New and revised end-of-chapter problems</i></p>	<p>Shows average face amount of individual life insurance policies purchased since 1986.</p> <p>Compares term, whole life, universal life, and variable life insurance.</p> <p>Shows the growth of individual, group, and credit life insurance in force in the United States.</p> <p>Adds Fitch Ratings to the rating systems of major rating agencies.</p> <p>Provides tips on how to choose an insurance agent.</p> <p>Explains the tax consequences of the Health Care and Education Reconciliation Act on annuity interest, dividends, and capital gains.</p> <p>Provide three new practice self-test problems and their solutions.</p> <p>Include new and revised financial planning problems.</p>
<p>Chapter 13 Investing Fundamental</p>	<p><i>New coverage: Manage Your Credit Card Debt</i></p> <p><i>New coverage: Managing a Financial Crisis</i></p> <p><i>Expanded coverage: Market Risk</i></p> <p><i>Expanded coverage: Your Role in the Investment Process</i></p> <p><i>New boxed feature: How To . . . feature</i></p> <p><i>New or revised Did You Know Features</i></p>	<p>Provides information about warning signs that indicate a person has too much credit card debt.</p> <p>Discusses eight specific steps individuals can use to weather a future economic crisis.</p> <p>Provides new coverage of systematic and unsystematic risk for investments.</p> <p>Includes more information about the need to evaluate potential investments before investing.</p> <p>Describes four specific steps individuals can take to establish an investment program.</p> <p>Includes four Did You Know features about how personal income levels affect goals; where people invest their money; suggestions to improve financial planning; and the need to document information when choosing investments.</p>
<p>Chapter 14 Investing in Stocks</p>	<p><i>Expanded coverage: Why Corporations Issue Common Stock</i></p> <p><i>Expanded coverage: Why Investors Purchase Common Stock</i></p> <p><i>New Example: Income from Dividends</i></p> <p><i>New Example: Dollar Appreciation of Stock Value</i></p> <p><i>New Exhibit 14.5: Internet stock coverage</i></p> <p><i>New Exhibit 14.7: Stock Advisory Services</i></p>	<p>Includes additional coverage about why financial managers use equity (stocks) financing to obtain capital.</p> <p>Provides a detailed example of how an investor, Patricia Nelson, made money with an investment in McDonalds.</p> <p>Describes why the record date is important.</p> <p>Illustrates how investors could have made money by investing money in General Mills over a three-year period.</p> <p>Describes the type of information about The Walt Disney Company that is available on the Yahoo! Finance Web site.</p> <p>Includes a detailed Value Line research report about AT&T.</p>

Chapter	<i>Selected Topics</i>	Benefits for the Teaching and Learning Environment
	<p><i>Increased coverage:</i> Other Factors that Influence the Price of a Stock</p> <p><i>New Financial Planning Case:</i> Research Information Available from Value Line</p> <p><i>New boxed feature:</i> How To . . . feature</p> <p><i>New or revised Did You Know Features</i></p>	<p>Discusses how a stock's is affected by its beta.</p> <p>Asks students to use the information in Exhibit 14-7 (Value Line Report for AT&T) to evaluate an investment decision and then determine if their decision was profitable or not.</p> <p>Provides information that individuals can use to choose a brokerage firm and open an account.</p> <p>Includes four Did You Know features about the percentage of people in different age groups that own stocks; the Dow Jones Average; the Securities Investor Protection Corporation (SIPC), and regulation of securities.</p>
<p>Chapter 15 Investing in Bonds</p>	<p><i>New Information:</i> Chapter Introduction</p> <p><i>New coverage:</i> High-Yield Bonds</p> <p><i>Revised boxed feature:</i> The "How To" of Researching a Bond</p> <p><i>New coverage:</i> Interest Income</p> <p><i>New Example:</i> A Typical Bond Transaction</p> <p><i>Expanded coverage:</i> Federal Agency Debt Issues</p> <p><i>Revised Financial Planning Case:</i> A Lesson from the Past</p> <p><i>New boxed feature:</i> How To . . . feature</p> <p><i>New or revised Did You Know Features</i></p>	<p>Includes information about how investors used bonds and other conservative investment to avoid losses during the recent economic crisis.</p> <p>Provides information about why investors choose high-yield (junk) bonds and the potential dangers with these speculative investments.</p> <p>Describes the type of information available in the Mergent Industrial Manual about a bond issued by Caterpillar, Inc.</p> <p>Discusses how a registered coupon bond is different from a registered bond, bearer bond, and zero-coupon bond.</p> <p>Describes how investors could have made money over a 10-year period by purchasing a DuPont corporate bond.</p> <p>Provides increased coverage of federal agency debt including the problems at mortgage lenders Fannie Mae and Freddie Mac.</p> <p>Provides revised information that students can use to evaluate three possible investments that could meet the needs of a typical 34 investor.</p> <p>Analyzes the steps that can be used to evaluate corporate, government, and municipal bonds.</p> <p>Includes four Did You Know features about bond yields for high-quality corporate bonds, information available from the SEC, bond yields for U.S. Government 10-year notes, and bond calculators available on the Treasury Direct Web site.</p>
<p>Chapter 16 Investing in Mutual Funds</p>	<p><i>Revised information:</i> Why Investors Purchase Mutual Funds</p> <p><i>Revised Exhibit 16.1:</i> Invesco Large Cap Growth Fund Top Holdings</p> <p><i>Expanded coverage:</i> Open-End Funds</p> <p><i>Revised Exhibit 16.2:</i> Summary of expenses</p>	<p>Provides updated material on the importance and number of mutual funds currently available.</p> <p>Contains updated information on the securities contained in and industries represented in the Invesco Large Cap Growth fund.</p> <p>Includes increased coverage about when shares in an open-end fund are bought and sold.</p> <p>Contains updated information on the sales loads and fees charged by the Davis New York Venture mutual fund.</p>

