

FINANCIAL ABUNDANCE MINI GUIDE



**An Easy to Understand Starter Guide
for Securing a Prosperous Future**

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Introduction: Living in Financial Abundance

“No passion so effectually robs the mind of all its powers of acting and reasoning as fear.”

-- Edmund Burke

Having funds to buy a house, cars and groceries and enjoy vacations is often taken for granted. But do you ever wonder if your finances can meet all of your family's obligations plus occasional extra luxuries? Does the fear of unforeseen future events and expenses ever create too much anxiety?

It did for me!

Living in constant fear that I would someday be broke, I ignored my abundant financial resources. If my daughter ordered a steak when we went out to dinner, I would be concerned at her “wastefulness” and anxious about the high price.

Living in financial fear, I was operating from a position of scarcity. I constantly questioned whether my financial resources would be enough to meet my family's future needs.

As a Certified Financial Planner (CFP[®]), I have helped many people realize that their financial resources could meet their future financial needs. In spite of doing this for others, I could not convince myself that my financial resources were adequate. If you feel this way, it may be time to discover how to live from a position of abundance.

Certified Financial Planner (CFP[®]): A certification for financial planners, conferred by the Certified Financial Planners Board of Standards. To use this designation, candidates must meet education, examination, ethics and experience requirements.

Although my financial resources have not changed, I have learned to live from a position of financial abundance. Living from abundance requires:

1. Spending less than you earn.
2. Using every legal method to maximize financial resources and minimize taxes.
3. Managing investments and risk to protect your financial resources.
4. Knowledge that you can control your personal finances.
5. Faith that your financial resources will meet your family's future needs.

With "inner abundance," I now live life to its fullest, trusting that my financial future is secure. Financial abundance has also increased my gratitude, allowing me to give more generously to the charitable causes that I support.

Are you interested in living from a position of financial abundance?

Reading this *Financial Abundance Mini Guide* will provide insight on how the complete *Financial Abundance Guide* will help you take control of your finances.

In the *Financial Abundance Guide*, you will find strategies to reduce your taxes, increase your wealth and protect your financial assets. Meeting current financial obligations, saving for your family's education and retirement expenses while increasing charitable giving are the outcomes of living in financial abundance.



CHAPTER 1

The First Step: Spend Less Than You Earn

"Never spend your money before you have it."

--Thomas Jefferson

The first step on the path to financial abundance is to determine your *excess earnings*. This is defined as the amount remaining when your yearly expenses are subtracted from your yearly income. A simple exercise is included in the *Financial Abundance Guide* to help you accomplish this task.

If you are paying any interest on credit card debt, your first priority is to eliminate this debt. Strategies on how to eliminate credit card debt are provided. If your excess earnings are not adequate, you are asked to consider if there are some small expenses you can eliminate. In the *Financial Abundance Guide* you'll see how Joann discovers that saving only \$20 per week can provide her with \$51,310 in 20 years.

We next look at a concept called "Net Income". This represents all funds available for your emergency fund, college educational and retirement savings plus charitable giving.

Information on what is considered an "emergency fund" and why you should have one is presented, as well as a tax deferred method of saving to buy your first home. The remainder of this chapter briefly discusses educational savings, philanthropy and retirement savings. It includes Jeff's story on how he received a 145% investment return on his 401(k) in five years, with only an 8% annualized return on his investments.



CHAPTER 2

Purchase Educational Expenses At A Discount

"The hardest thing to understand in the world is the income tax."

--Albert Einstein

Using tax-advantaged educational investment plans, you can pay for your child's educational expenses at a "discount", provided by tax savings. Two tax-advantaged educational savings plans, designed to provide you with discounted educational expenses are presented.

With a Coverdell Education Savings Account (ESA), annual, nondeductible contributions of up to \$2,000 may be made for each of your children that are under 18 years of age. When the funds are used for qualified educational expenses, all funds are withdrawn tax free. The income and growth of the funds in the Coverdell ESA are never taxed, when used for educational expenses.

Another tax advantaged educational savings plan is the qualified state tuition program, commonly called a Section 529 College Savings Plan. While these plans can only be used for higher education, in single year, you and your spouse could fund up to \$60,000 in a 529 Plan for each of your children. As Phil and Norma find, the tax free growth of a Section 529 Plan can provide a 40% educational discount for their son's college expenses.

Other tax saving methods of that we cover include the use of Series EE and Series I US Savings bonds, the use of the Hope Credit and the Lifetime Learning Credit. The Hope and Lifetime Learning credits directly reduce the income taxes that you owe on a dollar for dollar basis. This makes them considerably more valuable than a deduction, which only reduce the amount of income that is taxed.



