LET'S TALK
MONEY®

July/August 2022

Consider Taxes When Planning for Retirement

When it comes to planning for retirement, there's a lot to think about. How should you save for it? Where will the money come from? How much will you need for a comfortable lifestyle? But one important element that people often overlook is planning for taxes. Failing to take taxes into account can be an expensive mistake.

Your Tax Bracket

You may think you'll be in a lower tax bracket once you're retired, but that won't necessarily be true. While you may no longer be earning a steady income from your job, your tax bracket may stay the same. Keep in mind that you may not have some tax deductions in the future that you may have now. These could include deductions for dependent children and retirement plan contributions, as well as the mortgage interest deduction once you've paid off your home.

Your Social Security Benefits

If you have income in retirement, up to 85% of your Social Security benefit may be taxable by the federal—and sometimes state—government. Other income might come from investments, retirement plan distributions, or a job.

Your Retirement Savings

Remember how the contributions to your company's qualified retirement plan reduced your taxable income while you were working? Once you retire, it's time to pay up. Withdrawals from 401(k) plans, traditional IRAs, and annuities are taxable as ordinary income.

A Tax Break from TIPS

Treasury Inflation-Protected Securities, or TIPS, provide protection against inflation and offer tax benefits. TIPS' principal increases with inflation and decreases with deflation, as measured by the Consumer Price Index. When a TIPS matures, you're paid the adjusted principal or the original principal, whichever is greater. Interest income and principal growth are exempt from state and local income taxes.

Tax Planning with a Roth IRA

Opening a Roth IRA can provide you with tax-free income when you retire. Although contributions to a Roth IRA are made with after-tax dollars, withdrawals of earnings generally are tax free after age 59½, if the account has been open for five years. Consult your financial professional, who understands the requirements regarding these investments.

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Karen Petrucco
Account Manager

LTM Client Marketing
45 Prospect Ave
Albany, NY 12206

Tel: 800-243-5334
Fax: 800-720-0780
sales@ltmclientmarketing.com
www.ltmclientmarketing.com

I am committed to helping my clients achieve their financial goals for themselves, their families and their businesses by providing them with strategies for asset accumulation, preservation and transfer.

Retirement Version

LTM Client Marketing
helping financial professionals stay connected

Buying on Time

Paying for items over time is nothing new. That's essentially how credit cards work. But if you shop online, you may have noticed a new trend: an option to pay for the items in your cart in equal interest-free installments. Should you take advantage of the offer?

A Lot Depends on You

Spreading out interest-free payments over a month or so for items you intended to buy anyway may be relatively harmless. However, not having to pay the full cost of your purchase all at once might tempt you to buy additional items on impulse. Before you realize it, the amount of your payments may be far more than you intended or can comfortably afford.

What If You Miss a Payment?

Generally, installment payments are automatically deducted from your checking account every other week, and you're emailed a reminder in advance. But if you miss a payment because funds in your account are low or for some other reason, you'll be charged a late fee, and possibly interest, on your purchases. If you can't make the minimum payments, these fees can quickly spiral out of control.

They're Counting on You

Retailers can select installment plan services from a variety of vendors. Companies offer the installment option hoping that the smaller installment payments will encourage shoppers to buy more—and more expensive—items than they would have purchased if they had to pay the entire cost at checkout.

A Better Way

Instead of paying for items over time and putting your budget at risk, start saving for the things you want. Then pay cash up front.

Raise Your Credit Score

Lenders use credit scores to determine how likely a borrower is to default on a loan. Credit scores typically range from 300 to 850. Borrowers with higher scores generally receive the most favorable rates and terms. Help ensure your access to credit by following a few simple rules.

- Make loan payments on time.
- Stay below your credit limit.
- Keep your older cards. The length of your credit history is one factor used in determining your score.
- Don't close accounts. That can result in having less credit available, which can hurt your score.
- Avoid opening several new accounts within a short period of time.
- Consider allowing credit bureaus to add utility and telecommunications payments to flesh out your credit report.
- Monitor your credit reports from the three major credit bureaus: Experian, TransUnion and Equifax.
- Check whether your financial institution or credit card company provides your credit score along with your account information.

Mortgages: One Size Doesn't Fit All

The state of the economy has a lot to do with interest rates, including the rate you'll pay on a mortgage loan. But other factors go into the loan equation. Your credit score, the amount of your down payment, the kind of mortgage you're applying for and the term help determine your interest rate.

There are several types of mortgages. Your personal circumstances will dictate which option best fits your situation.

Conventional Loans

Conventional loans offered by banks, credit unions and lending companies account for the largest percentage of mortgages. A borrower must have a good credit score and a sizable down payment—at least 20% of the purchase price, the threshold for not having to pay PMI (private mortgage insurance). PMI protects the lender in case of default and typically adds a substantial amount to monthly mortgage payments.

15 or 30?

Conventional loans come with 15- or 30-year terms. Monthly payments on a 30-year mortgage are lower, but you'll pay significantly more in interest over the life of the loan. Borrowers who are comfortable with a higher monthly payment should consider a mortgage with 15-year term, which typically offers a lower interest rate.

Fixed versus Adjustable Rate

Lenders may offer both fixed-rate and adjustable-rate mortgages. With a fixed-rate mortgage, payments remain the same for the life of the loan. With an adjustable-rate mortgage (ARM), the interest rate rises, or falls based on market conditions. Although rates may start off low, borrowers' risk higher rates in the future. ARMs are more suited to buyers who don't plan to stay in a home long term.

