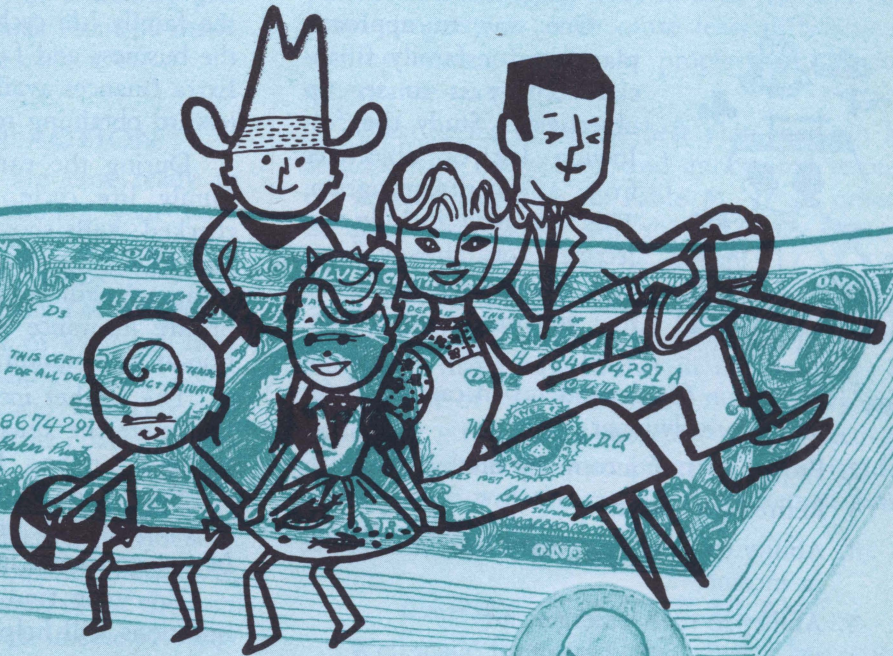


on your way to...

FAMILY FINANCIAL SECURITY



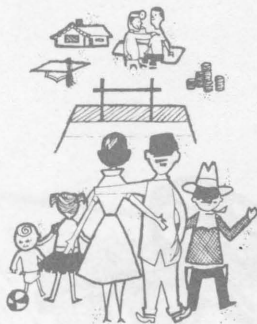
On Your Way To FAMILY FINANCIAL SECURITY

Cecil A. Parker and Eula J. Newman*

FAMILY FINANCIAL SECURITY is the provision for present needs, emergencies and retirement. To many families it means provision for food, clothing and shelter. To some it means safety, comfort and freedom from worry. To others it provides protection of dependents in case of death to the bread-winner. It also may mean being able to meet emergencies such as sickness and accidents, accumulating real estate and personal property or protection in old age. Often combinations of these provide security for a family.

Without definite plans only a few families achieve financial security. Planning such a program is like building a house. No builder would attempt to build a house without plans and knowledge of needed materials and tools. There is no magic formula for achieving financial security. Often what counts is ambition, initiative, determination, cooperation and good management. It may be learning how to control spending or making good investments.

DETERMINE OBJECTIVES



One way to approach planning for family financial security is to set up objectives. Study the following list of objectives for a security program. This list may include objectives you already have and it may suggest some that you may want to consider.

1. Protection for dependents in case of death of the breadwinner
2. Protect loss of income by disability
3. Retirement income
4. Ability to meet temporary loss or decrease in income
5. Ability to meet emergencies
6. Protection against liability

7. Increase equity in business

8. Avoiding financial loss through proper legal arrangement.

These are general objectives. You may want to be specific in what your family wants to accomplish. Plan for the future so you will not be limiting yourself to the things which you may be accomplishing at present.

STUDY THE SITUATION



Each family must take a good look at itself and its position. At an early stage in the family life cycle, securing capital for the business is one of the problems. It is in this stage that capital may be borrowed, and the need for protection against death of the breadwinner may be given priority by the family.

