LET'S TALK MONEY®
September/October 2018

Tax Planning for Capital Gains

As we approach the last quarter of the year, tax-smart investors typically review their portfolios to determine which investments to hold and which ones to sell. When you conduct this exercise, you should understand a few basics about capital gains taxes.

Realize the Difference

You receive realized gains when selling a security for a profit. Unrealized gains are an increase in the value of securities you continue to hold — they are paper gains only. An example of the latter might be investments you maintain in a retirement plan's mutual funds.*

Next, know the difference between short-term and long-term capital gains. Securities you sell after owning them for one year or less will produce short-term capital gains, and you'll pay taxes on those gains at your ordinary income tax rate. The highest bracket in 2018 tops out at 37%.

Favorable Tax Rate

Capital gains realized from investments held longer than a year and a day are taxed at the more favorable capital gains tax rate. This rate tops out at 20% for taxpayers filing jointly with an adjusted gross income over $479,000 and $425,800 for single taxpayers. In 2018, those in the 20% capital gains bracket will also pay an additional 3.8% tax related to the Affordable Care Act.

For the majority of investors, whose annual income is lower, the capital gains rate is 15% for joint filers earning between $77,200 and $479,000 and single filers earning between $38,600 and $425,800. Taxpayers with adjusted gross incomes below these thresholds pay 0% on long-term capital gains.

Personal Decision

Whether you sell or hold your investments depends on your personal circumstances. Some investors may want to employ what's known as tax-loss harvesting, which allows you to subtract investment losses of up to $3,000 from your taxable income. Consult a tax professional to make an appropriate decision for yourself.

** You should consider the fund's investment objectives, charges, expenses and risks carefully before you invest. The fund's prospectus, which can be obtained from your financial representative, contains this and other information about the fund. Read the prospectus carefully before you invest or send money. Shares, when redeemed, may be worth more or less than their original cost.*

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Three Ways to Curb Overspending

If you regularly spend more money than you make, you have company. According to the Federal Reserve Bank of New York's Center for Microeconomic Data, Americans' total household debt rose $193 billion to a record $13.15 trillion at the end of 2017. Among the contributors: credit card balances shot up 3.2% for the year.

Start with a Budget

If you are in debt, overspending is likely one of the causes. Make a few small- to medium-sized purchases here and there without a plan and it's easy to see how debt accumulates. To stop this trend, start with a budget. Chronicle every penny that goes out for one month and compare it to what comes in — your income. Use this information to establish a budget, cutting enough expenses to make what goes out match what comes in.

Become Credit-Smart

Next, develop a plan to tame your credit card spending. If you don't carry your cards, you can't use them when entering a store or restaurant. Is online spending your problem? No problem, if you put your cards in a safe place that is out of reach when the impulse-spending urge strikes.

If credit cards are the main culprit of your overspending and you carry large balances, paying down these cards can pay off in the form of lower interest rates as your credit score improves.

In an Emergency

Unexpected and expensive vehicle repairs happen. So do home repairs, healthcare bills and even unemployment. To help defray most or all of your unexpected expenses, create an emergency fund, preferably one that covers six to 12 months of everyday expenses. But even a smaller fund is better than none. Put something away and don't forget to budget for it, contributing to the fund at least as often as you would pay a monthly utility bill.

FAFSA Filing Start Date Coming Soon

If you had a child graduate college at least two years ago and you have another who will enter college in September 2019, you may not be aware of the new FAFSA submission date.

The first day you can file the federal government's Free Application for Federal Student Aid (FAFSA) for the 2019–2020 school year is October 1, 2018, which is earlier than in the past. Filing early may give you access to aid that might not be available later, but you have until June 30, 2019 to file for the same school year.

Tips for Success

Applying for the FAFSA isn't a picnic, but you can get the most from this annual rite of passage for college students and their parents by avoiding common mistakes like not signing the application and leaving fields blank.

Also consider using the online IRS data retrieval tool, which you'll find at fafsa.ed.gov, to transfer information from your federal tax return to the FAFSA. Filing your FAFSA online not only gives you access to this tool, but to online application checks that can help you file accurately.

Student financial aid is usually available on a first-come, first-serve basis, so file early and accurately.

Five Truths about Life Insurance

September is Life Insurance Awareness Month, a time like any other when we can come up with several excuses to either not own life insurance or not own enough. Here's to setting the record straight:

Excuse: *I have plenty of time to buy it.*

Truth: Perhaps you do, but what if the unthinkable happens before you buy it? You aren't immortal. Or what happens if you develop a medical condition that either makes you uninsurable or makes life insurance unaffordable?