Chapter	Selected Topics	Benefits for the Teaching and Learning Environment
	<p><i>New boxed feature:</i> Financial Planning for Life's Situations</p> <p><i>New Information:</i> Exhibit 16.4</p> <p><i>New Exhibit 16.5:</i> Morningstar Web site</p> <p><i>New Exhibit 16.6:</i> Morningstar research information</p> <p><i>New Exhibit 16.8:</i> Money Magazine's 2010 List of High Quality Funds and ETFs</p> <p><i>New Financial Planning Case:</i> Research Information Available from Morningstar</p> <p><i>New boxed feature:</i> How To . . . feature</p> <p><i>New or revised Did You Know Features</i></p>	<p>Analyzes why investors purchase lifecycle (sometimes referred to as lifestyle or target-date) funds.</p> <p>Describes the three largest mutual fund companies (Vanguard, American Funds, and Fidelity Investments) and provides information about assets under management, URL addresses, and basic information.</p> <p>Illustrates the information about the Vanguard Inter-Term Treasury fund available on the Morningstar Web site.</p> <p>Illustrates a detailed research report about the Vanguard Primecap fund available from Morningstar.</p> <p>Includes a portion of Money Magazine's recommendations for large cap, midcap, and foreign funds.</p> <p>Asks students to use the information in Exhibit 16.6 (Morningstar Report for Vanguard Primecap fund) to evaluate an investment decision and then determine if their decision was profitable or not.</p> <p>Provides information about the steps individuals can use to open an investment account and begin investing in funds.</p> <p>Includes four Did You Know features about who owns mutual funds, number of different types of mutual funds, characteristics of fund investors, and common mistakes made by fund investors.</p>
<p>Chapter 17 Investing in Real Estate and Other Investment Alternatives</p>	<p><i>Revised coverage:</i> Did You Know? feature</p> <p><i>New Did You Know? feature</i></p> <p><i>New coverage:</i> Vacation homes</p> <p><i>New Did You Know? feature</i></p> <p><i>New coverage:</i> Investing in foreclosures</p> <p><i>Revised coverage:</i> REITs</p> <p><i>Updated Did You Know? feature</i></p> <p><i>Revised and updated coverage:</i> Precious metals</p> <p><i>New coverage:</i> Gold certificates</p> <p><i>New How To . . . feature</i></p> <p><i>New Self-test problems</i></p>	<p>Shows how recent downturn in the housing market dropped the home ownership rate to 67.4 percent in 2009.</p> <p>Illustrates that the median U.S. home price declined to an almost eight-year low of \$164,600 in 2010.</p> <p>Explains that vacation home sales rose 7 percent in 2009, however, investment home sales fell 15.9 percent in 2009.</p> <p>Illustrates that home values are holding up better in Texas than nation as a whole.</p> <p>Describes that the U.S. home foreclosures are setting new records in the midst of the economic downturn.</p> <p>Explains the three types of REITs.</p> <p>Illustrates how REITs invest in all types of properties (in 2010).</p> <p>Provides the latest information on the recent rise in the prices of gold, silver, platinum, palladium, and rhodium.</p> <p>Explains how gold certificates offer you a method of holding gold without taking physical inventory.</p> <p>Cautions that rare-coin scams have increased and how to protect yourself from such scams.</p> <p>Provides three new practice self-test problems and their solutions.</p>

