HOW MONEY WORKS™

A Common Sense Guide to Financial Success

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Primerica has proudly distributed our ***HOW MONEY WORKS™*** materials to help consumers find answers to their financial problems. It is not intended as a sales solicitation, but as an overview of how to overcome the most common financial challenges facing people today.

Primerica believes the ultimate key to financial success is knowledge – that's why we offer ***HOW MONEY WORKS™*** materials to teach families, how to make responsible, well-informed decisions and how to get the best value for the dollars you spend.

That's what our ***HOW MONEY WORKS™*** financial literacy services are all about. As part of Primerica's continuing commitment to consumer education, this book is a general introduction to the basic, common sense financial concepts that can help people overcome the obstacles they face and achieve their goals. It shows how greater financial security is within reach of every working American.

As the text explains, the critical first step is learning to make wise financial decisions. Primerica encourages consumers to become independent thinkers and always make their own choices, whether they're purchasing financial products or any other goods or services.

Primerica offers a wide variety of consumer-oriented financial solutions. For more information on specific products, contact the Primerica representative who gave you this brochure.

There is a common misunderstanding that average and ordinary folks can't become millionaires.

That couldn't be further from the truth.

The fact is, you have the power to accumulate wealth beyond your dreams. Many people who have never earned a six-figure income become financially independent. How do they do it? Doesn't it take a high-level job with a big salary? Or a large inheritance? Or winning the lottery?

The answer is no. No matter what your income level, you can achieve financial security – if you take the time to learn a few simple principles from our ***HOW MONEY WORKS***™ materials.

YOU CAN get out of debt.
YOU CAN build savings.
YOU CAN get on the path to financial independence.

By applying the simple principles in this book, you can achieve financial security and ultimately reach your goals. But nobody else can make it happen.

It's up to you. You have the power to change your life forever.

READY TO GET STARTED?

TAKE CONTROL

Did you know one of the biggest financial mistakes most people make is dependence? Dependence on others allows "outside" factors in people's lives to control them. The secret to financial security is learning to control the things you CAN control.

Pay Yourself First

Paying yourself first means putting yourself and your family before any other demands on your money. Paying yourself first is a form of self-respect.

Deposit a set amount each and every month into an investment program, no matter what other financial obligations you have. It's amazing how fast your money can grow if you invest even a small amount regularly at a good rate of return.

Adjust Your Priorities

It's been said that:

If you make $10 and spend $9 = happiness

If you make $10 and spend $11 = misery

As you begin your journey to financial independence, remember this key point: It's not what you make, it's what you keep.

Change Your Thinking

The way you think about money is everything. Your mindset is a powerful thing – especially when it comes to money.

That explains why so many of the people who win the lottery ... end up losing it all. It helps you understand how so many millionaires are self made.

What is the difference between the two groups? It's how they think. **If you think you don't deserve to be financially secure, you'll never be financially secure.** However, if you "upgrade" your self-image and believe you deserve the freedom and peace of mind that financial security provides, you'll have a better chance of doing what needs to be done to obtain wealth beyond your dreams.

Adjust Your Lifestyle

Along with setting priorities comes one tough rule of life: You can't have everything. You have to make conscious decisions about every purchase.

An important concept to understand is want vs. need:

- A need is something you have to have, something you can't do without. You "need" food. You "need" shelter.
- A want is something you would like to have. You "want" ice cream. You "want" a bigger house.

If you want to achieve financial independence, you may have to make sacrifices for a period of time and go without some of your "wants." It's not that tough, but it is very, very important to your financial health.

Earn Additional Income

If your family income is very modest, things may be so tight that it's tough to invest more than $50 a month. If you want to make significant progress, **consider taking a part-time job to get the extra income needed to start your investment program.**

Realign Your Assets

This is another way to take control and free up income for savings. There are two major areas in which families are not getting their money's worth that are great areas to target for adjustment:

1. Low-interest savings accounts or accumulations with banks. You can take money from a 1% savings plan and invest it in an area that has the potential for higher returns.

2. High-cost life insurance. You can replace your outdated, expensive cash value insurance policies with term insurance and potentially save thousands of dollars in premium over time! Both of these areas are covered in more detail later in this booklet.

Avoid the Credit Trap

Credit cards are good for convenience but that's it. **Be careful to avoid the pitfalls of "plastic money."** Pay your balance in full each month and you'll not only avoid interest charges but you'll prevent your balance from escalating out of control. To keep your monthly charges under control, pay with cash. You'll probably find you spend less when you have to hand your money over.

See how many options you have? You DO have a choice about your financial future.

Set Goals and Have a Plan

You can't reach your destination if you don't know what it is. Setting goals gives you two things:

1. **An incentive to make the necessary sacrifices**
2. **Benchmarks along the way to gauge your progress**

After you've set your goals, you need a road map to get you there. You need a financial game plan. Together with your goals, a game plan is the cement that holds together your financial foundation.

You **Cannot** Control

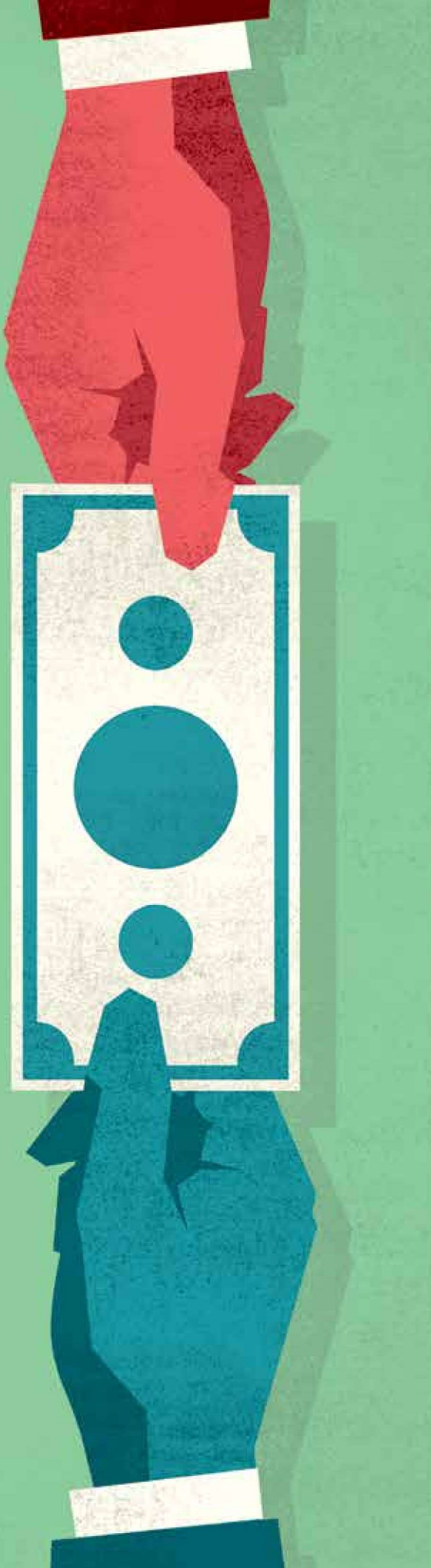
- The Future of Social Security
- Your Employer
- Taxes
- Inflation
- Rising Costs
- The Risk of a Single Investment

But You **Can** Control

- Saving for Retirement
- Other Sources of Income
- Ways to Reduce Your Taxes
- Maximizing Your Savings
- Saving More
- Diversity of Your Investment Choices

Diversification does not assure a profit or protect against loss.

