LET'S TALK MONEY®

March/April 2018

If you work and especially if you are younger, your ability to earn a living is likely your greatest asset. Knowing this, consider how disability income (DI) insurance can help protect that asset.

Disability Happens

When we are younger, it's natural to think we are unbreakable, if not immortal. Statistics, however, point to a different outcome.

The Council for Disability Awareness has a website at www.whatsmypdq.org that calculates your likelihood of becoming too injured or ill to work before normal retirement age. "PDQ" stands for personal disability quotient.

Using this calculator, a 30-year-old male non-tobacco user who is 6 feet tall, weighs 175 pounds, works mostly in an office, has no serious health conditions and a very healthy lifestyle can still expect an 11% chance of having a disability lasting three months or longer. If disabled for three months there is a 35% chance of the disability lasting over five years.

Loss of Income

If this 30-year-old were to become disabled for a lifetime and he previously earned $1,000 per week and expected an average 3% increase per year, the rest of his lifetime earnings is more than $3 million.

Social Security benefits won't make up the difference. Worker's compensation insurance, if you suffer a work-related disability, pays for related expenses. Disability income insurance can help you recoup some lost income.

DI Primer

To figure how much individual DI insurance you might consider, first calculate your expenses. Add potential sick pay, company disability benefits and other related payments. Individual DI can make up the shortfall.

Once you choose your coverage, consider your benefit period. That's how long you want to have benefits last, from a couple of years all the way until normal retirement age. Finally, choose your elimination period. That's how long after your disability-related work absence begins until you receive the first payment of benefits.

The more generous your benefits, the more expensive your premium payments will be. Choose the right benefit for you. Talk to a financial professional to learn how to protect your greatest asset: your income.

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Karen Petrucco
Account Manager

LTM Client Marketing
125 Wolf Road, Suite 407
Albany, NY 12205

Tel: 518-870-1082
Fax: 800-720-0780
kpetrucco@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.

Insurance Version

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The Social Security Numbers Game

When will you begin taking monthly Social Security benefits? You qualify for full benefits once you reach full retirement age. That's age 66 if you were born in 1954, rising to age 67 for those born in 1960 or later. But drawing Social Security early will reduce your benefits, while delaying can increase them.

Your age when you begin taking Social Security benefits will affect your income. The accompanying graphic shows how much (assume a normal retirement age of 67).