Government-backed Loans

FHA loans require a smaller down payment and may be appropriate for borrowers who don't qualify for conventional loans. Borrowers must pay a mortgage insurance premium (MIP), generally for the loan's term.

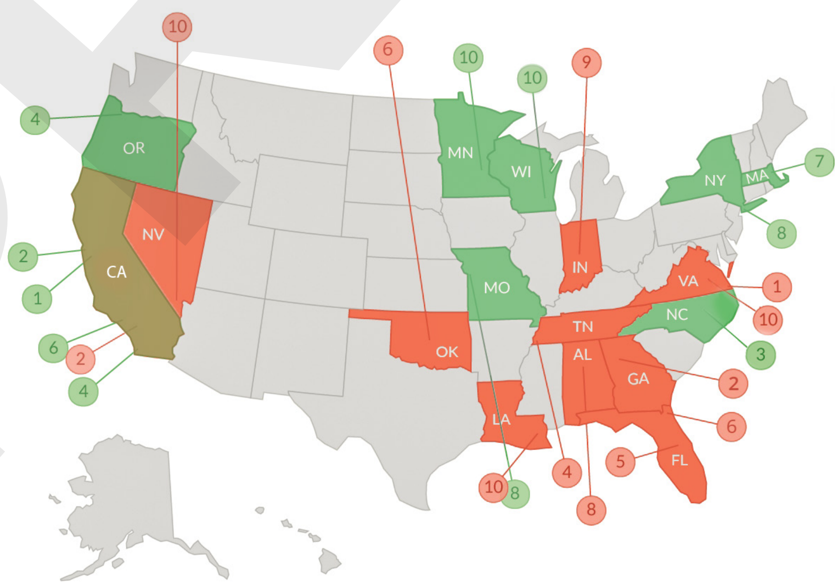
VA Loans are available to servicemembers, veterans, and eligible surviving spouses. This is a lifetime benefit that can be used multiple times. VA loans offer competitive rates and limited closing costs and do not require a down payment or private mortgage insurance.

A Seller's Market

In 2021, competition for homes was very strong in some areas of the U.S. and not as strong in others. According to LendingTree, the most competitive area was San Jose, CA, while the least competitive was Virginia Beach, VA.

Metros with the most competitive homebuyers

- 01 - San Jose, CA
- 02 - San Francisco, CA
- 03 - Raleigh, NC
- 04 (Tie) - Portland, OR
- 04 (Tie) - San Diego, CA
- 06 - Los Angeles, CA
- 07 - Boston, MA
- 08 (Tie) - Kansas City, MO
- 08 (Tie) - New York, NY
- 10 (Tie) - Minneapolis, MN
- 10 (Tie) - Milwaukee, WI



Source: LendingTree

Metros with the least competitive homebuyers

- 01 - Virginia Beach, VA
- 02 (Tie) - Riverside, CA
- 02 (Tie) - Atlanta, GA
- 04 - Memphis, TN
- 05 - Orlando, FL
- 06 (Tie) - Oklahoma City, OK
- 06 (Tie) - Jacksonville, FL
- 08 - Birmingham, AL
- 09 - Indianapolis, IN
- 10 (Tie) - New Orleans, LA
- 10 (Tie) - Las Vegas, NV
- 10 (Tie) - Richmond, VA

Start Early

When you're just starting out in the workforce, you may be spending most of your paycheck on living expenses. So, finding extra money to contribute toward retirement might not be a priority. But the fact is, saving for retirement during the early years of your career can potentially make a big difference in the amount of money you're able to accumulate.

Your Goals

While it might be difficult to imagine what kind of lifestyle you'll want 40 or 50 years from now, thinking about your goals can help you determine how much you should set aside for retirement. In addition to your retirement lifestyle, remember to consider the amount you might need for health care costs or unexpected life events, such as disability or job loss.

Money for Emergencies

As soon you as you begin working, start setting aside money in an emergency fund. Your goal should be to save three to six months' worth of living expenses in an account that you can access quickly without paying a penalty on withdrawals.

Your Employer's Plan

Contributing a portion of your earnings to your employer's 401(k) plan (or another qualified retirement plan) allows you to save money for the future and reduces your current income tax bite. Although you'll pay taxes when you withdraw the money, your contributions and any earnings will have many years to potentially compound and grow tax deferred. A rule of thumb is to contribute at least 15% of your income to your plan. For 2022, you can set aside up to $20,500 in a tax-deferred account. If your employer matches a percentage of your contributions, make sure you take full advantage of these matching funds.

Tax-free Growth

A Roth IRA allows you to contribute after-tax money to an individual retirement account and make tax-free withdrawals of all contributions and earnings. To withdraw the gains without penalty, you must be at least age 59½ and have held the account for at least five years. If you're under age 50, you can contribute up to $6,000 in 2022. However, income limits apply. Consult your financial professional, who can help you set goals and choose investments to help you reach them.

We Value Your Input...

Your feedback is very important to us. If you have any questions about the subjects covered here, or suggestions for future issues, please don't hesitate to call. You'll find our number on the front of this newsletter. It's always a pleasure to hear from you.

FINRA

ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

April 11, 2022

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Link Reference: FR2021-1221-0263

Org Id: 23568

1. LTM Jul/Aug 2022 - Retirement
   Rule: FIN 2210

The communication submitted appears consistent with applicable standards.

Reviewed by,

Jeffrey R. Salisbury
Principal Analyst

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Advertising Regulation
9509 Key West Avenue
Rockville, MD
20850
t 240 386 4500
f 240 386 4568