PAY YOURSELF FIRST



PROBLEM:

At the end of the month, most people don't have anything left to save.

SOLUTION:

At the first of the month, before you pay anyone else, write a check to yourself for 10% of your income. Paying yourself first may be the single most important concept in this brochure.

It's Not What You Earn, It's What You Keep

Put yourself at the head of the line. Treat your savings like any other recurring bill that you must pay each month. Dedicate the appropriate amount from your paycheck and set it aside. While most people think nothing of sending enormous amounts of money to credit card companies on a regular and systematic basis, they balk at the idea of paying themselves first! Change that mindset. Cut up your credit cards and put those payments into your own savings. Make a commitment to pay yourself first!

Calculate How Much You've Earned & How Much You've Saved

Average annual income (estimate):		**A**	
Times number of years worked:	X	**B**	
Equals total amount earned:	=	**C**	
Amount of personal savings:		**D**	
Divide D by C:	=	**E**	%

This equals your percentage of income saved.

The Three Accounts You Need

To have a complete savings program, most people need **three types of basic accounts:**

EMERGENCY FUND

This is your reserve fund in the event of an unforeseen emergency, job loss or an unexpected expense.

A good rule of thumb:
Set a goal of having three to six months' salary in your emergency fund.

SHORT-TERM SAVINGS

This account is for money that you set aside for expenses you want to purchase within a short-term time frame. For example, here is where you would save for a new computer or perhaps a vacation.

LONG-TERM SAVINGS & INVESTMENTS

This is where your retirement savings, college fund and other long-range savings will go. Because these savings have more of a long-term time horizon, you can use investment vehicles with potential for a higher rate of return, such as equity mutual funds.

Investing entails risk including loss of principal. Shares, when redeemed, may be worth more or less than their original value.

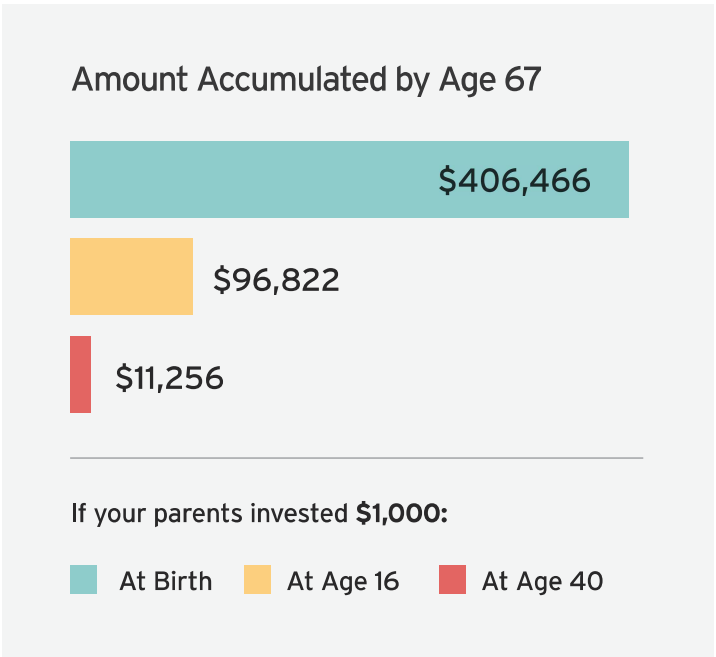
USE TIME AND CONSISTENCY

Someone once said that the only two things life gives you are opportunity and time. Time, combined with two other important elements, rate of return and consistency, is a powerful key to achieving financial security.

It Pays to Start Investing Early

Suppose your parents had deposited **$1,000** on the day you were born. If you left the account untouched until you turned 67, that $1,000 would have grown to $406,466 – without you ever having to add another penny!

The rate values to the right are at age 67 and for illustrative purposes only and do not represent an actual investment. This example uses a constant rate of return. Actual investments will fluctuate in value. The illustration does not include fees and taxes that would lower results. The 9% rate of return is a nominal interest rate compounded on a monthly basis. Investing entails risk, including loss of principal. Shares, when redeemed, may be worth more or less than their original value.



Don't Pay the High Cost of Waiting

If you're like most people, you don't have a lot of money. That's why time is so critical. When you're young, you can save small amounts and still end up with thousands of dollars. If you wait to begin saving, you must save much more. If you want to be financially independent, you have no choice – you must start now, or later you must save more. One thing is certain: You can't afford the high cost of waiting.

If your goal is to save $500,000 for retirement at age 67, look at the difference time makes:

Monthly Savings Required

Begin	Save	Cost to wait
Age 25	$89	–
Age 35	$224	more than 2 times more
Age 45	$602	nearly 7 times more
Age 55	$1,926	more than 21 times more

The sooner you begin to save, the greater the growth on your investment:

The High Cost of Waiting ($100/month at 9%)

Begin	Total at Age 67	Cost to wait
Age 25	$566,920	–
Age 26	$517,150	$49,770
Age 30	$357,240	$209,680
Age 40	$137,780	$429,140

These examples assume a hypothetical 9% constant rate of return. Rate of return is a nominal interest rate compounded on a monthly basis. Actual investments will fluctuate in value. The illustration does not include fees and taxes which would lower results. Investing entails risk, including loss of principal. Shares, when redeemed, may be worth more or less than their original value.

Add Consistency to Time

You've seen how time can be the best friend of growth. But most people don't have $1,000 to deposit all at once. They must depend on smaller amounts, invested on a schedule, to build wealth. If that's your situation, consistency can be the fuel that makes your investment grow exponentially.

The Power of Compound Interest

Remember your parents who deposited $1,000 at a hypothetical rate of return of 9% when you were born? The annual interest would be $90. And $90/year, when multiplied by 67 years, is $6,030. Then how did you withdraw more than $406,000 at age 67? Because of one of the most important keys to wealth you can ever learn: the power of compound interest. Here is how it works:

The first year's interest on the investment, 9% or $90, was credited to the $1,000 to make $1,090. The next year, $98 was earned on the $1,090. The total in the account was then $1,188. As the account grew each year, the interest payment was calculated on the total in the account, including all the past interest payments. The compounding of the interest is how $1,000 grew to more than $406,000. With the power of compound interest at work for you, you'll be amazed at how quickly a few hundred dollars can become a thousand.

Just a Little More Grows Even Faster

The chart below illustrates the difference between saving $20 a month versus $100 a month. While saving $80 more a month may be a challenge financially, the increased dollar amount definitely pays off. Just $100 a month compounding at a hypothetical 9% rate totals more than $470,000 after 40 years.

	Monthly Contribution	
Years	$20	$100
10	$3,900	$19,500
20	$13,460	$67,300
30	$36,890	$184,450
40	$94,330	$471,650

This is hypothetical and does not represent an actual investment. Actual investments will fluctuate in value. It does not include fees and taxes which would lower results. Rate of return is a constant nominal rate, compounded monthly. Investing entails risk, including loss of principal. Shares, when redeemed, may be worth more or less than their original value.

Do You Know the Rule of 72?

Another important concept in understanding the power of compound interest is the Rule of 72. Your money will double at a certain point determined by dividing 72 by the percent of interest.