Chapter	Selected Topics	Benefits for the Teaching and Learning Environment
Chapter 18 Starting Early: Retirement Planning	<i>Expanded coverage:</i> Reverse mortgages	Provides additional information about reverse mortgages, and how to order AARP's booklet on reverse mortgages.
	<i>Reduced coverage:</i> Types of housing	Streamlines coverage of retirement housing options for seniors.
	<i>Updated Did You Know? feature</i>	Provides the most recent information on who receives Social Security benefits.
	<i>Updated Did You Know? feature</i>	Provides updated information on monthly Social Security benefits.
	<i>Updated Exhibit 18-8:</i> Future of Social Security	Updated Exhibit shows that the number of workers per beneficiary has been plummeting since 1945.
	<i>Updated coverage:</i> Defined-contribution plan	Describes new contribution limits for 2010.
	<i>Expanded coverage:</i> Exhibit 18-10	Compares important features of defined benefit and defined contribution plans.
	<i>Updated coverage:</i> Roth IRA	Provides new information about Roth IRA contribution limits for 2010.
	<i>New How to . . . feature</i> <i>New Exhibit 18-16</i> <i>New self-test problems</i>	Offers tip on how to avoid IRA pitfalls. Summarizes the government and private sources of retirement income. Provide three new self-test problems and their solutions.
Chapter 19 Estate Planning	<i>New example:</i> Advance directives	Describes that advance directives often include a living will, a health care proxy, and a letter of last instructions.
	<i>Revised coverage:</i> Types of trusts	Provides updated information on the exemption amounts for 2010.
	<i>New example:</i> Credit shelter trust	Emphasizes that credit shelter trusts can minimize estate taxes.
	<i>Revised coverage:</i> Federal and state estate taxes	Updates the information that no gift is due on gifts of up to \$13,000 in 2010.
	<i>New content:</i> Settling your estate	Emphasizes that some assets, such as, proceeds from life insurance, annuities, investments in individual IRAs, etc. pass outside of the will directly to your beneficiaries.
	<i>New content:</i> Estate taxes	Cautions that in 2010, the future of estate tax remained uncertain.
	<i>New self-test problems</i>	Provide student self-test sample problems and their solutions.

ASSURANCE OF LEARNING

Many educational institutions today are focused on the notion of assurance of learning, an important element of some accreditation standards. *Personal Finance*, 10th ed., is designed specifically to support your assurance of learning initiatives with a simple, yet powerful, solution.

Each test bank question for *Personal Finance*, 10th ed., maps to a specific chapter learning outcome/objective listed in the text. You can use the test bank software to easily query for learning outcomes/objectives that directly relate to the learning objectives for your course. You can then use the reporting features of the software to aggregate student results in similar fashion, making the collection and presentation of assurance of learning data simple and easy.

GUIDED TOUR

Chapter Opener: The chapter opener contains new features that serve as the chapter road map at a glance!

What Will This Mean for Me?

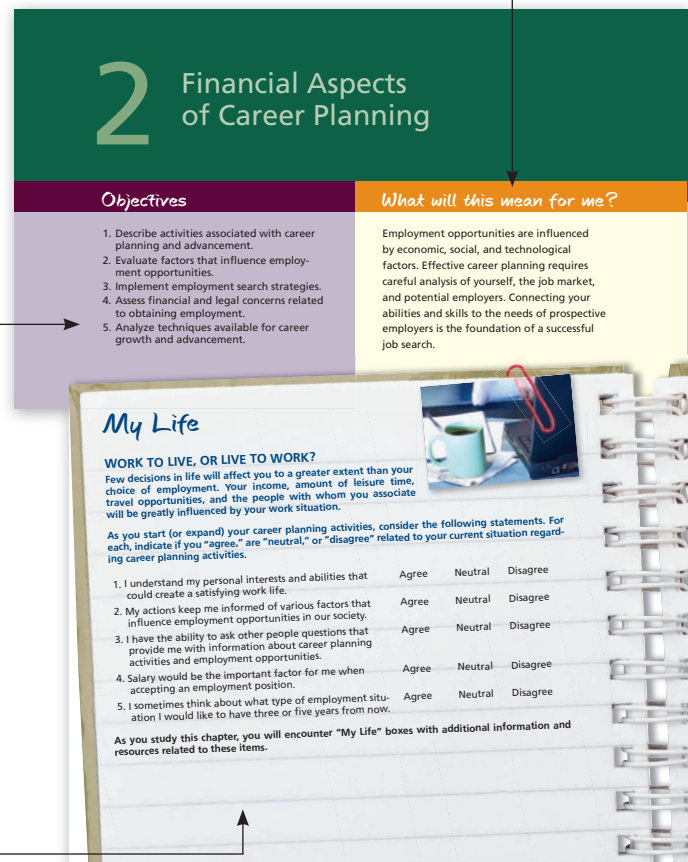
A short summary of why this chapter is important. Also, what students can expect to learn from it and apply to their own personal financial plan.

