LET'S TALK MONEY®

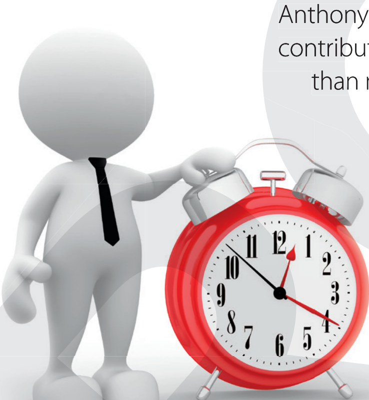
January/February 2020

Contributing Now Matters!

If you don't contribute to a 401(k), IRA or other qualified retirement plan you could be missing out on a potentially large benefit – compounding. Simply put, compounding is potential earnings on your interest or gains over time. So, the earlier you begin saving, the earlier interest will add up and compound. The same principle applies to retirement plan contributions. The earlier you begin contributing, the more time you give your retirement portfolio to potentially grow. Following are three hypothetical examples that demonstrate how time and compounding work*.

Great Start

Melissa wants to save for retirement early, so she contributes $200 per month to her company 401(k) plan. That's $2,400 per year, which she keeps up for 10 years — at which point her money has grown to about $32,881. She never contributes another dime to the retirement plan, but after another 30 years, her balance has grown to $198,889.



Plan Interrupted

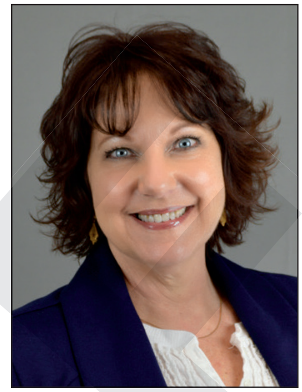
Jake is a Millennial like Melissa and starts off contributing the same amount for five years to build a $13,993 balance. He gets married, has a family and stops retirement plan contributions for the next 30 years. Even so, his balance grows to $84,640. He then restarts contributions for another five years before retiring, when his account will have grown to $128,242.

Late Start

Anthony is 57 and, unfortunately, never contributed to a retirement plan. Better late than never, so he begins making $200 per month contributions to his plan. At his retirement age of 67, his balance will only amount to $32,881. If he doubles his contributions, he will still only have $65,762 after 10 years. As these three examples show, compounding works best with time. Even if Anthony quadruples his contribution, he will barely accumulate more than Jake does and much less than Melissa will.

The moral of this story? Time matters. Talk to your financial professional to learn more.

**Each example, courtesy of investor.gov, is based on hypothetical earnings of 6% compounded daily. It is not representative of any specific investment strategy or combination of investment strategies. Actual results will vary.*



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Retirement Version

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FINRA Reference FR2019-1004-0084/E RETIR

Smart Money Moves for the New Year

Go through your budget with a fine-toothed comb to find dollars you needn't spend, and then put them toward your most important goals.

If you don't already maintain one, create an emergency fund for life's unexpected financial shocks.

Pay estimated taxes on untaxed gig income, realized investment gains and other income to save on penalties and interest.

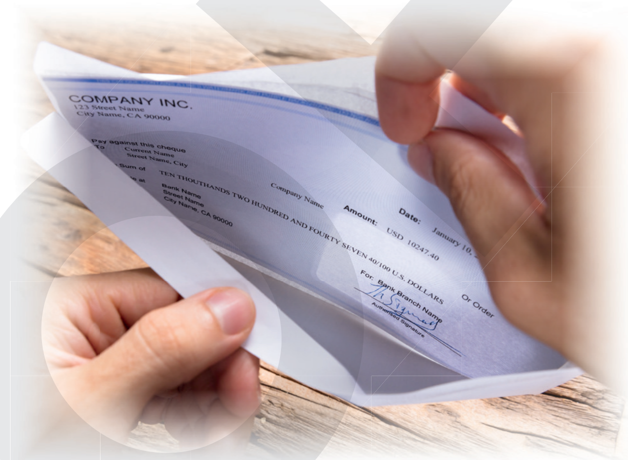
Keep your vehicle after you make the last payment and put the extra money toward retirement, a child's college education or other long-term goals.