CHAPTER 3

Let Uncle Sam Subsidize Your Retirement

“When a man retires, his wife gets twice the husband but only half the income.”

--Chi Chi Rodriguez

Individual retirement accounts and company-sponsored retirement accounts will maximize the funds that you will have available to live abundantly throughout your retirement. All tax advantaged retirement accounts will either provide for immediate income tax deductibility of the amounts saved or they will have the ability to withdraw funds, including income and growth, on a tax free basis.

Many people are able to make a deductible IRA contribution, even if they are covered by a company sponsored retirement plan. Most married people can make a deductible IRA contribution, even if they have no income, with a “Spousal IRA”.

Contributions to a Roth IRA are not deductible on your income tax return, but the growth and income of a Roth IRA are never taxed. You may even fund a Roth IRA after you reach age 70½. Converting IRA assets to a Roth IRA is often wise, especially if you have a low-income year. In the *Financial Abundance Guide*, we show how Hoshi and Niki convert \$100,000 to a Roth and pay only 7% in income taxes on the converted amount.

The company-sponsored plans include the popular 401(k) plan and it’s “sister” plan for non-profits, the 403(b). Details of these plans are explained, including the Roth 401(k). Maria’s story will help you understand why it is always wise to save at least the company-matching amount in these plans. Never turn down “free money” that provides an immediate 100% investment return.

If you are self-employed, find out why a SEP IRA is often your best retirement plan. Jim’s story explains how his SEP IRA provided an immediate 50% investment return on his contribution. If you own a small company, the SIMPLE IRA will often be your least expensive retirement plan. See how Carlos is able to invest \$17,500 per year in his company’s SIMPLE IRA.



CHAPTER 4

Cut Your Health Insurance Costs in Half

"The greatest Wealth is Health."

--Virgil

A Health Savings Account (HSA) is a tax-advantaged savings account that must be combined with a qualifying high-deductible health insurance plan (HDHP). Since you are able to purchase medical expenses with income that is never taxed, all of your medical services are purchased at a discount, equal to your combined federal and states tax brackets.

The Health Savings Account (HSA) is the only savings account that combines both tax-advantaged features. Like IRAs, HSAs receive an immediate tax deduction of the amount used to fund the HSA. As with all tax-advantaged investments your HSA grows tax-free. When funds are withdrawn for health care, all withdrawals are tax-free, similar to a Roth IRA.

In the *Financial Abundance Guide* you will discover how Chris always saves money using his company's new HDHP health plan. The new HDHP plan has a \$2,500 family deductible, while his old "low deductible" plan had a family deductible of \$1,000. If his family's health care expenses are \$500 he saves \$1,421. If his family health care costs are \$3,000, he still saves \$691.

If you must pay for your own health insurance, find out how Pierre, using a high-deductible health insurance plan (HDHP), combined with a Health Savings Account (HSA), was able to cut his health insurance costs in half!

If you have an HSA and you are able to pay your health care costs in your working years, without using the HSA funds, you will increase your abundance during your retirement years. Learn how Mario and Annette were able to have totally free health care in their retirement years with this approach.



CHAPTER 5

Generous Giving With Uncle Sam's Support

"If you haven't got any charity in your heart, you have the worst kind of heart trouble."

--Bob Hope.

The simplest gift is the gift of cash. However, in 2007, the IRS changed the rules about the deductibility of cash gifts. In the *Financial Abundance Guide*, you will find all of the deductibility rules for: cash gifts; depreciated property, such as used clothes, furniture and cars; appreciated capital property, such as stocks and appreciated tangible property, such as works of art.

The IRS imposes strict rules concerning any retained interests in your charitable gifts. There are also regulations on the maximum charitable amounts that you may deduct from your taxes each year. These "deduction ceilings" are dependent upon both the type property that you give as well as the manner in which the charity uses the property. These often confusing IRS rules are explained in detail.

The federal tax code treats charitable giving very favorably. Several strategies on how to maximize your charitable giving by minimizing the taxes that you pay are provided. In the *Financial Abundance Guide* you will discover why Juan establishes a "Donor Advised Fund" and why you may also want to do so.

Charitable Gift Annuities and Charitable Remainder Trusts can provide a significant income tax deduction during your working years, a lifetime of income for you and your spouse and a significant gift to your favorite charity. Learn how William, Raul and Janet get these benefits and receive after-tax income equivalent to a commercially available annuity.

Discover opportunities to use a Retained Life Estate, a Wealth Replacement Trust that provides a large charitable gift and a guaranteed inheritance for you heirs, Charitable Lead Trusts and where charitable gifts of whole life insurance are appropriate.