Objectives

A summary of learning objectives is presented at the start of each chapter. These objectives are highlighted at the start of each major section in the chapter and appear again in the end-of-chapter summary. The learning objectives are also used to organize the end-of-chapter questions, problems, and exercises, as well as materials in the *Instructor's Manual*, *Test Bank*, and *Student Resource Manual*. Problems in CONNECT can also be organized using the objectives.

My Life

The My Life concept begins with the chapter opener. It presents students with an engaging scenario that relates what they're about to learn to their own lives. The follow-up questions are designed to get students thinking about how involved they currently are in their personal finances and to motivate them to try new beneficial practices in their own personal finance life. The My Life Boxes throughout the chapters and the My Life Objectives in the chapter summary expand on this concept.



Boxed features are used in each chapter to build student interest and highlight important topics. Three different types of boxed features are used.

How To...

New to this edition, the How To . . . boxes fit in with the application—driven themes of *Personal Finance*. Each box highlights a personal finance issue and walks students through how to navigate the situation.

HOW TO...

File Your Taxes Online

In recent years, the IRS has made online filing easier and less expensive. Through the Free File Alliance, online tax preparation and e-filing is available free to millions of taxpayers, and involves the following steps:

STEP 1. Go to the "Free File" page at www.irs.gov and select one of these two options:

- The "I Will Choose a Company" button allows you to review the list of companies and descriptions of their services. After you determine your eligibility for a free service, select the link for the company's Web site.
- Or, you may decide to use "Help Me Find A Company," which will select a free filing based on responses to questions about your age, marital status, estimated adjusted gross income, state of residence, and amount of military pay.

STEP 2. Next, after connection to the company's Web site, you are ready to begin the preparation of your tax return. However, if, after starting your tax return, you determine that you are not eligible for the company's Free File service and you may be subject to a fee, you have several options: (1) Return to the Free File homepage and select another company; (2) Continue completing your return but be aware of the fee you will be charged; (3) Use the "Free File Fillable Forms" feature, with which you may fill in the tax forms and file them online without tax software. For this option, no income limitations exist. You complete the blank forms to e-file your 1040, 1040A, or 1040EZ return. Quick, online access is available for the most commonly filed federal tax forms and schedules.

STEP 3. As you prepare your taxes, most online sites and tax software will guide you through the steps of the process. You will be prompted to enter your personal data, income amounts, deductions, and determine the tax credits for which you qualify.

STEP 4. Finally, you are ready to submit your federal tax form online. You will usually receive an e-mail confirmation of your submission, and your refund will be processed within two weeks.

In addition to the IRS Free File program, you may file your taxes online using a commercial tax software program, usually for a fee. Always beware of attempts to sell other financial products, such as expensive refund anticipation loans. Taxpayers using a free e-file service must be aware that their state tax return might not be included in the free program.

Financial Planning for Life's Situations

WHAT'S "PHISHING"?

Regulatory agencies have published a brochure, *Internet Pirates Are Trying to Steal Your Information*, to assist you in identifying and preventing a new type of Internet fraud known as "phishing." With this type of scam, you receive fraudulent e-mail messages that appear to be from your financial institution. The messages often appear authentic and may include the institution's logo and marketing slogans.

These messages usually describe a situation that requires immediate attention and state that your accounts will be terminated unless you verify your personal information by clicking on a provided Web link. The Web link then takes you to a screen that asks for confidential information, including:

- account numbers,
- Social Security numbers,
- passwords,
- place of birth, or
- other information used to identify you.

Those perpetrating the fraud then use this information to access your accounts or assume your identity.

The brochure advises consumers:

- If you're not sure the e-mail is legitimate, go to the company's site by typing in a Web address that you know is authentic.
- If you think the e-mail message might be fraudulent, do not click on any embedded link within the e-mail. The link may contain a virus.
- Do not be intimidated by e-mails that warn of dire consequences for not following the sender's instructions.
- If you do fall victim to a phishing scam, act immediately to protect yourself by alerting your financial institution, placing fraud alerts on your credit files, and monitoring your account statements closely.
- Report suspicious e-mails or calls from third parties to the Federal Trade Commission, either through the Internet at www.consumer.gov/idtheft or by calling 1-877-IDTHEFT.