Increase your retirement plan contributions — your retired self will appreciate it.

Check How Much You're Withholding

The start of a new year is a good time to make sure you have the right amount of money withheld from your paycheck. You may want to withhold less if you consistently receive refund checks or more if you have untaxed gig or other income. Marriage, pay raises and new deductions could also warrant a change.

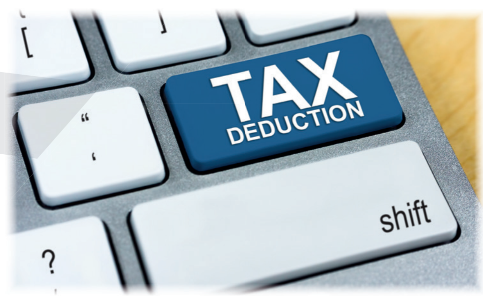
Know that you could owe the IRS a penalty and interest when you underestimate taxes. To change your withholding, ask your employer for a W-4 form and add allowances to withhold less or request fewer allowances to withhold more.



Ways to Help Minimize Your Taxes

Big Changes

Don't forget the obvious when looking for tax deductions and credits. If you were married last year or became a new parent, you'll find increased deductions and potentially new credits. If you don't itemize on your tax return, the standard deduction for joint filers in 2019 is $24,400; it's half that for a single tax filer.



You can also find tax credits if you care for an elderly person declared as a dependent or pay for child care if you qualify by income. Tax credits are more valuable than deductions because they reduce your taxes, not your taxable income.

For Itemizers

If you itemize on your tax return, you can deduct real estate and local income taxes, up to certain limits. You might also deduct donations to qualified charities and home office expenses.

Don't forget that you have until the 2019 tax-filing deadline to contribute to a traditional IRA, which may reduce your taxable income, or a Roth IRA, which may reduce taxable income in the future.

What is the AMT ?

While the most recent changes to federal income tax regulations reduced the number of people who must pay the Alternative Minimum Tax (AMT), the tax is sizable if you're the one paying it.

As its name indicates, the AMT is an alternative to paying ordinary federal income taxes. Generally, it hits taxpayers with high income and deductions, with the latter including state and local taxes, mortgage interest and incentive stock options. The AMT disallows some credits and deductions typically allowed on an ordinary tax return.

By the Numbers

The AMT is designed to ensure wealthy individuals pay at least some income tax. The AMT exemption amount for 2019 for single and joint filers respectively is $71,700 and $111,700, with the exemption phasing out at $510,300 and $1,020,600. *

**https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2019*

How to Save for a Down Payment

A home for many Americans is the largest purchase and continuing expense, and the down payment for one can be a big chunk of change. If you're buying your first home, you may shift your savings efforts into another gear by following these steps:

- Check your credit rating and raise it, if possible, to get the best mortgage rates
- Reduce your debt and put the savings toward your down payment
- Temporarily eliminate or downsize a few areas of your life, from travel to restaurants, and save more
- Work overtime or find a part-time gig to increase your income — and down payment
- Put bonuses and pay raises toward your down payment

6 Questions to Ask Before Buying Your First Home

Owning a home remains part of the American Dream, but doing so requires a strategy and discipline. If you're looking to buy your first home, answer the following questions to help ensure you do everything you can to make this experience a success.

How Much House Can I Afford?

It's important to calculate all your costs, from monthly expenses such as mortgage, taxes and insurance to occasional maintenance and repair costs.

Where Do I Buy?

Determine if your new home will add or subtract expenses to your budget due to the commute and public school taxes.

How Much Should I Put Down?

In most cases, you'll want at least a 20% down payment on your new home. Smaller down payments often trigger the necessity of private mortgage insurance, which will add to your total costs.

Have I Done my Homework?

Make sure your credit rating is as strong as possible and comparison-shop for your best mortgage options.

Which Mortgage is the Best?

Many first-time homebuyers try to limit upfront costs, but doing so can increase your total costs if folded into your loan. Instead, look to pay no points when possible and limit other closing costs, including origination fees. When comparing mortgages, know that shorter-term options — such as a 15-year mortgage — usually offer lower rates and lifetime costs than a 30-year mortgage does.

