YOUR MONEY & ADVICE

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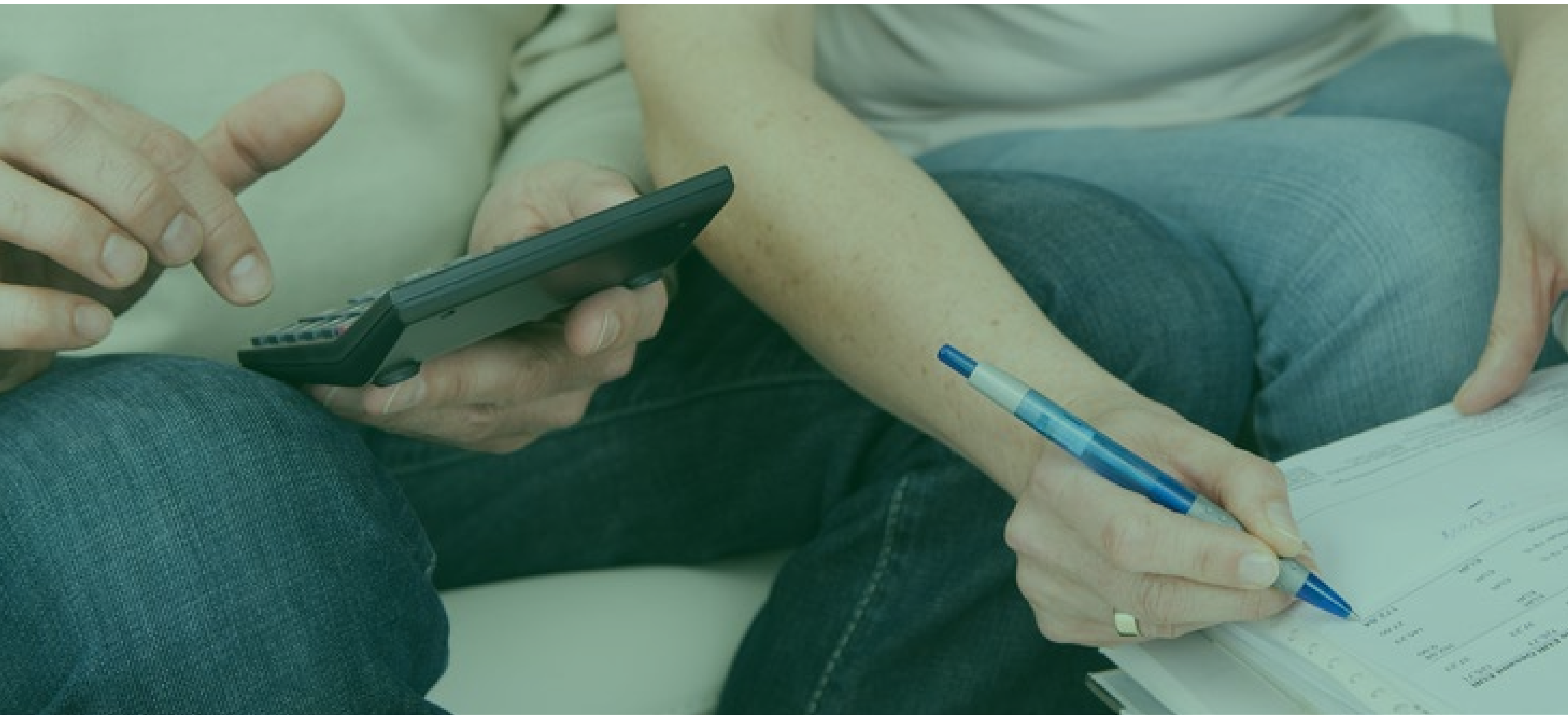
Your Money and Advice

The Better Business Bureau of Chicago & Northern Illinois—in cooperation with the Financial Planning Association of Illinois—is providing this free guide to help you better navigate the often complicated and confusing world of financial services.



This guide will help you:

- Determine your financial planning needs.
- Identify strategies for engaging higher quality professionals.
- Learn how to avoid high-pressure sales tactics.
- Identify resources and links to assist in your search for a financial professional.

Thirty percent of Americans are within three paychecks of needing to borrow money or skip paying one or more bills[1]. Worries about money is a dominant form of stress. Finding the right professional to assist you in navigating these complexities may provide piece of mind.

Determining the Financial Advice You Need

Managing your finances can seem like a daunting task. Your first decision is to determine what kind of financial advice you need, which can easily be categorized into the following five areas.

Understanding which professional to turn to for advice can be overwhelming, especially when it comes to insurance and investing. Whether you are starting to save and invest or just entering your retirement years, seeking the guidance of a financial professional can go a long way in securing your financial future.