CHAPTER 6

Other Methods to Reduce Your Taxes

"Be thankful we're not getting all the government we're paying for."

--Will Rogers.

The federal tax code has legal methods to decrease your income taxes, providing many opportunities to increase your financial abundance. If you itemize your income tax deductions, you can deduct your state income taxes paid from your federal taxes. Since 2005, you are allowed to deduct either your state income taxes or the general sales taxes paid. In the *Financial Abundance Guide* you will see how Joel and Irene were able to save \$690 on their income taxes, using this approach.

When Aboud decided to buy bonds, he finds that the after-tax return of tax exempt municipal bonds is greater than the return on taxable bonds with a higher face value yield. A detailed approach to deciding which type of bond provides the highest yield for your portfolio is included in *Financial Abundance Guide*.

Other methods of reducing your taxes include converting IRAs to Roth IRAs, especially in a low-income year. You will also discover how Nancy and Francois were able to get a \$1,000,000 capital gain and pay no taxes, when they sell their home and their vacation home in the same year.

An excellent savings vehicle, offered by many companies, is the Flexible Spending Account (FSA). Find out how Julie, using her FSA to pay for child-care and medical expenses, saves \$3,765 on these services with a \$10,000 FSA contribution.

Other tax saving approaches included in the *Financial Abundance Guide* are "like-kind property exchanges", when to use Exchange Traded Funds instead of mutual funds, using Series EE and Series I US savings bonds, the hybrid vehicle deduction and when to fund your IRA and other tax advantaged investments.



CHAPTER 7

Investment Strategies for Financial Abundance

"90% of the people in the stock market, professionals and amateurs alike, simply haven't done enough homework."

--William J. O'Neil

Sensibly investing your financial resources is a requirement in maintaining financial abundance. Maximizing your return while maintaining an acceptable level of risk, that your investments may decline, is the key to successful investing. To achieve this, you must allocate your financial assets well. We provide details on how to choose an investment asset allocation approach that allows you to sleep well at night.

It is important to consider both the risks and the returns available from cash, fixed income and equity investments. Historic, after-inflation returns, as well as the attendant risks of each asset class is covered. Rental real estate is included as an asset class with a methodology to compare its return with other assets.

To maximize after tax returns, it is important to decide which assets to hold in taxable accounts and which should be held in tax deferred accounts. It is also important to diversify your investments. We discuss diversifying stock market investments by market capitalization, by growth and value stocks and with international equities.

For fixed income investments, you will discover why Jennifer chose to build a bond "ladder" and Jesse chose to use low-cost bond mutual funds. In each case, they are able to maximize their returns while keeping their fixed income risk at acceptable levels.

The type of financial advisor that you choose is critical to your long-term success. Some financial advisors may present themselves as offering "free" financial advice. These advisors receive their income through the commissions, paid when they sell a product. Find out why Paul, who thinks his financial advice is free, is actually paying more for his advice than is Manuel, who uses a fee-based asset management firm or Larry, who uses a fee only Certified Financial Planner (CFP®).



CHAPTER 8

Manage Risk to Protect Your Abundance

"Risk is a part of God's game, alike for men and nations."

--George E. Woodberry

We face many financial risks. To protect your abundance, it is important to decide which financial risks could be catastrophic. These risks include premature death, disability, health care, long-term care, property and personal liability. Insurance should be used for risks that would have a serious financial impact upon you if you were not protected.

Life insurance is used to protect against the risk of premature death. The differences between whole life and term life insurance are provided in the *Financial Abundance Guide*. Find out how Ming and Choi pay themselves \$183,000 in twenty years by choosing a term life insurance policy.

Many people do not realize that they are more likely to become disabled before age 65 than they are to die. Deiter discovers that he can buy a cost-effective disability insurance policy that will protect his family from this potentially catastrophic event. The differences between "noncancelable" and "guaranteed renewable" policies and the most common disability insurance riders are fully explained in *Financial Abundance Guide*.

Health risk and long-term care risk are potentially devastating to your financial abundance. We explore areas where you might self insure, as with a high deductible health plan (HDHP) and areas where you should use insurance products to help you manage these risks.

Your house and your cars represent two of your most valuable physical assets. To protect these assets, you have insurance policies on your home and your automobiles. Discover how Bill and Judy saved hundreds of dollars on these policies by eschewing "conventional wisdom." You will also learn when it is wise to have an "umbrella" liability insurance policy.



CHAPTER 9

Maintain Financial Abundance In Retirement

“The question isn't at what age I want to retire, it's at what income.”

--George Foreman

Retirement income typically comes from Social Security benefits, employer-provided pension and profit sharing plan distributions and retirement plan savings plus other investment income. In *Financial Abundance Guide* we explore how each can be used to help provide for an abundant retirement.