Years	3%	6%	12%
0	$10,000	$10,000	$10,000
6	–	–	$20,000
12	–	$20,000	$40,000
18	–	–	$80,000
24	$20,000	$40,000	$160,000
30	–	–	$320,000
36	–	$80,000	$640,000
42	–	–	$1,280,000
48	$40,000	$160,000	$2,560,000

Based on the Rule of 72, a one-time contribution of $10,000 doubles **six more times at 12% than at 3%.**

> Compound interest is the most powerful force in the universe.
>
> - Albert Einstein

This table serves as a demonstration of how the Rule of 72 concept works from a mathematical standpoint. It is not intended to represent an investment. The chart uses constant rates of return, unlike actual investments which will fluctuate in value. It does not include fees or taxes, which would lower performance. It is unlikely that an investment would grow 10% or more on a consistent basis.

The Importance of Rate of Return

There's another critical key to building financial security that's often overlooked. It's the interest rate (sometimes referred to as the rate of return). The difference of a few percentage points may seem minor, but the impact of the rate of return when combined with time is significant. You might think that if you could earn a 9% rate of return instead of 4.5%, your money would double. Not so! Remember the "power of compound interest?" That 4.5% difference adds up to much more over time – and can mean thousands of dollars for you and your family.

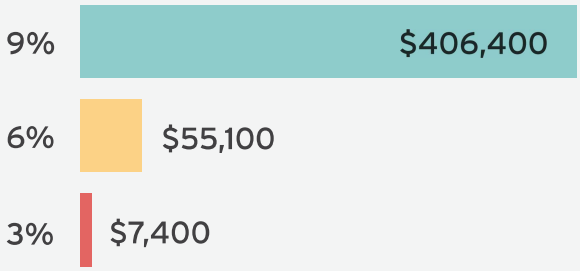
Rate of Return in Action

Now you can see why the rate of return you receive on your savings or investment account is so important. Your main objective in saving is to accumulate as much cash as possible. You can reach the same objective in one of two ways:

1. Save more $ and accept a lower % OR
2. Save less $ at a higher %

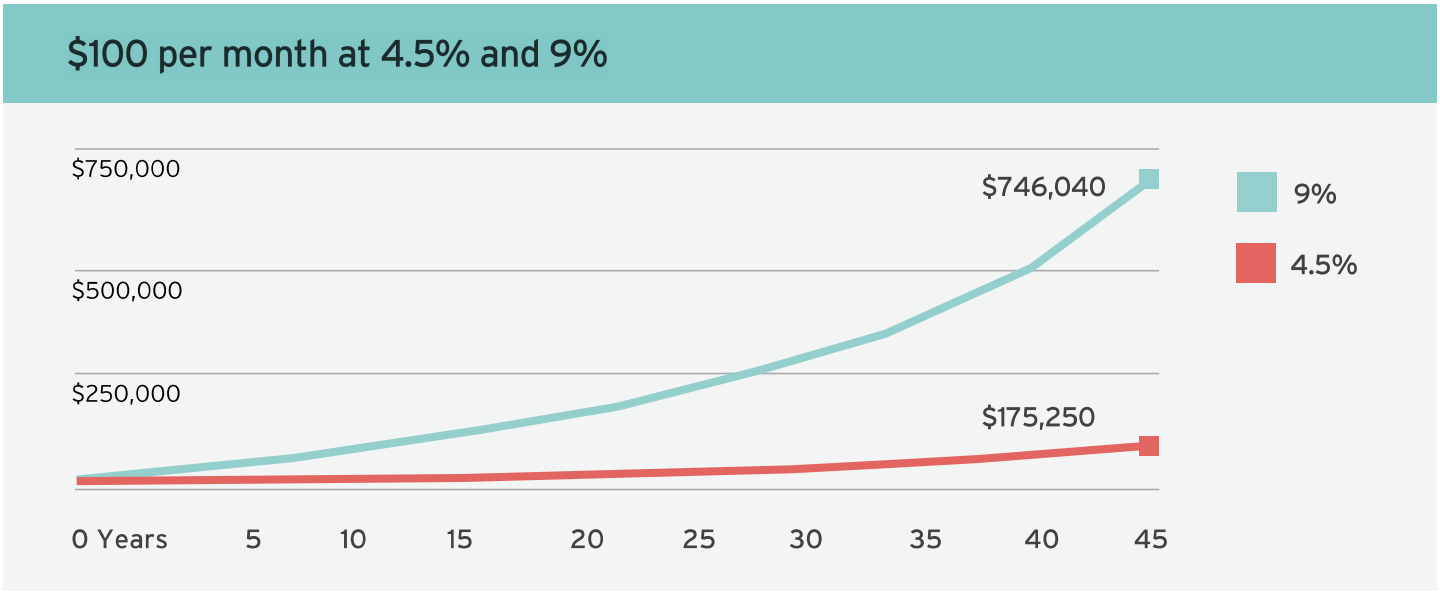
We'll use the example of your parents investing $1,000 at your birth on page 9. Let's look at their one-time $1,000 investment with a 3%, 6% and 9% rate of return. Look at what you could have withdrawn at age 67 at various rates of return.

A one-time $1,000 investment with a 3%, 6% and 9% rate of return:



Hypothetical percentage rates and values. Rate of return is a nominal interest rate compounded on a monthly basis. These results are not indicative of any specific investment and show a constant rate of return, where an actual investment will fluctuate in value. It does not include fees and taxes, which would lower results. Investing entails risk, including loss of principal. Shares, when redeemed, may be worth more or less than their original value.

How Doubling Your Interest Can Quadruple Your Savings



Hypothetical percentage rates and values. Rate of return is a nominal interest rate compounded on a monthly basis. These results are not indicative of any specific investment and show a constant rate of return, where an actual investment will fluctuate in value. It does not include fees and taxes, which would lower results. Investing entails risk, including loss of principal. Shares, when redeemed, may be worth more or less than their original value.

PAY OFF DEBT

Of all the threats to your financial security, none is more dangerous than debt. In every family's quest to feel good financially, debt is the most common enemy. The very fact that it is so common – who doesn't have debt? – makes it one of the biggest threats to your financial well-being.

The Bad News About Compounding

Compound interest is one of the most powerful financial forces around. When you are building savings, its power works in your favor. However, when you have debt, the power of compound interest works against you! When you pay just the minimum balance on your credit cards each month, interest charges are added to the remaining principal. This means your new balance is the principal PLUS the interest...and that amount gets compounded again and again. It's easy to see how small debts grow large quickly with compound interest.

Did you know if you made a **one-time $3,000 credit card purchase with an 18% interest rate with no new purchases** and made the minimum payments, it would take at least **10 years to pay off** and you would end up paying more than **$2,002 in interest charges?**

PURCHASE INTEREST

$3,000 + $2,002 = **$5,002**

Assumes 18% APR, and a minimum payment of 3.5% of the balance or $20 if more.

Revolving Debt vs. Fixed Debt

Credit card debt is what is known as "revolving" debt. The interest compounds daily instead of monthly, which means you can pay much more in interest. Because there is no fixed amount that you pay each month, your debt can go on forever. Additionally, your interest rate could change at almost any time and there is little a consumer can do beyond paying off the entire balance at once.

Look at how revolving debt can erode your financial security:

REVOLVING DEBT
$17,000 @ 18%
$595/month*

$12,500 IN INTEREST PAID
17 years and 2 months to pay off

FIXED DEBT
$17,000 @ 18%
$595/month fixed**

$5,370 IN INTEREST PAID
3 years and 2 months to pay off

*Assumes revolving payment (minimum) is 3.5% of the remaining balance or $20, whichever is greater. First month's payment is shown and term assumes continued payment of minimum amount with no additional amounts paid. No additional debt is incurred and payments decrease over time period. **Assumes payment of 3.5% of initial loan amount, no additional debt incurred and initial payment amount remains fixed throughout term of loan.