1 Northwestern Mutual Planning & Progress Study 2018

Budgeting, Cash Flow and Debt

A budget is where everything starts since it tracks your cash flow—money coming in and money going out. A budget is important because it helps you live within your means. It is essential to balance the inflows of wages, pensions, annuities, and interest income with the outflows of housing, food, clothing, and transportation.

If you are just making ends meet:

- Carefully review expenses to identify further ways to reduce outflows.
- Try to identify "needs" versus "wants." Essential expenditures include food, housing, and health care, but you may face other spending priorities such as retirement and college savings along with proper insurance coverage.

If you are consistently spending more than you earn, you will incur debt. Debt is a major obstacle to financial independence. Should you find yourself challenged staying within a budget and in debt, below are some useful tips:

- Be wary of debt settlement and for-profit credit repair services, promising quick results.
- Seek out a certified credit counselor working through an accredited

non-profit agency such as the National Foundation for Credit Counseling or the Financial Counseling Association of America.

- The Federal Trade Commission provides additional information on choosing a credit counselor.
- General advice should be free but expect to pay a monthly fee when entering a debt management plan (DMP.) Ask for a list of all anticipated charges and expenses before starting any program.
- A qualified agency should offer both budget counseling and debt management classes. Avoid organizations that push you toward a DMP without fully knowing your situation.

Estate Planning

An estate plan provides the legal framework to determine who will oversee your money and health matters when you can't—whether due to incapacity or death. It may also provide direction on who will take care of minor children or adult children with special needs. Even if you have modest assets, an estate plan may remove uncertainty, memorialize wishes, and preserve family harmony.

The following legal documents create the building blocks of your estate plan:

- **Power of Attorney for Property:** This document names an agent to act on your behalf when dealing with your property and assets. The agent can step in when you are temporarily or permanently incapable or unavailable to make financial decisions.
- **Power of Attorney for Health Care:** This document names an agent to act on your behalf in matters of your health care if you are temporarily or permanently incapable of making health-related decisions. These decisions may include coordinating a plan of care among doctors, discussing medical treatments, or determining end of life wishes.
- **A Last Will:** This document appoints an executor to carry out your specific wishes after death. A Last Will can transfer assets to

beneficiaries and name guardians for your minor children. Dying without a Last Will may subject your assets to a state's intestate laws, potentially disinheriting loved ones. Intestate proceedings can incur high legal costs and lengthy delays in distributing assets to beneficiaries.

- **A Living Trust:** This document may provide similar elements of a Last Will and may also help avoid probate, which involves public disclosure of your assets and who you name as beneficiaries. Unlike a Last Will that only operates after your death, a living trust can be in effect while you are still living.
- **Beneficiary Designations:** Certain assets you own may allow for beneficiary designations. Designating a beneficiary indicates who will legally receive the asset upon your death. Naming a beneficiary is commonly associated with life insurance policies, annuities, and retirement accounts. You can also add beneficiaries to bank and investment accounts through "payable on death" or "transfer on death" designations.

Seek out an estate planning attorney for assistance with these documents and plan design. One resource for estate planning attorneys is through your local Estate Planning Council.

Tax Planning

It is important to understand how the U.S. tax system works to avoid paying more taxes than necessary. Tax planning involves strategies that may reduce your taxes and keep more money in your pocket.

There are two essential elements when it comes to tax planning. The first element is to always file on time and pay your taxes in full. Late filings and payments to the IRS may result in significant financial consequences. The second element is to seek tax advice tailored to your specific situation that may legally reduce your tax liability.

The combination of obtaining productive tax advice with timely tax preparation and filing is a compelling strategy to bolster your financial plan. Below is some information to help you become more knowledgeable and identify qualified professionals:

- The federal tax system is "progressive" in that the more income you make, the higher your tax rate, and ultimately the higher taxes you pay.
- There are incentives that may help taxpayers reduce their overall tax liability, such as contributing to a qualified retirement account along with donations to charitable organizations. These are just two examples of deductions within the IRS tax code that can benefit you,

and society in general, while potentially reducing your tax burden.

