

# Dollars *and* Sense

June 2006

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## Useful Tips...

### Don't Spend That Refund!

So you have some extra money and you are wondering what to do with it? Here are three things to consider before you go on a shopping spree.



1. Do you have an emergency fund with 3 to 6 months expenses in a liquid account (e.g. Money Market account)? This will help you weather emergencies without generating credit card debt or dipping into your long-term investments.
2. Have you maximized your retirement savings? Concentrate first on fully funding your 401(k) or 403(b) plan if available. Otherwise, fully fund an IRA or Roth IRA, and get a spousal IRA if you have a non-working spouse.
3. Are you saving for your children's college education? Look at funding a 529 plan, Coverdell Education Savings plan, or both.

### Accumulating Wealth

by Carmen Johnson

The difference between those who accomplish their dreams and those who only dream is often a matter of planning and control. Those who plan appropriately and implement their plans are more likely to be successful in any endeavor.



For some people the only way to reach their goals is to save and invest over a long period of time. If you are willing to watch what you spend and look for ways to save on a systematic basis, you will be able to make your money grow, increase your assets and accumulate wealth.

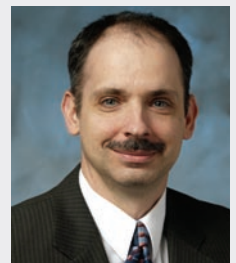
Saving is a habit and the more automatic it becomes the more successful you'll be. The best savers not only earmark part of their paycheck for savings, but also refrain from small outlays that nibble into weekly budgets and sabotage savings goals. If you don't see it, you can't spend it. Create a savings/investment goal. Consider saving 10% of your pre-tax income; it's a good goal. Don't become discouraged if you can't save that much at first; start with what you can afford and build from there. Pay yourself first; include a category for saving and investing within your budget. Don't spend that tax refund check. Many people use tax refunds as a kind of vacation plan or a Christmas fund, instead earmark that money for a savings/investment account.

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### Paying for College

by Dane Morrison

According to the College Board, average tuition and fees for the 2005-2006 school year were \$5,491 at public four-year colleges and \$21,235 at private four-year colleges. These costs are rising at about double the rate of inflation and do not include the cost of room and board or other living expenses. If you have children, consider starting to save now.



The two most common vehicles for college savings are the Coverdell Education Savings Accounts (formerly known as Educational IRA) and the 529 Plan. Both grow tax-deferred and each has its own unique advantages. You can even contribute to both at the same time.

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## Accumulating Wealth

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Saving with a purpose in mind keeps us motivated. Use a financial calculator to determine how much money you will need at some future date, how long it will take to reach your predetermined savings goal, and how much you should set aside each month to reach the goal. After you have determined the right amount to save, the next step is to select the appropriate savings instrument based on your goal and timeframe.

### Savings Instruments

Instrument	Risk	Return	Liquidity	Timeframe
Savings Accounts	Low	Low	High	Shorter time periods - 3 years or less
Certificate of Deposits	Low	Higher than savings	Relatively Low	Medium - any months to 5 years
Money Market	Low	Higher than savings	High	Short term - less than 3 years
Savings Bonds/ Treasuries	Risk-free	Low - Medium	High	Medium/ Longer term
Mutual Funds	Low - High	Low - High	High	Medium/Long term - 5 years or longer
Bonds	Low - Medium	Low - Medium	Relatively Low	Medium/Long term - 5 years or longer
Stocks	Medium - High	Low - High	High	Medium/Long term - 5 years or longer

## Paying For College

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Features of the Coverdell Accounts:	Features of the 529 Plan:
Contributions are after-tax, earnings are federally tax-exempt.	Contributions are after tax, earnings are federally tax-exempt (tax-exempt status will be re-evaluated by Congress in 2011).
No state tax deduction.	Some states let you deduct a portion of your contribution.
Set up by a family member for a beneficiary under the age of 18.	Unlike the relative requirements attached to Coverdell Accounts, anyone can contribute to the 529 Plan.
Designates a "responsible individual" who has decision-making authority over the account until the child becomes an adult.	Owner of the account always has control over the account, not the child.
Maximum yearly contribution of \$2,000.	Contributions to 529 Plans qualify for the \$11,000 (\$22,000 filing jointly) annual gift tax exclusion. You can contribute up to five years of gifts in the first year (\$55,000 single, \$110,000 filing jointly).
Distributions from the account are tax-free if the funds are used to pay for qualified higher education expenses, or some pre-college expenses such as books and computers for private or parochial elementary and secondary schools.	Funds can be used only for qualified expenses from accredited degree granting educational institutions.
Any funds remaining in the account when the beneficiary turns 30 will be distributed with all earnings subject to tax as well as a 10% penalty. This can be avoided, however, by rolling the funds into a Coverdell IRA for another family member.	In most states there are no age or time limits for when the funds have to be used. Additionally, unused funds may be rolled over to a 529 Plan for a sibling or other relative.
Contribution limits begin to scale down from the maximum \$2,000 for those with net income of \$95,000 (single) and \$190,000 (filing jointly).	There are no income limits associated with 529 Plans.



## Contact Info

We invite you to schedule a free consultation to learn how we can serve your individual financial and investment needs. Please contact us to set up an appointment.

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