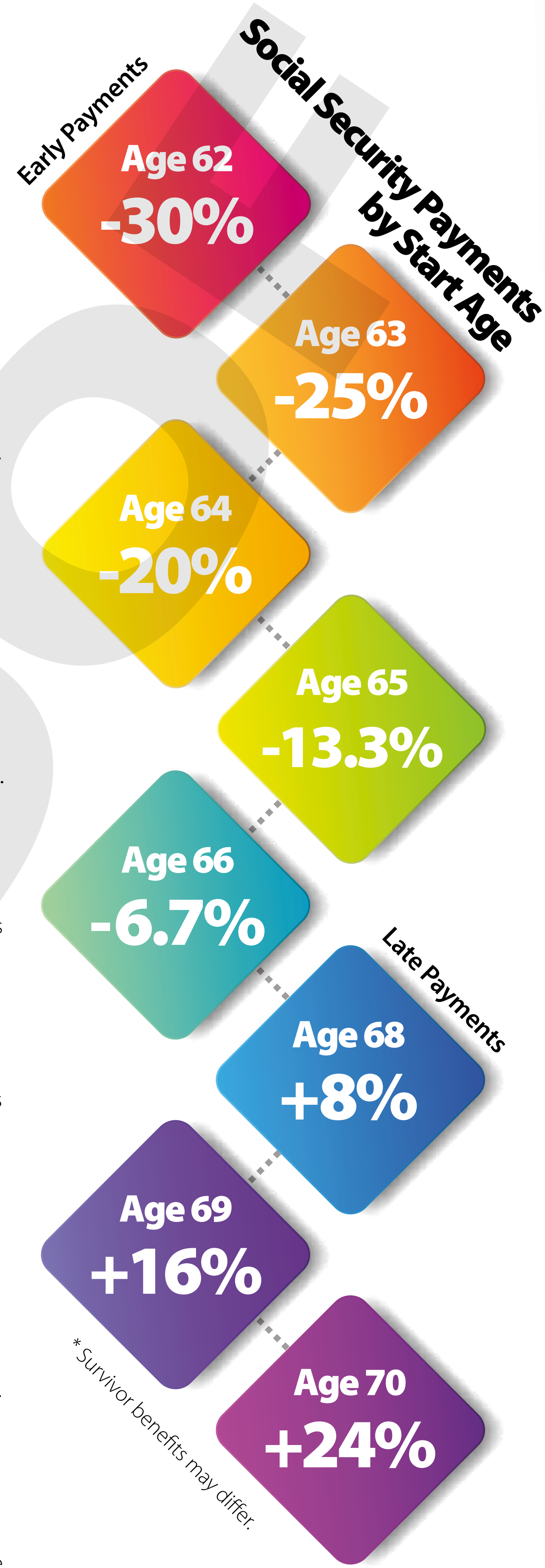
Real Numbers

Let's say your full retirement age benefit when you turn 67 is $1,600 per month. If you retire early at age 62, your monthly benefit would shrink to $1,120. If you wait until age 70 to begin receiving benefits instead, your monthly income would rise to $1,984.

Double Whammy

Taking early benefits and working could shrink your benefits in two ways. If you were under full retirement age all of 2017 and you worked, Social Security deducted $1 for every $2 in benefits over the annual income limit of $16,920. In the year you reach full retirement age, deduct $1 in benefits for every $3 earned above $44,880 in 2017. This deduction ends the month before reaching full retirement age.

Learn more by going to www.ssa.gov or your local Social Security office.



Buy or Rent

If you're young and starting out, home ownership may seem like an impossible dream. However, you can increase your chances by reducing your debt. Answer the following questions to see where you stand.

How much credit card debt do I owe?

Cards from department stores and gas stations are revolving charge accounts, and they often carry interest rates of 20% and higher. If you have a balance on a revolving account, consider paying it off first. Look at tackling high-interest-rate credit cards next.

What about my student loans?

According to the Federal Reserve Bank of New York's Quarterly Report on Household Debt and Credit, Americans owe over $1.3 trillion for student loans. Typically, those loans, held by federal government agencies, have lower interest rates than other types of credit. So tackle debt with higher interest rates first.

So, buy or rent?

Work on your total-debt-to-gross-income ratio. Depending on the mortgage provider, your ratio should range anywhere from 28% to 40% or so. Next, check housing prices compared to paying rent. If rent rates are reasonable and home sale prices are high, money talks. Don't forget to compare other ownership costs, including insurance, taxes, maintenance and travel to work.

College Tax Breaks

A college education isn't cheap, but there are some tax-advantaged ways to save for this expense. Here are a few:

Coverdell ESA

You can establish a Coverdell Education Savings Account (ESA) in the name of any child under age 18 or a special-needs beneficiary. The contribution limit is $2,000 annually until age 18 for each beneficiary. Check with your tax professional to learn if your modified adjusted gross income qualifies to make Coverdell contributions in a given tax year.

Contributions are not tax-free, but potential earnings are tax-deferred. Withdrawals are tax-free when used for qualified education expenses not only at an accredited college, but at elementary, secondary and vocational schools.

AOTC

Get a tax credit of up to $2,500 for the cost of tuition, certain required fees and course materials for higher education with the American Opportunity Tax Credit (AOTC). You can take this dollar-for-dollar credit up to the amount of federal taxes owed every year for four years of qualified study.

Lifetime Learning Credit

Claim the Lifetime Learning Credit for qualified tuition and related expenses, including courses to acquire or improve job skills, of up to $2,000 per tax return. To qualify for either education credit, you must meet annual income limits. You can't take more than one education benefit for the same student in a tax year.

The FAFSA is the federal government's Free Application for Federal Student Aid. Most colleges require the parents of prospective and current students to fill out the form even if they are only applying for school aid and not federal aid.

Submit FAFSA Earlier Now

If you had a student in college a few years ago, you might not be aware that your FAFSA can be submitted earlier than in the past—**October 1**. Because much student aid is first-come, first-serve, it might serve you to file as soon as possible. The filing deadline for the 2018-2019 school year is **June 30, 2019**.

How Much is Higher Education Worth?

Wondering if higher education is worth the high cost? The numbers in the accompanying graph show the value of continued education beyond high school. A Master's degree, for instance, is worth about twice as much as a high school diploma.