- Seek out a tax professional that offers both tax preparation and tax advice.
- Anyone who prepares or assists in the preparation of a federal tax return for compensation must have an IRS issued Preparer Tax Identification Number or PTIN.
- Certified Public Accountants (CPA) and Enrolled Agents (EA) are the mainstays of the tax profession. These licensed professionals may provide both tax advice and tax preparation for a fee.
- The IRS offers Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE).
    - VITA is generally a program for those with incomes of $54,000 or less, are disabled, or with limited English who need assistance in preparing their tax returns.
    - TCE is generally for taxpayers over 60 years of age, providing counseling about pensions and retirement-related issues.
- AARP Foundation supports Tax-Aide that offers free, individualized tax preparation for low-to-moderate-income taxpayers, especially those 50 years and older, at nearly 5,000 locations nationwide.
- Be wary of “free” advertised tax preparation services. These companies may offer a free filing of your federal return but charge for state tax returns. Avoid “upgrades” in the appearance of receiving a more significant refund.

Risk Management (Your Insurance)

Risk management is the transference of financial risk from an individual to an insurance company. The transference of risk through an insurance policy is what helps individuals and companies avoid catastrophic financial losses due to illness, fire, accidents, and lawsuits.

The following are examples of insurance products and the types of risks that they can help to mitigate:

- Property and Casualty insurance protects against property losses to your business, home, and auto. In addition, the policy can protect against legal liability that may result from injury to others or damage to their property.
- Health insurance pays for medical and surgical expenses incurred by the insured.
- Life Insurance pays out a sum of money either on the death of the insured or after a covered event such as the onset of a terminal illness.
- Long-term care is coverage that provides nursing-home care, home health care, personal or adult day care for individuals with a chronic or disabling condition.
- Disability insurance is coverage that will provide income in the event an individual is unable to perform their work and earn money due to a disability.

- An annuity is a policy that either pays out a stream of income at the time of purchase or future date in time. Annuities fall into three general categories, immediate, fixed, and variable.

Whom you buy your insurance through is just as important as understanding the type of coverage you purchase.

- A licensed insurance agent helps individuals and companies obtain life, health or property insurance policies, and other insurance products, such as annuities.
- Captive insurance agents are licensed with only one company and generally offer products available from one insurance carrier.
- Independent insurance agents can represent and recommend products and policies from a wide range of insurance companies.
- A state's insurance commission regulates and licenses insurance agents and companies who transact the business of insurance in that jurisdiction.

Investments

Financial goals such as retirement, saving for college, or a new home may be challenging to save for without having your money grow. While a savings account or certificate of deposit may provide a low-risk investment, the low returns earned on those accounts may not be enough to help you reach your financial goals. One popular way to meet your financial goals is to invest your savings in equities, fixed income, and other assets with higher returns.

Equities

- Also known as stocks, equities represent an ownership interest in a publicly-traded company.
- All equities carry the risk of loss, along with the opportunity for gain. As a shareholder, should the company go out of business, you may lose your entire investment. Conversely, if the company is profitable, the price of the stock may rise to provide financial gain for the shareholder.

Fixed income

- Also known as bonds, fixed income is a loan from an investor to a company, government, or municipality in exchange for a fixed rate of interest and an obligation to return the invested principal at a future date.

- Like equities, bonds can vary from relatively safe to very risky.
- Independent agencies generally assign companies, governments, and municipalities a rating from AAA (highest rating) to D (lowest rating).
- Certificate of Deposits (CDs) covered by FDIC insurance and U.S. government bonds carry little risk but also a low rate of return, which may not allow you to reach your financial goals.
- Bonds with lower ratings generally pay higher rates of interest but also expose investors to higher levels of risk and the potential of default.

Diversification

- One way to reduce the overall risk of investing is through diversification. An often-used strategy to diversify your investments is to increase the number of equities and fixed income holdings in your portfolio.
- Instead of holding a couple of individual stocks or bonds, you may be able to reduce the risk of a total loss from a single holding by investing in a mutual fund or exchange-traded funds (ETF.)
- A mutual fund is an investment vehicle that pools investors' money that is managed by a professional money manager. Mutual funds are typically bought and sold at the end of the trading day.
- An exchange-traded fund (ETF) is like a mutual fund whereby a money manager invests the pooled assets of investors' money. But

unlike mutual funds, most ETFs can be bought and sold throughout the trading day.

- The professional money manager creates portfolios that invest in more than one stock or bond, often investing in hundreds of individual holdings.
- The returns of a diversified portfolio may be lower than a single holding but may reduce the risk of a total loss.
- Investors will experience losses even in diversified portfolios. It is important to remember to balance your financial goals with the amount of risk you are willing to accept.

We have touched upon just two types of investments. There is a wide range of other investments that may be available from real estate and precious metals to commodities and cryptocurrency. Each investment carries a distinct risk-reward profile, and it is up to the individual investor to understand and appreciate that high returns often accompany high risk.

Don't be easily swayed by a promise of high investment returns, glossy brochures, or a slick sales presentation. Take the time to consider all the recommended investments carefully. The amount of time invested in this process will pale in comparison to the amount of money potentially lost to a poor decision.