As the family grows larger in numbers this financial strain increases until the children's educational needs are fulfilled and the family unit begins to decrease in size. The parents are usually in a better financial position at this point in the family life cycle. There is greater equity in the business and family living needs are smaller. Extra finances available at that time can be used toward obtaining retirement security.

During the early and middle stages of the family life cycle, title to property should be checked; wills should be made; fire, crop, health and accident insurance could be considered. Term insurance with provisions to convert to other types of life insurance would give the family protection at a minimum cost during a critical time.

The further into the future a family tries to anticipate the situation, the less accurate its predictions can be. Look at the security needs as the family and economic changes occur and make adjustments. A program worked out today may be inadequate or impossible a year from now.

You may find that answering the following questions will help.

1. What size family do you have and what are the ages of family members?
2. What is the present net worth of family?

*Respectively, extension specialists in farm management and home management, The Texas A. & M. College System.

3. What long-time goals do you want to start saving for now?
4. Are you more interested in:
 - a. Providing for today's needs,
 - 1) Physical
 - 2) Mental
 - 3) Spiritual
 - 4) Emotional
 - b. Protection of dependents in case of breadwinner's death,
 - c. Providing income for surviving spouse, or
 - d. Providing income for retirement?
5. What means of security do you have? What protection does it offer?
6. What additional security is needed?
7. What are the possibilities for developing skills and abilities of family members?
8. Will you get more security from investments in the business or from other forms of investments?
9. What risks can you afford to take?
10. Is the business in legal order? Are your titles, deeds and wills up to date?

Part of the situation is the types of financial security that many families have or can get. Table 1 lists some general objectives of a security program and points out how various financial methods may help to achieve these objectives.

MAKE PLAN FOR ACTION



You are now ready to begin planning your family financial security program. Your objectives may be listed on Table 2. Make a careful inventory on Table 2 of what you now have that contributes to financial security. These include social security, insurance, financial and other assets which can be used to provide funds or income at some future time. Show the amount of money your family spends each year for these assets and securities. The protection provided by each now and in the future completes the picture of what you have. You may want to list these in terms of what they would provide in case of death of the breadwinner and in case of retirement.

You may want a better financial security program than you now have. Part of the plan is

listing the additional methods that would provide security. Changes in the present security items may be part of the solution. Table 3 has a place to indicate these wants.

You may need more specific information to help in making decisions after objectives and inventory have been determined. For example, you may need to consider kinds of insurance and costs of each, benefits from social security, sources and costs of credit for expanding the business and laws concerning wills and titles. You may need to obtain professional counsel from bankers and other lenders, attorneys, insurance agents and investment counselors.

In most cases, the income available after providing for business and family expenses will not be enough to provide the full amount of protection desired. Available income may need to be allocated among the methods that best provide the desirable program. In some cases, the amounts being spent for financial security can be reallocated with no increase in cost to improve the program. In other cases, the amounts spent to provide minimum security may need to be increased.

Financial difficulties may be prevented at little or no cost. This includes the making of a will to provide for dependents, the proper beneficiaries and payment conditions of existing insurance policies and arranging titles to both real and personal property so as to cause least difficulty in settling estates, transfer of property and paying inheritance taxes.

What seems to be the best plan that can be secured with the present and anticipated resources may be recorded on Table 3. If all cannot be done immediately, you should decide the order in which things will be done.

If the cost of the security plan exceeds funds available, lower the security program to fit the budget or make adjustments in the budget. If the amount of money available for security and savings is greater than the cost of your security program, re-examine your program. If it is adequate, where will the surplus funds return most on the investment?

CARRY OUT THE PLAN

Well-made financial plans may not be carried out entirely, but the family's managerial skill is improved by using and adjusting a plan to its needs.