Debt Stacking Can Lead to Debt Freedom

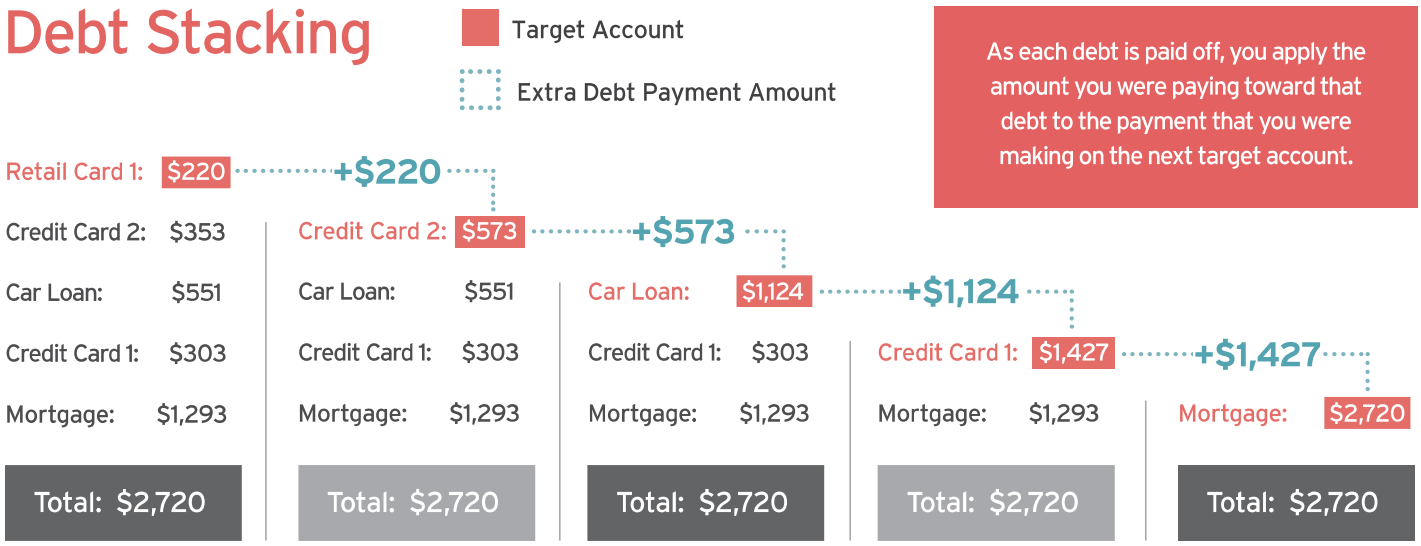
If the idea of paying off your debt seems overwhelming, consider debt stacking. They say you can eat an elephant – one bite at a time. Well, the same concept works with paying off your debt! By taking into account the interest rate and amount of debt, debt stacking identifies an ideal order for you to pay off your debts. You begin by making consistent payments on all of your debts.

The debt that debt stacking suggests that you pay off first is called your target account. There are programs you can enroll in that will automatically select your target account for you using a variety of criteria to help you get out of debt faster.

When you pay off the target account, you roll that payment into the payment that you were making on the next target account. These extra dollars help you reduce the effect of compound interest working against you. As each debt is paid off, you apply the amount you were paying to that debt to the payment that you were making on the next target account.

Debt stacking allows you to make the same total monthly payment each month (in the example it is $2,720 each month) toward all of your debt and works best when you do not accrue any new debts. You continue this process until you have paid off all of your debts. When you finish paying off your debts, you can apply the amount you were paying toward your debt toward creating wealth and financial independence!

Debt Stacking



Category	Without Debt Stacking	With Debt Stacking
Payoff	23 Years	9 Years 14 Years Sooner
Interest Avoided	$0	$130,643
Interest Paid	$214,442	$83,799
Monthly Payments	$2,720	$2,720

This example is for illustrative purposes only. The Debt Stacking concept assumes that: (1) you make consistent payments on all of your debts, (2) when you pay off the first debt in your plan, you add the payment you were making toward that debt to your existing payment on the next debt in your plan (therefore you make the same total monthly payment each month toward your debts), (3) you continue this process until you have paid off all of the debts in your plan. In the example above, when Retail Card 1 is paid off, the $220 payment applied to Retail Card 1 is applied to Credit Card 2, accelerating its payment to $573. After Credit Card 2 is paid off, the $573 payment applied to Credit Card 2 is applied to the Car Loan for a total payment of $1,124. The process is then continued until all debts are paid off. Note that the total payment per month remains constant.

AVOID THESE COMMON **CREDIT MISTAKES**

1

Not Valuing Your Credit

Good credit is a valuable commodity in today's world. Bad credit, including a bad credit record, late payments, etc., can create a negative financial profile that can surface when you have a legitimate need to borrow.

2

Raising Credit Card Limits

If you use credit cards, avoid raising your limit. An increased limit is merely an increased temptation to buy. If a company notifies you that they are raising your credit limit, take that as a warning signal. Chances are you've been using your credit card for more than emergencies.

3

Not Monitoring Your Credit History

Know where you stand. Lenders and prospective employers get a snapshot of your debt repayment history with your credit report, and it is important for you to know what they are seeing.

4

Not Monitoring Your Credit Score

A good credit score can determine a lot of things today: Whether you will be approved for credit, the interest rate on your loans, the cost of your homeowner's and auto insurance or whether you will be approved to rent a house or an apartment.

5

Not Knowing Your Interest Rate and Fees

Fees vary widely among credit cards. Always make sure you know what the interest rate and annual fees are before you accept the card.

BUY THE RIGHT KIND OF LIFE INSURANCE

One of the most important expenditures the average family should make is life insurance. It is also one of the most misunderstood. It is absolutely critical that you make the right decision about the kind and amount of life insurance to buy. In fact, the wisdom of your life insurance purchase could make a major difference in your family's security, should you die, and your quality of life if you don't.

The Importance of Life Insurance

How much is your car worth?

Do you insure it?

How much is your house worth?

Do you insure it?

How much is your life worth?

Probably a lot more than your car or your house!

Can you afford NOT to insure your life?

What's its purpose?

Life insurance should really be called "death protection" because its purpose is to protect the family against the premature death of a breadwinner or a caregiver. It acts as a substitute for income. Remember when you calculated how much you'll earn in your lifetime? It was a fortune, wasn't it? The potential risk of losing that earning power is what makes life insurance a necessity.

Who should buy it?

Mainly people who have others depending on them for income support. If you have a non-earning spouse and/or children, or some other significant financial obligation, you need life insurance. Your spouse may also need coverage, even if he or she doesn't work, if child care or other expenses would result from the spouse's death. If you're single or have significant cash resources, you probably don't need it.