The brochure is on the Office of the Comptroller of the Currency's Web site, www.occ.gov/consumer/phishing.htm.
Source: Federal Trade Commission, www.ftc.gov, August 2010.

Financial Planning for Life's Situations

This box offers information that can assist students when faced with special situations and unique financial planning decisions. Many emphasize the use of Internet sources.

Financial Planning Calculations

This feature presents more than 90 mathematical applications relevant to personal financial situations.

Financial Planning Calculations

ANNUAL PERCENTAGE YIELD

The Truth in Savings law, which took effect in 1993, requires that financial institutions report in advertisements, if a rate is quoted, and to savings plan customers the annual percentage yield (APY). The formula for APY is

$$APY = 100 \left[\left(1 + \frac{\text{Interest/Principal}}{365} \right)^{365 \text{ days in term}} - 1 \right]$$

The *principal* is the amount of funds on deposit. *Interest* is the total dollar amount earned during the term on the principal. *Days in term* is the actual number of days over which interest is earned.

When the number of days in the term is 365 (that is, where the stated maturity is 365 days) or where the account does not have a stated maturity, the APY formula is simply

$$APY = 100 \left(\frac{\text{Interest/Principal}}{\text{Principal}} \right)$$

APY provides a consistent comparison for savings plans with different interest rates, different compounding frequencies, and different time periods. APY may be easily viewed in terms of a \$100 deposit for a 365-day year. For example, an APY of 6.5 percent would mean \$6.50 interest for a year.

Margin notes provide connections to supplementary information. While the Did You Know? feature provides interesting statistics and tips in personal financial planning. The Concept Check feature provides an ongoing assessment tool.

Key Terms

Key terms appear in bold type and in the margin definition boxes. The terms and their page references are also listed at the end of each chapter.

My Life Boxes

My Life boxes appear next to material that relates back to the opening My Life scenario and the Learning Objectives. These boxes offer useful tips and possible solutions to help students better manage their finances.

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You can calculate the increased value of your money from interest earned in two ways: You can calculate the total amount that will be available later (future value), or you can determine the current value of an amount desired in the future (present value).

FUTURE VALUE OF A SINGLE AMOUNT Deposited money earns interest that will increase over time. Future value is the amount to which current savings will increase based on a certain interest rate and a certain time period. For example, \$100 deposited in a 6 percent account for one year will grow to \$106. This amount is computed as follows:

$$\text{Future value} = \$100 + (\$100 \times 0.06 \times 1 \text{ year}) + \$106$$

Original amount in savings	Amount of interest earned
\$100	\$6

The same process could be continued for a second, third, and fourth year, but the computations would be time consuming. Future value tables simplify the process (see Exhibit 1-8). To use a future value table, multiply the amount deposited by the factor for the desired interest rate and time period. For example, \$650 at 8 percent for 10 years would have a future value of \$1,403.35 ($\650×2.159). The future value of an amount will always be greater than the original amount. As Exhibit 1-8A shows, all the future value factors are larger than 1.

Future value computations may be referred to as *compounding*, since interest is earned on previously earned interest. Compounding allows the future value of a deposit to grow faster than it would if interest were paid only on the original deposit.

The sooner you make deposits, the greater the future value will be. Depositing \$1,000 in a 5 percent account at age 40 will give you \$3,387 at age 65. However, making the \$1,000 deposit at age 25 would result in an account balance of \$7,040 at age 65.

FUTURE VALUE OF A SERIES OF DEPOSITS Quite often, savers and investors make regular deposits. An *annuity* is a series of equal deposits or payments. To determine the future value of equal yearly savings deposits, see Exhibit 1-8B. For this table to be used, the deposits must earn a constant interest rate. If you deposit \$50 a year at 7 percent for six years, starting at the end of the first year, you will have \$357.65 at the end of that time ($\$50 \times 7.153$). The Financial Planning Calculations box on page 19 presents an example of using future value to achieve a financial goal.

PRESENT VALUE OF A SINGLE AMOUNT Another aspect of the time value of money involves determining the current value of an amount desired in the future. **Present value** is the current value for a future amount based on a certain interest rate and a certain time period. Present value computations, also called *discounting*, allow you to determine how much to deposit now to obtain a desired total in the future. Present value tables (Exhibit 1-8C) can be used to make the computations. If you want \$1,000 five years from now and you earn 5 percent on your savings, you need to deposit \$784 ($\$1,000 \times 0.784$).