Putting It All Together

Titles such as Financial Advisor, Financial Consultant, Wealth Manager, Comprehensive Wealth Planner, Private Wealth Advisor, and Financial Coach (among others) have clouded the legal obligations mandated between a client and a licensed professional.

Many state securities and insurance regulators do not allow financial professionals to use a designation unless it has been accredited by either the American National Standards Institute or the National Commission for Certifying Agencies. The Financial Industry Regulatory Authority (FINRA) lists CFP®, AIF®, and CIMA® among accredited designations used by financial service professionals to differentiate themselves and their services to the investing public.

Here is a list of questions to ask your current or prospective financial professional:

- What type of financial services and products do you provide your clients? Are the services comprehensive or focused on a single product or service? Make sure there is alignment between your financial goals and the products and services offered.
- What are your qualifications? Do you hold a Certified Financial Planner (CFP®), Chartered Financial Consultant (ChFC®), Chartered Life Underwriter (CLU®), or (CFA®) Chartered Financial Analyst designation? Check the list of FINRA professional designations to understand the rigors and responsibilities behind the certifications.
- Are you legally obligated to uphold a fiduciary duty? A fiduciary must act in your best interest and is considered the highest standard between a client and a financial professional.
- Will you provide full transparency of all fees, commissions, and cost of investments? This information is critical to determine if the relationship aligns with your financial needs. This data should be freely given upfront before engaging in any transactions. Just because you may not pay for a product out of your pocket does not mean the investment is best for you.
- Do you only offer proprietary products? Proprietary products are investments only available through the advisor's company and generally cannot transfer with the account should you decide to

terminate the relationship.

- Does your firm hold my money and investments, or are the assets held with a third-party? Your financial advisor should not hold or have custody over your assets. Your assets should be held with a reputable third-party custodian.
- Do you have any complaints, bankruptcies, or other regulatory issues on your record? Trust, but verify! Check the background of registered representatives at Brokercheck.finra.org and advisors that are compensated by fees through adviserinfo.sec.gov.
- How long have you been with your current company? An advisor's job stability is often connected with the stability of their reputation and performance. Multiple employers over a short period should be cause for further vetting.
- Will you provide me with written recommendations? All recommendations and advice should be in writing before the purchase of any products or services.
- Will you provide ongoing advice after the purchase of the product or service? Make sure you understand the nature of the relationship to avoid confusion or disappointment.
- Will working with you create a taxable event due to the sale of any of my current investments? Entering and exiting a relationship may involve moving assets from one firm to another. Before transferring any funds, make sure to understand if any tax liabilities may result from your move.
- Will you coordinate with the other professionals I currently work with such as my estate planning attorney, tax professional, and insurance professional? Coordination among members of your professional team can create a strong foundation on which to build your financial plan.

This guide is designed to provide clarity around your financial planning needs by offering tips and strategies to engage with high-quality professionals and avoid high-pressure sales tactics. For additional information, the Better Business Bureau of Chicago and Northern Illinois can assist you in this process by vetting financial advisors and companies to qualify them as an accredited business. You can search www.BBB.org to learn more about which financial advisors have achieved accreditation status through the BBB program.

Website Resources

The following links may be assistance in your efforts:

AARP Foundation Tax-Aide: www.aarp.org/money/taxes/aarp_taxaide/

CFP verification and search: www.letsmakeaplan.org/

CPA verification: cpaverify.org/

Enrolled Agent verification: epp@irs.gov
Email to include First and Last Name, Complete Address (if available), and Enrolled Agent Number (if available)

Federal Trade Commission choosing credit counselor:
www.consumer.ftc.gov/articles/0153-choosing-credit-counselor

Financial Counseling Association of America: fcaa.org/

Financial Planning Association CERTIFIED FINANCIAL PLANNER™ professional lookup:
www.PlannerSearch.org

FINRA Broker Check: www.FINRA.org/BrokerCheck

FINRA designation lookup: www.finra.org/investors/accredited-designations

Insurance License Lookup: sbs.naic.org/solar-external-lookup/
Choose State, then licensee, first and last name

National Association of Estate Planning Councils:
www.naepc.org/designations/estate_planners/search#spec/All

National Foundation for Credit Counseling: www.nfcc.org

SEC's Investment Adviser Public Disclosure database: www.investor.gov

State securities regulators: www.nasaa.org/contact-your-regulator

Tax Counseling for the Elderly (TCE): www.irs.gov/individuals/tax-counseling-for-the-elderly

Volunteer Income Tax Assistance (VITA): irs.treasury.gov/freetaxprep/

Glossary of Terms

The following are some commonly used terms with definitions that are used in the financial services arena.