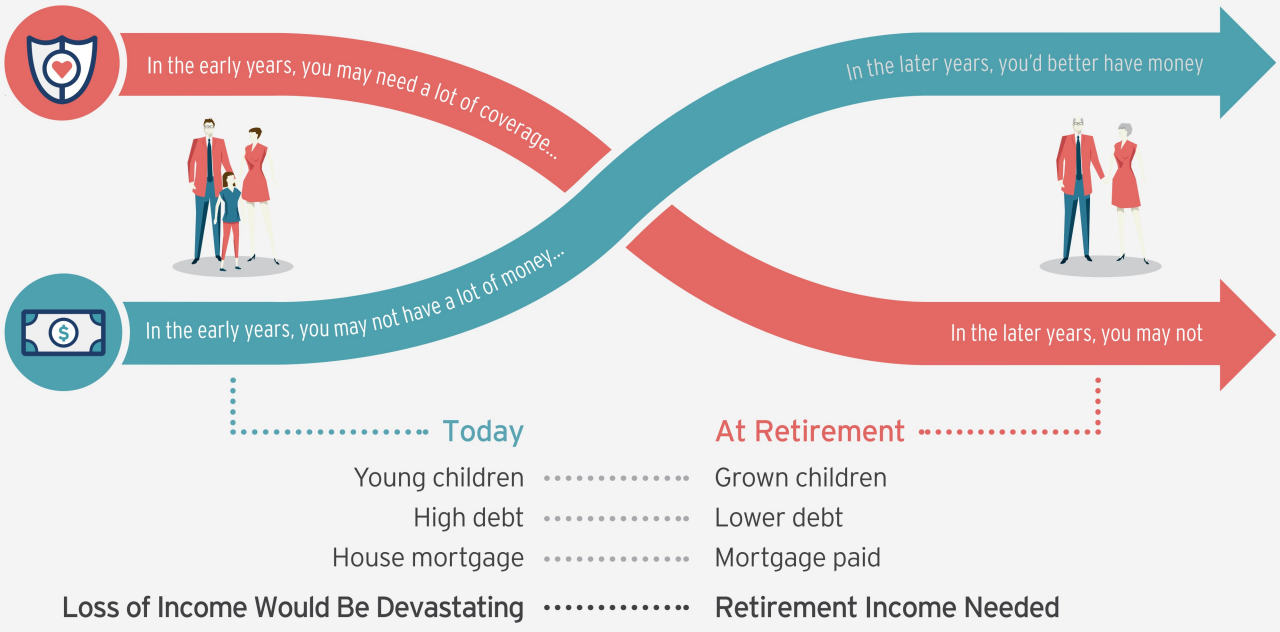
What should you buy?

Inexpensive term life insurance. A common misconception about life insurance is that it is a permanent need for each family. Most financial experts see it as a way to simply "buy time" until you accumulate savings, not as a permanent fixture in your financial program.

How Life Works

According to the Theory of Decreasing Responsibility (illustrated below), your need for life insurance mirrors family responsibilities. When you're young, you buy low-cost death protection, term insurance, enough to protect the loss of your earning power, and put the maximum amount you can afford into a promising investment program. When you're older, you may have much less need for insurance coverage. If you've saved and invested wisely you should have a significant amount of accumulated cash. You've become "self-insured" and eliminated your need for life insurance.

The Theory of Decreasing Responsibility



How Much Is Enough?

If you're like most Americans, probably more than you have! Ten times your annual salary is a good rule of thumb. Whatever coverage you choose, buy only one policy, and put the entire coverage amount on that policy. Separate policies mean separate fees and could cost far more!

CONSUMER TIP:

Buy life insurance exactly like you buy other kinds of insurance – auto, homeowners, health – for protection only.

Wouldn't you think it was silly if someone tried to sell you auto insurance that included a long-term savings plan? The same is true for life insurance. It pays to buy your insurance separately.

REMEMBER: Do not combine your savings with your life insurance.

Some Questions About Cash Value

When it comes to life insurance, you have two basic choices: some form of cash value life insurance (including universal life) and term life insurance. In cash value insurance, as a "bundled" policy, you buy both your death benefit and a cash value feature. However, this doesn't enable you to maximize the benefits of the Theory of Decreasing Responsibility. These concerns have led many leading financial writers and consumerists to direct consumers away from cash value.

Buy Term and Invest the Difference

With the "Buy Term and Invest the Difference" model, you have greater control over your benefits. Because protection and savings are completely separate, you can better control the death benefit and the investment portion.

Cash Value	Term
✗ Typically higher initial premiums	✓ Lower initial premium
✗ Includes an investment component	✓ No investment component (You can control your investment on your own.)
✗ You can receive your cash value OR your life insurance, **NOT BOTH.**	✓ Pure death protection

Cash value life insurance can be universal life, whole life, etc., and may contain features in addition to death protection, such as dividends, interest, or cash value available for a loan or upon surrender of the policy. Cash value insurance usually has level premiums for the life of the policy. Term insurance provides a death benefit and its premiums increase after initial premium periods and at certain ages.

QUESTION:

With cash value life insurance, how do you know what you are paying?

ANSWER:

This can be hard to determine in a bundled product, especially with universal and variable life. In addition to the cost of death protection, cash value policies may have significant fees. And with the "two-in-one" approach, it's difficult to separate the cost of insurance from the other elements of the policy. This makes it difficult to comparison shop. Any time you're not sure what you're paying, you risk making a bad decision!

WHAT THE EXPERTS SAY

Term insurance is pure protection, like fire insurance or auto insurance, its sole function is to support your family if you die. You can buy large amounts of coverage for modest amounts of money – and big policies are what your spouse and children need.

Making the Most of Your Money Now,
Jane Bryant Quinn

In my opinion, there is only one kind of life insurance that makes sense for the vast majority of us: term life insurance.

The Road to Wealth: A Comprehensive Guide to Your Money, Suze Orman

Experts typically recommend term life insurance over both universal and whole life insurance.

Time.com, "What Is Universal Life Insurance: A Complete Guide," January 14, 2022

"Term life insurance is the easiest to understand and has the lowest prices."

NerdWallet.com, "Term vs. Whole Life Insurance: How to Choose," April 29, 2021

Tips for Making a Wise Insurance Purchase

1. Buy Adequate Coverage

Strive for enough to really protect your family. Most experts recommend five to 10 times your annual income. It's tempting to procrastinate or squeeze by with less protection. No one ever thinks tragedy will strike. But the point of insurance is to protect your family in the event of a tragedy! Thousands of families are now struggling because they didn't take protection seriously.

2. Avoid Life Insurance on Children

Life insurance on children isn't necessary in most cases. The coverage on the adults will provide for the children. If you really feel it's necessary, buy only enough for burial expenses. And remember to purchase the coverage as a "child rider," not as a separate policy.

3. Avoid Expensive "Gimmicks" Like Return of Premium

Remember that extra options on your policy mean extra costs that can prevent you from buying the maximum protection. One possible exception might be a Waiver of Premium benefit, which provides for payment of your premium if you become disabled for a period of time.

4. Avoid Insurance Policies Disguised as Something Else

Some companies offer various types of specific-coverage insurance, such as mortgage insurance. These are nothing but life insurance policies! If you want to assure that your home would be paid for in the event of your death, simply add more coverage to your primary insurance policy. The same is true of short-term life policies like credit life, which is nothing more than an expensive form of decreasing term. Although the term policies that convert to whole life may sometimes leave the impression that this is required, it's not!

Example:

$450 - **$75** = **$375**

6 Policies x $75 Administration Fee

1 Policy with Riders

With the **$375 difference** ($450 - $75 = $375), you could buy as much as **$325,000 term life insurance** at age 30 and pay a full year's premium!

OUR PHILOSOPHY:

The Three 'Nevers' of Buying Life Insurance

NEVER #1: Never buy any kind of "cash value" or whole life insurance, including universal life.

NEVER #2: Never buy life insurance as an investment.