What Do I Buy?

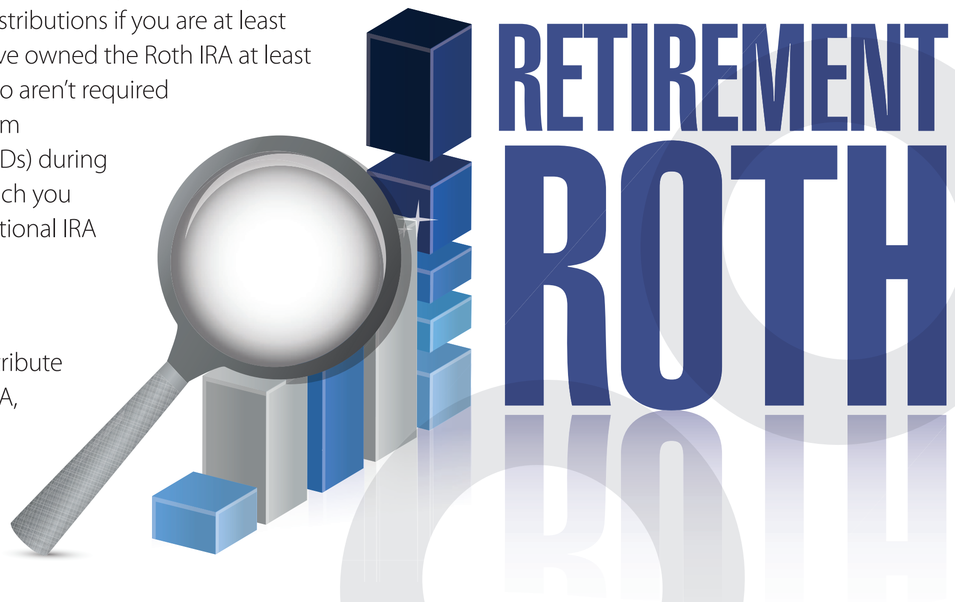
This ultimately depends on your financial means and lifestyle. First-time homebuyers may consider buying a lower-cost condo, but buying a two-family home can be a cost-effective option. You may want the finest home in the area, but a fixer-upper will likely be less expensive and a good candidate for price appreciation if you are handy and can make some updates.

Check Out the Roth IRA

If you don't qualify for a tax-deferred traditional IRA because your income is too high or if you would rather not bet on federal income taxes being low in the future, when distributions would be taxed, you might want to look at a Roth IRA to help with your retirement strategy.

Who Qualifies?

Your contributions to a Roth IRA are made after-tax, in contrast to pre-tax contributions you may make to a traditional IRA if you qualify by income. In return, you don't pay income tax on distributions if you are at least age 59 ½ and have owned the Roth IRA at least five years. You also aren't required to begin minimum distributions (RMDs) during your lifetime, which you must with a traditional IRA at age 70 ½.



Anyone can contribute to a traditional IRA, but annual income determines your eligibility for a Roth. In 2019, the limit was $203,000 in modified adjusted gross income if you file a joint tax return and lesser amounts for other filers. There is no income limit for rollovers from a traditional IRA, but you will pay income tax on the rollover amount, so it may be best to do this in years when you have lower income.

One similarity between the two IRAs is that potential growth is tax-deferred. Withdrawals from a Roth IRA become tax-free once you meet the holding requirements.

Why this Works

If you're young and unsure how much money you'll need in retirement, and especially if you believe income tax rates will be higher in the future, a Roth IRA may be for you. Older workers may also prefer a Roth IRA for a few reasons. First, the obvious: tax-free distributions. Second, you don't have RMDs, which may be important if you have other retirement income. Third, you can continue contributing to a Roth after age 70 ½ if you have earned income. You can't do that with a traditional IRA.

Pay taxes now or pay them later? Talk to your financial professional to help you make that choice.

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Financial Industry Regulatory Authority

ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

October 11, 2019

Reference: **FR2019-1004-0084/E**

Org Id: 20999

1. 2020 Lets Talk Money January/February Retirement
   Rule: FIN 2210

The communication submitted appears consistent with applicable standards.

Reviewed by,

Wayne L. Louviere
Manager

jb

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