- **Advisor Fee**: A fee paid by investors for professional advisory and money management services.
- **Annuity**: A financial contract with an insurance company that pays out a fixed stream of payments or defers payment to a future date.
- **Bonds**: A fixed income instrument that represents a loan made by an investor to a borrower (typically a corporation, government, or municipality).
- **Budget**: A spending plan that estimates income and expenses that should be re-evaluated periodically.
- **CERTIFIED FINANCIAL PLANNER™ (CFP®)**: A formal recognition of expertise in the areas of financial planning, taxes, insurance, estate planning, and retirement, owned and awarded by the Certified Financial Planner Board of Standards, Inc.
- **Certified Public Accountant**: A designation given by the American Institute of Certified Public Accountants (AICPA) to individuals that pass the Uniform CPA Examination and meet the education and experience requirements.
- **Certified Life Underwriter** (**CLU®**): A professional designation for individuals who wish to specialize in life insurance and estate planning and granted by the American College of Financial Services.
- **Chartered Financial Consultant** (**ChFC®**): A professional designation involving key areas such as retirement planning, estate planning, insurance, investments, and income taxes, granted by the American College of Financial Services.
- **Credit Bureau**: An agency that collects and researches individual credit information and sells it for a fee to creditors so they can decide on granting loans. In turn, they sell the data, in the form of a credit report, to those authorized to obtain it.
- **Credit Counseling**: Provides guidance and support on consumer credit, money and debt management, and budgeting. The objective of most credit counseling is to help a debtor avoid bankruptcy and to provide primary financial education on managing money.
- **Credit Report**: A report that contains a detailed breakdown of an individual's credit history prepared by a credit bureau.
- **Collection Agency**: A company used by lenders, or creditors, to recover funds that are past due, or from accounts that are in default.
- **Commission**: Compensation received from a third-party for services in the sale of securities or insurance.
- **Debt Management Program** (**DMP**): A structured repayment plan to reduce debt over time typically coordinated with lenders.
- **Enrolled Agent**: A tax professional authorized by the United States government to represent taxpayers in matters regarding the Internal Revenue Service (IRS).

- **Estate Plan**: The preparation of tasks that serve to manage an individual's asset base in the event of their incapacitation or death.
- **Exchange-Traded Fund** (**ETF**): A marketable security (typically available to buy and sell throughout the trading day) that contains all types of investments, including stocks, commodities, or bonds; some offer U.S. only holdings, while others are international.
- **Fiduciary**: One who owes to that other entity the duties of good faith and trust. The highest legal obligation of one party to another, being a fiduciary requires being bound ethically to act in the other's best interests.
- **Financial Industry Regulatory Authority** (**FINRA**): An independent, nongovernmental organization that writes and enforces the rules governing registered brokers and broker-dealer firms in the United States.
- **Intestate**: Dying without a legal will where a probate court determines the distribution of the deceased's assets.
- **Last Will**: A legal document that communicates a person's final wishes that pertain to possessions and dependents after their death.
- **Living Trust**: A legal document created during an individual's lifetime where a designated person, the trustee, is given responsibility for managing that individual's assets for the benefit of the eventual beneficiary.
- **Mutual Fund**: A type of financial vehicle made up of a pool of money collected from many investors to invest in securities such as stocks, bonds, money market instruments, and other assets. Typically priced at the end of the trading day.
- **Power of Attorney** (**POA**): A legal document giving one person (the agent or attorney-in-fact) the ability to act on behalf of another person (the principal).
- **Probate:** A legal process in which a will is reviewed to determine whether it is valid and authentic. Probate also refers to the general administering of a deceased person's will or the estate of a deceased person without a will.
- **Property and Casualty Insurance**: A category of insurance coverage against loss of property, damage, or other liabilities.
- **Registered Investment Advisors** (**RIA**): A person or firm that advises individuals on investments and manages their portfolios. RIAs have a fiduciary duty to their clients and are required to register either with the Securities and Exchange Commission (SEC) or state securities administrators.
- **Registered Representative**: A registered representative (RR) is a person who works for a brokerage company and serves as a representative for clients trading investment products such as stocks, bonds, and mutual funds. Registered representatives are also known as brokers.
- **Stocks**: Equity or other security representing an ownership interest in a corporation.
- **Suitability**: A standard, whereby the product sold, aligns with a range of criteria including age, tax status, investment experience, liquidity needs, and risk tolerance.

Source: **www.Investopedia.com**

 Special thanks to David Tellsman of David Tellsman Communications www.davidtelisman.com