Excuse: *Life Insurance is too expensive.*

Truth: The younger you are, the cheaper individual coverage is. You might also afford a term insurance policy, especially one that allows you to convert to permanent insurance down the line. And don't forget about employer-sponsored life insurance, which is group coverage that is typically less expensive than if you bought it on your own. Group life insurance typically ends when you leave the job.

Excuse: *I have enough insurance through my employer.*

Truth: Maybe not, unless you supplement that amount with individual life insurance coverage. You may want enough insurance to cover three to seven years of lost income and living expenses, plus any extras such as replacing lost college savings.

Excuse: *I'm a stay-at-home spouse, so I don't have income to replace.*

Truth: When a stay-at-home spouse becomes widowed, childcare for young children may become a financial issue. If you don't have young children, your income still may not be adequate to pay others to perform the tasks you did, affecting the family's standard of living. Life insurance can help fill this gap.

Excuse: *I don't want to buy something I don't understand.*

Truth: That's a legitimate concern, but you have control over it. Ask questions. If you can't get answers that are easy to understand, talk to a financial professional who can provide them.

Defending Against Cyber Criminals

October is National Cyber Security Awareness Month, a good time to make sure to protect your loved ones, your business and yourself from a host of increasing cyber threats. Here is a sampling of advice from the U.S. Department of Homeland Security to help protect you online:

- In the digital age, keeping your children safe requires vigilance. Review security settings and privacy policies to make sure the websites your children frequently visit are age-appropriate;
- Watch changes in behavior. Children who suddenly avoid the computer or smartphone could indicate they are victims of online bullying;
- Use two-factor authentication, such as one-time PINs texted to your smartphone, with your passwords;
- Make your passwords stronger, using upper and lowercase letters with numbers and characters;
- Use up-to-date software that keeps you safe from viruses and malware;
- Don't get caught in a phishing attack. Even when an email looks like it is from your bank or credit card company, call them or access their website directly instead of clicking on the email link.

The Facts of Life (Insurance)

The following 2017 Insurance Barometer Study is conducted by LIMRA, the financial services industry organization that measures such attitudes and trends, and the nonprofit Life Happens.

Four in **10** Americans wish their spouse had more life insurance.

Some **60 million** Americans have an average life insurance needs gap — the difference between their actual coverage and their needs — of **$200,000**.

About seven in **10** husbands own life insurance, while only **63%** of wives can make the same claim.

While **85%** of Americans believe households should have life insurance, only **59%** have it.

Four in **ten** households without life insurance would struggle to pay living expenses if their primary wage earner died.

Americans' average life insurance coverage would replace **three** years of income, down from **3.5** years in 2010.

Life Stage Investing

When you have a comprehensive investing strategy, sticking to it during good and bad times is often the way to go. Sometimes, though, life happens and you need to make a change. Here is a sampling of life stages and how they might affect an investing strategy.

Starting Out

Listen up Millennials! Retirement may seem a million years away, but the dollars you put away today for retirement will never have more potential than now. That's because the combination of time and compounding works best for the longest timeframes. So, know that contributing even a little to your company 401(k) plan or IRA may pay off in the long term, because time can potentially help your investments* overcome market volatility.

Mid-Life Changes

We get that saving for a comfortable retirement is far from your only financial goal. Marriage, divorce, children, paying for college, concerns about a parent's long-term care and more can complicate financial matters during mid-life.

If at all possible, continue contributing something toward your retirement. Examine financing alternatives for other goals. Perhaps you might consider talking to an elderly parent about long-term care funding options, including insurance. Save for a child's education through a 529 plan or other education savings vehicle, while exploring financial aid.

Ultimately, you can borrow for many things, but retirement isn't one of them, so stick to your retirement investing strategy as closely as you can.

Near Retirement

Nearing or during retirement, investors typically safeguard retirement plan assets by adopting a more conservative investment strategy than when they were in the accumulation phase. This is the stage of investing where many investors may reduce their portfolios' risk. You may, however, want to not only preserve gains you may have accumulated, but continue investing a portion of your money in equities to help you keep pace with inflation.

Work with a financial professional to help keep your investing strategy on track, no matter what stage of life you're in.

** Past performance won't guarantee future results.*

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REVIEW LETTER

1. 2018 LTM Sept/Oct Standard
   Rule: FIN 2210
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The material submitted appears consistent with applicable standards.

Reviewed by,

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