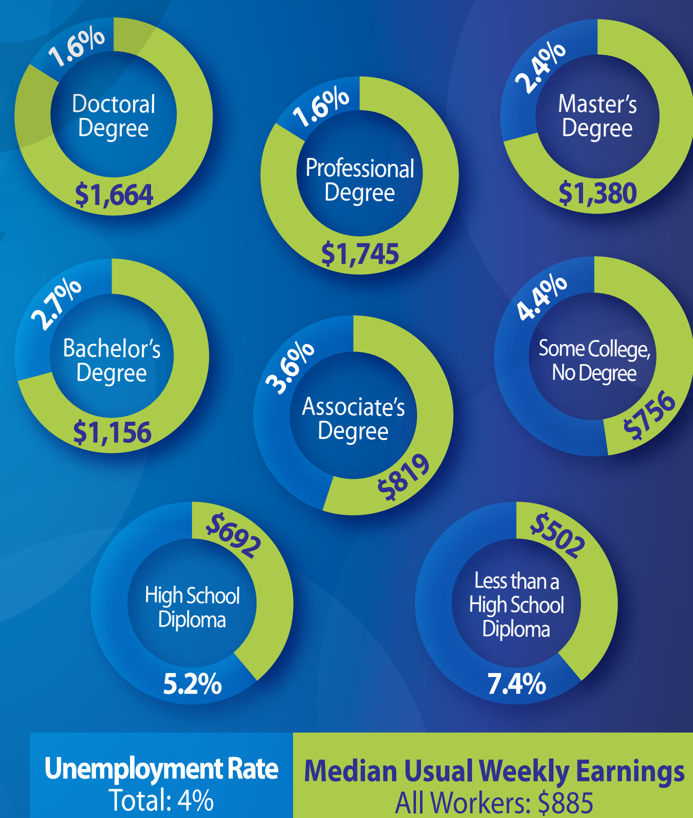
Effect on Unemployment

The data also show that a person's educational attainment in 2016 had an inverse relationship on their employment prospects. For example, the total unemployment rate of persons aged 25 and older was 4%. Those with a high school diploma averaged a 5.2% unemployment rate, while those with a Bachelor's degree averaged about half of that at 2.7%.

Effect on Lifetime Earnings

Add it all up and you can see how a Bachelor's degree or higher can help you earn hundreds of thousands of dollars more over your lifetime than if you only had a high school diploma.

Unemployment rates and earnings by educational attainment, 2016



Note: Data are for persons age 25 and over. Earnings are for full-time wage and salary workers.
Source: U.S. Bureau of Labor Statistics, Current Population Survey.

Annuities for Retirement

While fixed annuities are not the most easily understood financial product, they are a component of financial security for many Americans in retirement.

An annuity is an insurance contract to which you pay a lump sum or multiple premiums in exchange for regular, immediate or future payments. Most annuities offer a guaranteed interest rate in the beginning years, followed by rates that are determined by general market interest rates.

Deferred or Immediate

There are two ways to receive annuity payments: immediately or deferred. The latter is a date specified in the insurance contract. With either annuity, you choose how long you want to receive fixed payments. They usually last from 10 years on up or as long as you live.

Some retirees buy fixed annuities in return for certainty—knowing that they can count on fixed income payments over time, regardless of what may happen with other investments, which can fluctuate in value. Other annuity owners who choose a lifetime benefit option want to ensure some regular income in addition to Social Security benefits, should they live long lives.

Tax-deferred earnings

Another benefit with either type of annuity is its tax deferral on earnings. You pay income taxes on your withdrawals, not as your fixed annuity balance grows. This tax deferral benefit can make a fixed annuity compare favorably to a similar investment that is immediately taxable. Talk to a financial professional to learn if an annuity might fit your financial situation.

An annuity may impose charges, including surrender charges, mortality and expense risk charges, administrative fees, underlying fund expenses, and feature charges that can reduce the value of your account and the return on your investment. You will have to pay federal income tax on earnings you withdraw from the annuity. Payments and guarantees are subject to the issuing insurance company's claims-paying ability. Underlying investment options are subject to market risk and may lose value.

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The material submitted appears consistent with applicable standards.

Reviewed by,

Brian L. Finnell
Associate Principal Analyst

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