Table 1. Some Financial Methods to Be Considered in Obtaining Objectives for Family Security

| FINANCIAL METHODS | OBJECTIVES | | | | | | | |
|--|------------------------------|-----------------------------------|-------------------|--------------------------------------|---------------------|----------------------|-----------------------------|--|
| | Protect income loss by death | Protect income loss by disability | Retirement income | Temporary loss or decrease in income | Meeting emergencies | Liability protection | Increase equity in business | Avoid financial loss through proper legal arrangements |
| Net worth | | | | | | | | |
| Equity in business | X | X | X | X | X | | | |
| Cash on hand | X | X | X | X | X | | X | |
| Savings | X | X | X | X | X | | X | |
| Investments | X | X | X | X | X | | X | |
| Other | X | X | X | X | X | | X | |
| Social security | X | X | X | | | | | |
| Insurance | | | | | | | | |
| Life | | | | | | | | |
| Term | X | | | | | | | |
| Straight | X | X | | | X | | | |
| Family income plan | X | | X | | X | | | |
| Limited Payment | X | X | | | X | | | |
| Endowment | X | X | X | | X | | | |
| Workmen's compensation | X | X | | | X | | | |
| Health and accident | X | X | | | X | | | |
| Hospitalization | | | | | X | | | |
| Fire | | | | | X | | | |
| Liability | | | | | X | X | | |
| Auto casualty | | | | | X | | | |
| Crop and livestock | | | | X | | | | |
| Unemployment compensation | | | | X | | | | |
| Annuities, pension, and retirement plans | X | X | X | | | | | |
| Legal arrangements | | | | | | | | |
| Making a will | X | | | | | | | X |
| Proper title | X | | | | | | | X |

METHODS FOR PROVIDING FAMILY FINANCIAL SECURITY



Families working on a financial security plan will need a working knowledge of various methods for providing financial security. Brief statements of some of these methods follow. For additional information see reference list, page 6.

Increasing Equity

This means to reduce debt or increase inventory.

Savings and Investments

Consumption needs receive first attention. A reserve for emergencies should be provided before making investments. Three things to consider in making investments are:

1. Safety—against loss, theft or a depression
2. Availability—can it be converted to cash
3. Earnings—how much will the invested money earn

You can save or invest money many ways.

Some of the ways are:

1. Life insurance
2. Home and business ownerships
3. Savings accounts
4. Government bonds
5. Stocks
6. Building and loan associations

Social Security

Social Security is a federal insurance plan paid by employers, employees and self-employed workers, based on the earned income (\$400 to \$4,800 annually). It provides for old age, survivors and disabled workers or dependent children.

Principal features are:

1. Retirement income to eligible men over 65 and women over 62.
2. Lump sum benefits upon the death of insured person.
3. Income for dependents and/or spouse (men, 65 — women, 62) of an insured worker after death.

4. Disability income to disabled workers over 50 and dependents and/or spouse (men, 65 — women, 62).

Requirements for eligibility are:

1. The insured must have been in a covered occupation.
2. He must have sufficient quarters of coverage.

Insurance **LIFE**

Term — Financial protection for a specified period of time limited to insurance coverage in case of death; does not have the savings feature, cash value, loan privilege or paid-up values. It gives maximum protection for minimum cost.

Straight—The insured usually must pay premiums as long as he lives. It is the lowest cost for a permanent policy. The premium remains the same each year.

Family income—It is a straight life with decreasing term insurance. It provides monthly payment to the beneficiary of one percent of the policy's face value at the insured's death through the remainder of the term provided. At the end of the term the face value of the policy is paid.

Family plan—Covers all family members.

Limited payment — Premiums are paid for a specified time but insurance stays in force for the life of the insured.

Endowment—Places emphasis on savings but offers protection during the life of the policy. It guarantees payment of a sum of money to the insured if he lives beyond the term of the policy and assures his beneficiaries the face amount if the insured dies beforehand.

WORKMEN'S COMPENSATION

Pays individuals who are injured on the job. Participation is compulsory in this state for employer who has four or more employees working for 20 weeks within a year.

HEALTH AND ACCIDENT

A health insurance policy pays when the insured is unable to work because he is sick. It may pay for medical expenses. It may pay partial or total compensation for expenses incurred. An accident insurance policy pays benefits when the insured has been injured in an accident. It may include one or more of these forms: (1) weekly benefits, (2) lump sum catastrophe loss or (3)

partial or total compensation for expense incurred because of an accident.