The present value of the amount you want in the future will always be less than the future value, since all of the factors in Exhibit 1-8C are less than 1 and interest earned will increase the present value amount to the desired future amount.

PRESENT VALUE OF A SERIES OF DEPOSITS You can also use present value computations to determine how much you need to deposit so that you can take a certain amount out of the account for a desired number of years. For example, if you want

My Life 4
Time value of money calculations often guide my saving and spending decisions. To assist you with using future value and present value computations for achieving personal financial goals, several Web sites are available: for example, www.dinkytown.net, www.moneychimp.com/calculator, and oj.money.cnn.com/tools

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stop-payment commonly ranges from \$10 to \$20. If several checks are missing or you lose your checkbook, closing the account and opening a new one is likely to be less costly than paying several stop-payment fees.

DID YOU KNOW?
"Remote deposit" allows a person to deposit checks into a bank account from home or office without having to present the actual check. Use a scanner to capture a digital image of the check. Then, the image is transmitted online. Although mainly used by businesses, the system may also be used by individuals.

RECONCILING YOUR CHECKING ACCOUNT Each month you will receive a bank statement summarizing deposits, checks paid, interest earned, and fees such as service charges and printing of checks. The balance reported on the statement will usually differ from the balance in your checkbook. Reasons for a difference include checks that have not yet cleared, deposits not received by the bank, and interest earned.

To determine the correct balance, prepare a bank reconciliation to account for differences between the bank statement and your checkbook balance. See the Financial Planning Calculations box on page 163 for details of the bank reconciliation process.

OTHER PAYMENT METHODS
While personal checks are the most common payment form, other methods are available. A *certified check* is a personal check with guaranteed payment. The amount of the check is deducted from your balance when the financial institution certifies the check. A *cashier's check* is a check of a financial institution. You may purchase one by paying the amount of the check plus a fee. You may purchase a *money order* in a similar manner from financial institutions, post offices, and stores. Certified checks, cashier's checks, and money orders allow you to make a payment that the recipient knows is valid.

Traveler's checks allow you to make payments when you are away from home. This payment form requires you to sign each check twice. First, you sign the traveler's checks when you purchase them. Then, to identify you as the authorized person, you sign them again as you cash them. Electronic traveler's checks, in the form of a prepaid travel card, are also available. The card allows travelers visiting other nations to get local currency from an ATM.

CONCEPT CHECK 5-5

- 1 What factors are commonly considered when selecting a checking account?
- 2 Are checking accounts that earn interest preferable to regular checking accounts? Why or why not?

Action Application Observe customers making payments in a retail store. How often are cash, checks, credit cards, or cash cards used?

Sheet 26 Payment account comparison
Sheet 27 Checking payment account cost analysis
Sheet 28 Checking account reconciliation

Did You Know?

Each chapter contains several *Did You Know?* features with fun facts, information, and financial planning assistance.

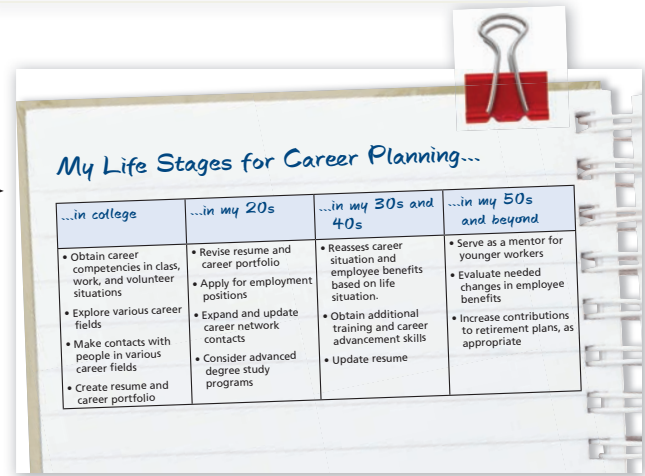
Concept Check

The *Concept Check* at the end of each major section provides questions to help students assess their knowledge of the main ideas covered in that section. The Action Application section contains short exercises that ask the student to apply the concepts they have learned.

A variety of end-of-chapter features are offered to support the concepts presented throughout each chapter.

My Life Stages

There is an increasing number of non traditional students taking personal finance. The **new** My Life Stages box at the end of each chapter provide personal finance action items for students of all ages.



Financial Planning Problems

With more added to this edition, these problems allow students to apply their quantitative analysis of personal financial decisions.