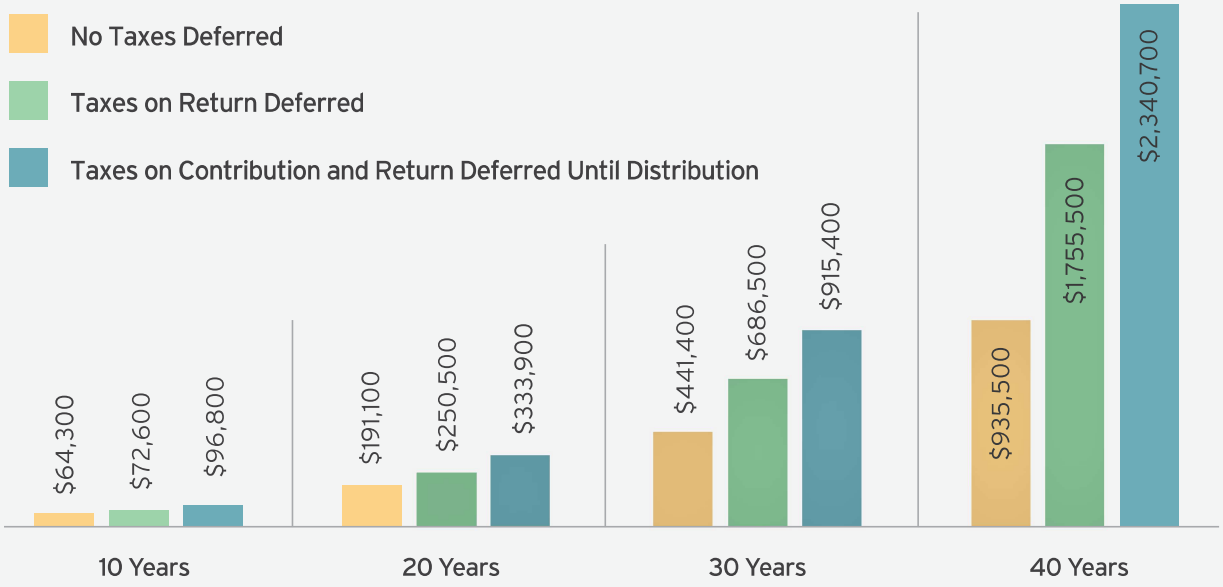
NEVER #3: Never buy a life insurance policy that pays dividends.

DEFER TAXES

Do you have a job? If yes, then you have a tax problem! The harder you work to get ahead and build your income, the more taxes you pay. In order to have the maximum cash at retirement, you need to find a way to minimize taxes.

The Power of Tax-Deferred Savings

As you begin "paying yourself first," you can invest money you've earmarked for your long-term goals through a tax-deferred retirement account. This allows you to postpone paying taxes on your earnings. That means more money is allowed to compound and work for you than if income taxes were taken out of each year's earnings. Take a look at the power of tax deferral:



Note: You should consider your personal investment horizon or income tax bracket, both current and anticipated, when making a decision that could impact the results of this comparison. This chart represents a hypothetical investment and is not intended to represent the performance of any investment. Assumes a federal 25% tax bracket. Lower tax rates on capital gains and dividends would make the investment return on the taxable investment more favorable, thereby reducing the difference in performance between the investments shown. Any tax-deductible contributions are taxed and tax-deferred growth may be taxed upon withdrawal. Earnings on the investment are at 9% constant nominal rate, compounded monthly. Actual investments will fluctuate in value. The above amounts are based on monthly contributions of $500 (earned income, adjusted for taxes). Investing entails risk, including loss of principal. Shares, when redeemed, may be worth more or less than their original value.

DEDUCTIBILITY VS. DEFERRABILITY

A **deduction** is an amount of money you can subtract from your gross income before you calculate taxes. The more you can reduce your gross income with deductions, the less the amount you'll pay income taxes on. It PAYS to deduct. Remember to consult your tax advisor regarding your personal tax situation.

A **deferral** means that you can "postpone" payment of current taxes until a later date in the future, commonly at retirement. The great thing about deferring taxes to retirement is the likelihood that you will be in a lower tax bracket when you do have to pay taxes on the money.

Neither Primerica nor its representatives offer tax planning services. For related questions, please refer to an appropriately licensed professional.

Which IRA Do You Prefer?

You have a few choices when it comes to IRAs. Which one works best for your situation?

1. Traditional IRA, Deductible

Benefit: *Tax savings now and tax deferral until retirement.* Saves you money by giving you and your spouse the potential to contribute $6,000 each (if you meet certain requirements) off the top of your gross income, which reduces your taxable income. You postpone payment of taxes on any earnings until they are withdrawn at a date in the future, commonly retirement.[1]

2. Traditional IRA, Non-Deductible

Benefit: *Earnings on your IRA are tax-deferred until retirement.* If you exceed certain income limits, your Traditional IRA contributions may not be deducted from your current tax bill. However, your non-deductible contributions will grow on a tax-deferred basis. So even though you weren't able to deduct your contributions, more of your money is allowed to grow and compound than if taxes were taken out of your account each year.[1]

3. Roth IRA

Benefit: *Contributions are not deductible, but you receive tax deferral on earnings and tax-free withdrawals later.* Contributions are made with "after-tax" money. However, when you withdraw the money from a Roth IRA, none of it will be taxed![2]

1. Keep in mind that withdrawals from traditional IRAs are subject to income taxes at your ordinary tax rate, and early withdrawals, made before reaching age 59 1/2, may be subject to a 10% penalty unless a qualifying exemption applies. 2. As long as the account has been open at least five years and you are age 59 1/2 when you begin withdrawing the proceeds.

Comparing Tax Treatments

Category	Traditional IRA	Roth IRA
Contribution Limit (for 2022)	Up to $6,000 (Age 50 and above: up to $7,000)	Up to $6,000 (Age 50 and above: up to $7,000)
Deductibility	Deductible (Income limits apply)	Non-Deductible
Earnings	Tax-Deferred	Tax-Deferred
Retirement Withdrawals (After age 59 1/2)	Taxable	Tax-Free (If the Roth IRA is held at least five years)
Distributions	Required at Age 72	No Age Requirement

Income limitations may restrict the amount that you may contribute to a Deductible IRA or a Roth IRA. Additionally, the amount you may contribute to a Roth IRA is reduced by contributions to other IRAs. Withdrawals before 59 1/2 may be subject to ordinary income and a 10% tax penalty. Primerica representatives do not offer tax advice. Consult your tax advisor with any questions.

This information is intended to be educational and is not intended to be a recommendation to buy, sell or hold a security or to adopt a particular investment strategy.

The "Time Value" of Money

It can't be stressed enough: **The sooner you start to save, the less you will have to put away.** Look at how opening an IRA today can help you secure a comfortable retirement.