HOSPITALIZATION

Hospitalization provides hospital care in event of accident or illness.

FIRE

Fire insurance provides protection against loss of property by fire. The reimbursement is limited. Damage caused by water in an effort to extinguish the fire is covered.

LIABILITY

Liability insurance provides protection to the insured against monetary liability to others because of injury to person or property and to pay medical bills to others injured as a result of the insured's action.

AUTO

Auto insurance may be as broad or as limited (with certain exceptions) as the owner of the car may wish. The main provisions are:

1. Liability—bodily injury and property damage
2. Medical payments
3. Collision
4. Comprehensive

CROP AND LIVESTOCK

Crop insurance against hail may be obtained from many stock and mutual insurance companies. Federal crop insurance is an "all-risk" type, available on select crops in select counties. For more information on federal crop insurance, contact your local county agricultural agent or the Agricultural Stabilization and Conservation Office.

Livestock insurance may be obtained from many stock and mutual insurance companies. The premium rate varies but probably will be about 10 percent of the insurance.

UNEMPLOYMENT COMPENSATION

This is a federal-state undertaking. The most common principles are:

1. An applicant must register for employment with the State Employment Office.
2. He must file a claim at the State Employment Office.
3. He must have been employed in a position covered by the State.
4. He must be available for work and able to work, not discharged for misconduct, re-

fused "suitable" employment, not unemployed because of a labor dispute and not be receiving workmen's compensation or old age benefits.

5. He must have earned a specified wage credit required by state law.

Annuities

Annuities may be purchased by a single premium or a series of payments. It may provide a series of payments for a number of years, based upon life expectancy.

Pensions

Many firms have profit-sharing pension plans for workers based on length of service, average annual pay or other variables. Pensions are available to disabled veterans.

Legal Arrangements

WILL

A will is a written or oral statement about the distribution of one's property after death. Since it must meet the legal requirements for the state, an attorney should be consulted.

ABSTRACT OF TITLE

This is a historical summary of former owners and any claims on the property past or present.

REFERENCES

Books

PERSONAL FINANCE

Hansen and Cohen
Richard D. Irwin, Inc., Publisher
1818 Ridgewood
Homewood, Ill.

CONSUMER PROBLEMS AND PERSONAL FINANCE

Troelstrup
McGraw-Hill, Publisher
330 W. 42nd Street
New York 36, N. Y.

PERSONAL AND FAMILY FINANCE

Bradley and Wherry
Rinehart and Co., Inc., Publisher
New York, New York

Bulletins and Leaflets

Social Security Leaflets

INHERITANCE—YOUR FARM AND FAMILY
Southern Extension Farm Management
Publication No. 5

WHY MAKE A WILL?

MP-225, Texas Extension Service

INSURANCE FOR FARMERS

Farmers Bulletin 2016

Table 2—Objectives for Our Financial Security Program

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.

| What we have now | What we are putting into it each year | What it is worth now | What it would be worth in case of the death of the breadwinner | What it would be worth at retirement of breadwinner |
|------------------|---------------------------------------|----------------------|--|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| Total | \$ | \$ | \$ | \$ |

Table 3.

| Additional means we want | What additional we would have to put into it each year | Its worth now | Its worth in case of death of breadwinner | Its worth at retirement of breadwinner |
|--------------------------|--|---------------|---|--|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| Total | \$ | \$ | \$ | \$ |

| Our plan for a security program including changes to be made | What we will have to put into it each year | What it would be worth now | Its worth in case of death of breadwinner | Its worth at retirement of breadwinner |
|--|--|----------------------------|---|--|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| Total | \$ | \$ | \$ | \$ |

Cooperative Extension Work in Agriculture and Home Economics. The Texas A. & M. College System and United States Department of Agriculture cooperating. Distributed in furtherance of the Acts of Congress of May 8, 1914, as amended, and June 30, 1914.