To help you decide on the best age to begin taking Social Security benefits, we follow Fritz as he decides whether to take his benefits early, wait until his Full Retirement Age (FRA) or wait until he is 70. Find out how Social Security “earnings limits” and taxes on Social Security income play an important role in his decision. You will also get help from Barbara on when to take “spousal benefits” if your spouse dies and you are not yet at your FRA.

If you expect to receive pension benefits when you retire, you will learn how to plan for the amount of retirement expenses that these benefits will cover. If your pension amount will be “fixed”, we show you how to properly “discount” this benefit to reflect the “ravages” of future inflation.

Once you know what portion of your retirement income will come from Social Security and pensions, the remainder must come from employer-sponsored retirement plans, individual retirement accounts and investments that you have made in savings plans brokerage accounts, real estate, etc. Follow Jesse and Roberta as they determine what amount of retirement savings they will need to maintain their current life style in retirement.

Financial Abundance Guide includes guidance on which investments to hold in taxable accounts and which to keep in tax deferred accounts. Advice is provided on withdrawal strategies, as well as the use of immediate fixed annuities for retirement income. We even demonstrate the benefits and pitfalls of using a reverse mortgage, where you can receive an income stream from the value of your home for the rest of your life.



CHAPTER 10

Leave an Abundant Estate

"The only thing you take with you when you're gone is what you leave behind."

--John Allston

Proper estate planning will allow your abundant financial resources to provide for your loved ones after you are gone. You may also want to give a portion of your estate to your favorite philanthropic causes. The use of wills and "will substitutes" is explored. You will even discover situations where joint tenancy, a popular will substitute, can be harmful to your financial health.

Other will substitutes covered are life insurance, including the Irrevocable Life Insurance Trust (ILIT), Payable on Death (P.O.D) and Transfer on Death (T.O.D) accounts and Series EE and Series HH US government bonds. You will also see why community property is not a will substitute and why a will is especially essential if you live in a community property state.

Federal estate and gift taxes can significantly reduce even a relatively small estate. If current law is not changed, estates valued at over \$1 million will be taxed in 2011. This amount includes the value of your home. Detailed information on how gift and estate taxes are calculated is provided. Strategies, such as "gift splitting" to reduce gift taxes, are also presented.

Estate planning strategies, such as the use of a "bypass trust" or an "estate equalization plan, are explained. The popular Qualified Terminal Interest Property (QTIP) and its benefits in a second marriage situation is also covered. The use of various other trusts, including living trusts, spendthrift trusts and contingent or standby trusts are defined.

Transferring a business is critical for millions of small business owners. Discover how Kent and Gretchen transfer a \$3.4 million business interest to their children, and pay no estate or gift taxes. Your estate planning options on medical care decisions, advanced medical directives, living wills, a medical proxy and "springing powers" are all explained in *Financial Abundance Guide*.



Afterword:
Scarcity or Abundance,
It's Your Choice!

"Reflect upon your blessings, of which every man has plenty, not on your past misfortunes, of which all men have some."

--Charles Dickens

In the biblical story of the Exodus, Pharaoh, one of the richest individuals in the world, lived with a sense of scarcity. He used Joseph to secure all of his country's food and land so that he would be prepared for the coming famine. He spent his life in fear and scarcity.

Another biblical story relates to how Jesus took five loaves of bread and two fishes to feed five thousand people. Some biblical scholars believe that when the food was shared, people in the multitude took their own food and added that to the food that Jesus offered, providing more than enough food for all to eat. This interpretation demonstrates the "miracle" of shared abundance, where those who had enough made certain that all were fed.

Each of us is given the choice of living with a sense of abundance or living in fear from a belief in scarcity. Scarcity and abundance are not a product of poverty and wealth but a product of our life views. To appreciate this, we only need to think of Mother Teresa. She was a woman, surrounded by poverty, who never lived in fear of scarcity.

For serenity, we are encouraged to accept the things that we cannot change and to have the courage to change the things we can. We cannot change the tax codes, the economy, the stock market or world events that may have a negative impact on our financial well-being. However, with the courage and commitment to do so, we can change our consumer-driven spending habits, prioritize saving funds for our family's future and plan for our financial health and well-being.

The *Financial Abundance Guide* is aimed at those who want to achieve the serenity that comes from a life that is filled with financial abundance. To achieve financial abundance, you must make a concerted effort in managing your assets. *Financial Abundance Guide* provides ideas and strategies to help you with this effort.

Once you believe that you are living in abundance, fear of your financial future will be greatly reduced and you may wish to give generously to your favorite charitable organizations, as a way of acknowledging your financial abundance.



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