FINANCIAL PLANNING PROBLEMS

- Determining the Future Value of Education.** Jenny Franklin estimates that as a result of completing her master's degree, she will earn \$7,000 a year more for the next 40 years. (Obj. 1)
 - What would be the total amount of these additional earnings?
 - What would be the *future value* of these additional earnings based on an annual interest rate of 6 percent? (Use Table 1-B in the Chapter 1 Appendix.)
- Comparing Living Costs.** Brad Edwards is earning \$45,000 a year in a city located in the Midwest. He is interviewing for a position in a city with a cost of living 12 percent higher than where he currently lives. What is the minimum salary Brad would need at his new job to maintain the same standard of living? (Obj. 2)
- Calculating Future Value of Salaries.** During a job interview, Pam Thompson is offered a salary of \$28,000. The company gives annual raises of 6 percent. What would be Pam's salary during her fifth year on the job? (Obj. 3)
- Computing Future Value.** Calculate the future value of a retirement account in which you deposit \$2,000 a year for 30 years with an annual interest rate of 7 percent. (Use the tables in the Chapter 1 appendix.) (Obj. 4)
- Comparing Taxes for Employee Benefits.** Which of the following employee benefits has the greater value? Use the formula given in the Financial Planning Calculations box on page 56 to compare these benefits. (Assume a 28 percent tax rate.) (Obj. 4)
 - A nontaxable pension contribution of \$4,300 or the use of a company car with a taxable value of \$6,325.
 - A life insurance policy with a taxable value of \$450 or a nontaxable increase in health insurance coverage valued at \$340.

Financial Planning Activities

The *Financial Planning Activities* provide methods of researching and applying financial planning topics.

FINANCIAL PLANNING ACTIVITIES

- Researching Career Planning Activities.** Interview a person who recently made a major career change. What personal and economic factors influenced this decision? What specific career planning activities did the person use? (Obj. 1)
- Comparing Career Alternatives.** Using Sheet 6 in the *Personal Financial Planner*, research two careers you might consider. Compare employment requirements, duties on the job, and future potential. (Obj. 2)

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FINANCIAL PLANNING CASE

"Press 1 to Withdraw Cash, Press 2 to Deposit, Press 3 for Higher Fees"

"Wow! My account balance is a little lower than I expected," commented Lisa Cross as she reviewed her monthly bank statement. "Wait a minute! There's nearly \$20 in fees for ATM withdrawals and other service charges."

Many people do not realize the amount they pay each month for various bank fees. These charges result from various services that give customers convenience, reliability, and safety.

"Oh no! I also went below the minimum balance required for my *free* checking account," Lisa groaned. "That cost me \$7.50!"

Lisa is not alone in her frustration with fees paid for financial services. While careless money management caused many of these charges, others could have been reduced or eliminated by comparing costs at various financial institutions.

Consumers are also upset with slow customer service and long waits in lines. These drawbacks have caused many customers to consider the use of online banking services.

Whether using the online services of your current financial institution or starting an account with a "Web" bank, you can gain faster access to your account. Other benefits may be present. Often, costs of online banking services are lower than in traditional settings. Online banking can mean access to an expanded array of financial services. For example, some online bank accounts include low-cost, online investment trading and instant loan approval.

Lisa believes that online banking services provide her with an opportunity to better control her financial service costs. However, she also has concerns about introductory low costs, privacy, and security of transaction information.

Questions

- What benefits might Lisa gain when using online banking services?
- What factors should Lisa consider when selecting various banking services?
- What actions might you take to better understand the concerns associated with using online banking?

Financial Planning Case

Students are given a hypothetical personal finance dilemma and data to work through to practice concepts they have learned from the chapter. A series of questions helps students to use analytic and critical thinking skills while reinforcing chapter topics.

Your Personal Financial Planner in Action

This feature provides long- and short-term financial planning activities, per the concepts learned within the chapter, and links each to relevant *Personal Financial Planner* sheets (located at the end of the book) and Web sites for further personal financial planning.

YOUR PERSONAL FINANCIAL PLANNER IN ACTION

Tax Planning Activities
Taxes are a fact of financial planning. However, various actions can be taken to reduce the time and money that go toward taxes.

Your Short-Term Financial Planning Activities	Resources
1. Develop a system for filing and storing various tax records related to income, deductible expenses, and current tax forms.	See Exhibit 4-2 (p. 111) www.turbotax.com www.taxsoft.com
2. Using the IRS and other Web sites, identify recent changes in tax laws that may affect your financial planning decisions.	www.irs.gov www.1040.com

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CONTINUING CASE

Managing Credit

Life Situation

Single	Monthly Income	\$1,750
Age 24	Living expenses	\$1,210
No dependents	Personal Property	\$7,300
Graduate and Engaged	Savings	\$5,000
	Student Loan	\$4,200
	Credit Card Debt	\$4,600

Shelby and Mark are making plans to get married, open her Pet Salon, and possibly buy a condo, but they realize that they must manage their credit situation better. They have made a budget so that they can reduce their individual credit card balances. However, they are looking for other ways to help them achieve their goals more quickly.