What if you invested **$6,000 from age 22 through age 67?** The total could be **$4,256,440.**

Individual A: Contributes from Ages 22-29			Individual B: Contributes from Ages 30-67		
Age	Annual Payment	End-of-Year Accumulation	Age	Annual Payment	End-of-Year Accumulation
22	$6,000	$6,560	22	$0	$0
23	$6,000	$13,740	23	$0	$0
24	$6,000	$21,590	24	$0	$0
25	$6,000	$30,180	25	$0	$0
26	$6,000	$39,580	26	$0	$0
27	$6,000	$49,850	27	$0	$0
28	$6,000	$61,090	28	$0	$0
29	$6,000	$73,380	29	$0	$0
30	$0	$80,270	30	$6,000	$6,560
31	$0	$87,800	31	$6,000	$13,740
32	$0	$96,030	32	$6,000	$21,590
33	$0	$105,040	33	$6,000	$30,180
34	$0	$114,900	34	$6,000	$39,580
35	$0	$125,670	35	$6,000	$49,850
36	$0	$137,460	36	$6,000	$61,090
37	$0	$150,360	37	$6,000	$73,380
38	$0	$164,460	38	$6,000	$86,830
39	$0	$179,890	39	$6,000	$101,540
40	$0	$196,760	40	$6,000	$117,630
41	$0	$215,220	41	$6,000	$135,220
42	$0	$235,410	42	$6,000	$154,470
43	$0	$257,500	43	$6,000	$175,520
44	$0	$281,650	44	$6,000	$198,550
45	$0	$308,070	45	$6,000	$223,740
46	$0	$336,970	46	$6,000	$251,290
47	$0	$368,580	47	$6,000	$281,430
48	$0	$403,160	48	$6,000	$314,390
49	$0	$440,970	49	$6,000	$350,450
50	$0	$482,340	50	$6,000	$389,880
51	$0	$527,590	51	$6,000	$433,020
52	$0	$577,080	52	$6,000	$480,200
53	$0	$631,210	53	$6,000	$531,810
54	$0	$690,420	54	$6,000	$588,260
55	$0	$755,190	55	$6,000	$650,010
56	$0	$826,030	56	$6,000	$717,550
57	$0	$903,520	57	$6,000	$791,420
58	$0	$988,280	58	$6,000	$872,220
59	$0	$1,080,990	59	$6,000	$960,610
60	$0	$1,182,390	60	$6,000	$1,057,280
61	$0	$1,293,310	61	$6,000	$1,163,020
62	$0	$1,414,630	62	$6,000	$1,278,690
63	$0	$1,547,330	63	$6,000	$1,405,200
64	$0	$1,692,480	64	$6,000	$1,543,580
65	$0	$1,851,240	65	$6,000	$1,694,940
66	$0	$2,024,900	66	$6,000	$1,860,500
67	$0	$2,214,850	67	$6,000	$2,041,590
Total Contributions: $48,000			Total Contributions: $228,000		
Total Accumulation at Age 67: $2,214,850			Total Accumulation at Age 67: $2,041,590		

Started Contributing at Age 22

Stopped Contributing at Age 29

Started Contributing at Age 30

Stopped Contributing at Age 67

The hypothetical 9% nominal rate of return, compounded monthly, and tax-deferred accumulation shown for both IRA accounts are not guaranteed or intended to demonstrate the performance of any actual investment. Unlike actual investments, the accounts show a constant rate of return without any fees or charges. Any tax-deductible contributions are taxed and tax-deferred growth may be taxed upon withdrawal. Withdrawals prior to age 59 1/2 may be subject to a 10% penalty tax. Assumes payments are made at the beginning of each year. Investing entails risk, including loss of principal. Shares, when redeemed, may be worth more or less than their original value.

BECOME AN OWNER, NOT A LOANER

Many people fail financially because they don't understand the key concept of becoming an owner, not a loaner. Most people are "loaners." They invest their money in what they consider to be "safe" investments, usually a local bank or credit union. But here's what happens.

Bypass the Middleman

The bank takes their money, pays them the current rate, maybe around 1% at this time, and then loans that money out or invests that money directly in the economy. The bank receives high rates of interest on its investments and is happy to pay you a low interest rate for the use of your money. As a general rule, what you really have there is a "loaning" account, rather than a "savings" account. You are lending money to the bank and they are making a profit off your money. You have no choice but to reverse the situation if you want to make your money work for you. You must become an "owner," not a "loaner." You must learn to "bypass the middleman."

Are You Earning a Guaranteed Loss?

Even though you may feel comfortable with the fact that investments in banks and savings and loans are "guaranteed" against loss by the FDIC, what you are purchasing with that kind of "guarantee" is something you hadn't counted on – a guaranteed loss!

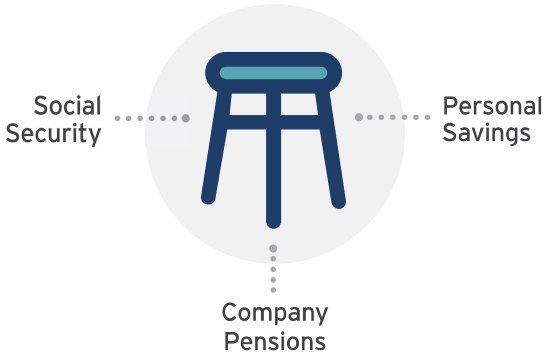
You invest **$10,000 at a 1% rate of return** at your local bank...	
You earn interest for the year:	**$100**
But you pay **$25 in taxes on that interest at 25%:**	**-$25**
So, your net earnings are:	**$75**
Your resulting balance would be:	**$10,075**
...but if inflation is **3%,** your buying power would be reduced to:	**$9,782**

You would have actually LOST buying power!

This 25% tax rate is hypothetical. A different tax rate will change the result. Savings and CD accounts are generally FDIC insured up to $250,000.

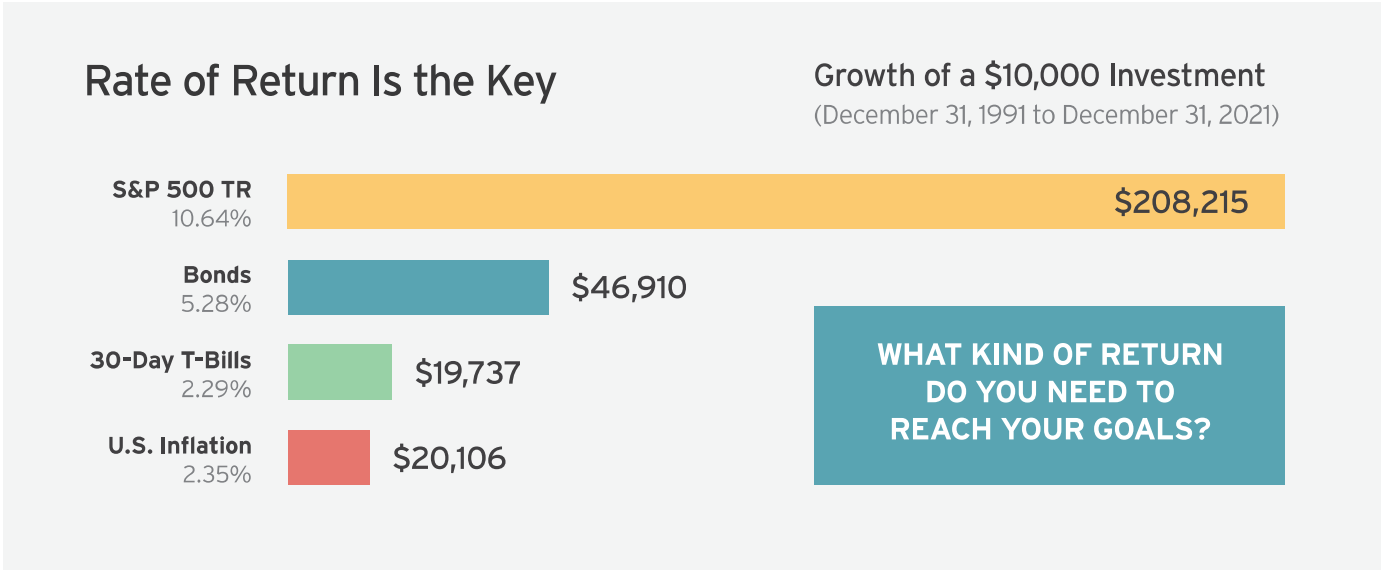
The Three-Legged Stool Theory

For years, financial experts used the analogy of a three-legged stool to demonstrate the primary sources that provide retirement income. However, gone are the days when you can count on a pension from your employer. Plus, Social Security doesn't seem so "secure" anymore. Altogether, these three "legs" used to represent a stable source of income, but not anymore. Simply put, it's up to you to fund your retirement!