Questions

- Given their current situation, list some suggestions on how Shelby and Mark can reduce the cost of using credit. What are some alternative sources of credit they might consider?
- What is the best way for Shelby and Mark to compare the cost of credit from different sources? Although student responses may vary, responses should include:
- Explain how Shelby and Mark might use the following Personal Financial Planner sheets (Credit Card/Charge Account Comparison and Consumer Loan Comparison).

Continuing Case

The continuing case gives students the opportunity to apply course concepts in a life situation. This feature encourages students to evaluate the changes that affect a family and then respond to the resulting shift in needs, resources, and priorities through the questions at the end of each case.

DAILY SPENDING DIARY
"My daily work expenses could easily be reduced if I'd be more careful with lunch and coffee spending."

Directions
Continue or start using the "Daily Spending Diary" sheets, or create your own format. Record every cent of your spending in the categories provided, or set up your own categories. Knowing your spending actions and achieving financial goals can improve by using this process.

Questions

- What types of job-related expenses might be commonly included as part of your Daily Spending Diary?
- What actions might be taken to reduce costs associated with seeking a job or when changing jobs?

The daily spending diary sheets are located in Appendix C at the end of the book and on the student website www.mhhe.com/kdh

Daily Spending Diary

Do you buy a latte or a soda every day before class? Do you and your friends meet for a movie once a week? How much do you spend on gas for your car each month? Do you try to donate to your favorite local charity every year?

These everyday spending activities might go largely unnoticed, yet they have a significant effect on the overall health of an individual's finances. The Daily Spending Diary sheets (in the Appendix and online) and end-of-chapter activities offer students a place to keep track of *every cent they spend* in any category. Careful monitoring and assessing of these daily spending habits can lead to better control and understanding of students' personal finances.

Personal Finance continues to provide instructors and students with features and materials to create a learning environment that can be adapted to any educational setting.

Personal Financial Planner Sheets

The PFP sheets that correlate with sections of the text are conveniently located at the end of the text. Each perforated worksheet asks students to work through the application and record their own personal financial plan answers. These sheets apply concepts learned to students' personal situation and serve as a road map to their personal financial future. Students can fill them out, rip them out, submit them for homework, and keep them filed in a safe spot for future reference!

Key Web sites are provided to help students research and devise their personal financial plan, and the "What's Next for Your Personal Financial Plan?" section at the end of each sheet challenges students to use their responses to plan the next level, as well as foreshadow upcoming concepts.

Look for one or more PFP icons next to most Concept Checks. The icons direct students to the Personal Financial Planner sheet that corresponds with the preceding section.

Name: _____
Date: _____

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Tax Planning Activities

Purpose: To consider actions that can prevent tax penalties and may result in tax savings.
Instructions: Consider which of the following actions are appropriate to your tax situation.
Suggested Web sites: www.irs.gov www.taxlogic.com

	Action to be taken (if applicable)	Completed
Filing Status/Withholding <ul style="list-style-type: none"> • Change filing status or exemptions because of changes in life situation. • Change amount of withholding because of changes in tax situations. • Plan to make estimated tax payments (due the 15th of April, June, September, and January). 		
Tax Records/Documents <ul style="list-style-type: none"> • Organize home files for ease of maintaining and retrieving data. • Send current mailing address and correct Social Security number to IRS, place of employment, and other sources of income. 		
Annual Tax Activities <ul style="list-style-type: none"> • Be certain all needed data and current tax forms are available well before deadline. • Research tax code changes and uncertain tax areas. 		
Tax Savings Actions <ul style="list-style-type: none"> • Consider tax-exempt and tax-deferred investments. • If you expect to have the same or lower tax rate next year, accelerate deductions into the current year. • If you expect to have the same or lower tax rate next year, delay the receipt of income until next year. • If you expect to have a higher tax rate next year, delay deductions because they will have a greater benefit. • If you expect to have a higher tax rate next year, accelerate the receipt of income to have it taxed at the current lower rate. • Start or increase use of tax-deferred retirement plans. • Other. 		
What's Next for Your Personal Financial Plan? <ul style="list-style-type: none"> • Identify saving and investing decisions that would minimize future income taxes. • Develop a plan for actions to take related to your current and future tax situation. 		