Don't Just Save, Invest!

With the problem of low returns in "safe" investments, where can you go to have the opportunity to get the kind of rate of return you need to keep ahead of the savings game? **The answer: equity investments (the stock market).** Investing in the market takes you out of the "savings" mode and into the "investing" mode. Are stocks guaranteed? No. There is always a potential for loss, as well as gain. But for a greater potential rate of return, many investors are willing to accept a greater degree of risk. Remember what you've learned about being an "owner" versus a "loaner." If you want a "guarantee" on your money, be willing to accept a relatively low return.



Source: Morningstar. Past performance is no guarantee of future results. This chart is for illustrative purposes and does not represent an actual investment. Further, the returns do not reflect the past or future performance of any specific investment. All investments involve risk including loss of principal. The figures in the chart above assume reinvestments of dividends. They do not reflect any fees, expenses or tax consequences, which would lower results. Because these indices are not managed portfolios, there are no advisory fees or internal management expenses reflected in their performance. Investors cannot invest directly in any index. The figures represent an initial investment of $10,000. The Standard & Poor's 500(R), which is an unmanaged group of securities, is considered to be representative of the stock market in general. Bloomberg U.S. Aggregate Bond Index: Often referred to as "the S&P 500 Index of bonds," the Bloomberg U.S. Aggregate Bond Index represents the dollar-denominated, investment-grade, fixed-rate, taxable U.S. bond market. The index includes government and corporate securities, mortgage-backed securities, and asset-backed securities, with maturities of at least one year. The U.S. 30-Day T-bills are government backed short-term investments considered to be risk-free and as good as cash because the maturity is only one month and are represented by the IA SBBI US 30 Day T-Bill TR index. Treasury Bills are secured by the full faith and credit of the U.S. Government and offer a fixed rate of return, while an investment in the stock market offers no such guarantee. Inflation history is represented by the IA SBBI US Inflation index. Investors cannot invest directly in any index.

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INVEST WITH PROFESSIONAL MANAGEMENT

Mutual funds are a great way to become an "owner," not a "loaner." They give average families the advantage of investing in the economy, with the opportunity to minimize risk with professional management and diversification. There's no doubt that there is some risk – after all, you're buying a little piece of the economy, and the economy is influenced by many factors. But, as you've learned here, in exchange for that risk, you have the potential for a rate of return that few other investments offer.

What Is a Mutual Fund?

A mutual fund is an opportunity for you, together with many other investors, to pool your money. Professional money managers invest the "pool" for you, keeping the investments under constant supervision. The money managers use their knowledge of securities and changing market conditions to invest the pooled assets in many different companies within a variety of industries.

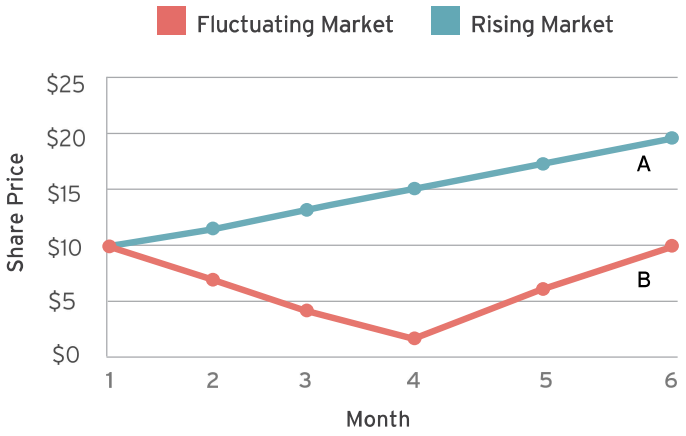
How a Mutual Fund Works

Who Do You Think Earned More Money?

Investor A began purchasing his shares as the market soared. Right after **Investor B** started purchasing his shares, the market fell and then recovered to where it was at the beginning of his investment period.

If you picked **Investor A,** you're wrong! **Investor B** was able to take advantage of the downturn in the market and use his $100 monthly investment to purchase shares at a lower price, which meant more shares purchased. With his $600 investment he purchased 125.95 shares at an average price of $4.76 per share.

Investor A's $600 investment purchased 42.28 shares at an average price of $14.19 per share. **In a fluctuating market, Investor B was able to accumulate more shares at a lower price than Investor A did in a rising market.** That's the power of dollar-cost averaging.



Dollar-cost averaging is a technique for lowering average cost per share over time. Dollar-cost averaging cannot assure a profit or protect against loss in declining markets. Investors should consider their ability to continue to invest in periods of low-price levels. These values are hypothetical and not intended to reflect any specific market period.

	$100/month	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Number of Shares Accumulated
Investor A	Per Share:	$10.00	$12.00	$14.00	$16.00	$18.00	$20.00	–
	# of Shares:	10.00	8.33	7.14	6.25	5.56	5.00	42
Investor B	$100/month	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Number of Shares Accumulated
	Per Share:	$10.00	$7.00	$4.00	$2.00	$6.00	$10.00	–
	# of Shares:	10.00	14.29	25.00	50.00	16.67	10.00	126

	Amount Invested in 6 Months	Number of Shares Accumulated	Average Cost Per Share
A	$600	42.28	$14.19
B	$600	125.95	$4.76

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The Three "Ds" of Investing

Dollar-Cost Averaging

Dollar-cost averaging means investing a certain fixed amount each month, regardless of what's happening in the stock market. This eliminates having to predict when to invest as you will be able to take advantage of the market highs and lows – by purchasing fewer units when the prices are high and more units when the prices are low. While dollar-cost averaging can't assure a profit or protect against loss, it does show how a systematic investing plan, sustained over a period of time has the potential to pay off, relieving your worries about whether the market is up or down.

Discipline

By staying focused and staying invested through all market activity, you can increase your long-term potential because missing even a handful of the best-performing days in the market over time can considerably diminish your returns. Experts say market "timing" is a bad way to invest. The key is to maintain a long-term view and stay focused on your goals.

Diversification

Because there is no single, perfect investment, take advantage of the next best thing which is to build your portfolio by balancing a variety of investments. Together these investments help you achieve your goals and reduce your portfolio's risk. This may also work to increase returns by offsetting losses in one asset class with an opportunity for gains in another. Diversification does not assure a profit or protect against loss.

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YOU CAN DO IT!

At first glance, achieving financial security may seem overwhelming.

But, as you've seen in these pages, the path to financial independence starts with understanding a few basic concepts – and implementing them in your life.

Winning the financial "war" is the result of winning tiny battles day to day. Something as seemingly insignificant as choosing a glass of water over a 75¢ soda, or saying "no, thanks" to an impulse purchase can add up faster than you could ever imagine.

The basic concepts of money management aren't obscure or difficult to understand. They're based on common sense and can put financial success within your reach.

While it may be tempting to hope for a financial miracle, it's much wiser instead to bet on a sure thing, and follow the proven principles that have already worked for so many families.

Most of all, whatever your present situation, it's important to get started today. If you put together a simple plan and follow it, you'll be amazed at the progress you can make.

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