LET'S TALK MONEY®
March/April 2018

Reduce Your Taxes

If you invest in a retirement plan through your employer or a traditional IRA, you may not be aware of all the tax advantages. Here are a few reasons why you might want to increase your contributions to them.

This Year's Tax Bill

Your employer deducts contributions made to your 401(k) plan before taxes are calculated, reducing the amount of your reportable income. With less taxable income, you'll pay less to the federal government and your local tax jurisdiction.

For example, contribute an extra $100 per month in 2018 and you would increase your annual retirement contributions by $1,200. If you have a 25% combined tax rate, counting both your federal and local taxes, you will owe $300 less than if you had not made the extra contribution at all. In this way, your retirement plan contributions benefit you now and in the future.

The IRA Way

Depending on your income, contributions to a traditional IRA may also be tax-deferred. Even if your income is too high to qualify for tax deferral, potential earnings are tax-deferred. You will pay taxes only on the amount of eventual withdrawals you take, when you could be in a lower tax bracket than you are now.

Potential Earnings

Because earnings in these retirement accounts are tax-deferred, you get more bang for your investing buck. Each year, every dime of the tax-deferred gain accumulates. Meanwhile, you'll pay tax on dividends and taxable gains of investments in the year they're earned.

Over time, the tax-deferred account will become larger compared to the taxable account when they hold the same investments. This shows that time and compounding, combined with tax-deferred potential growth, can really benefit your future retirement income.

Still Time

At a minimum, try to contribute at least what your employer will match in a 401(k) plan. And if you qualify for tax-deductible IRA contributions, you have until your tax filing deadline to contribute more.

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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.

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).

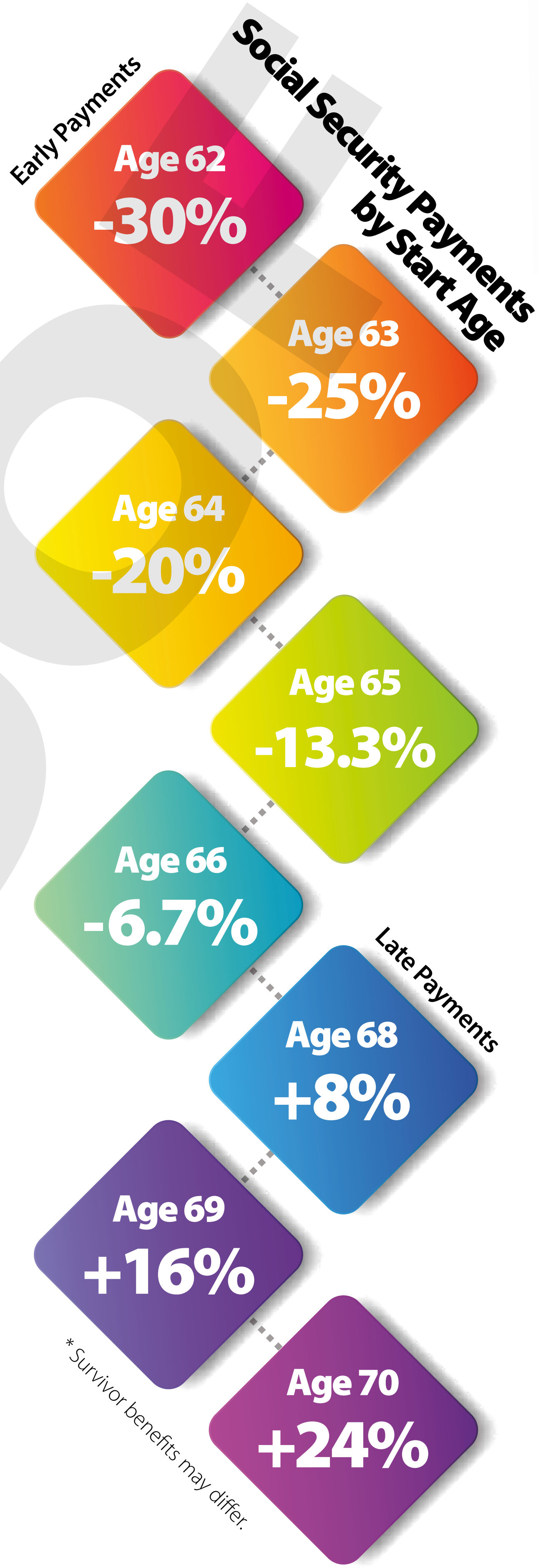
Real Numbers

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.

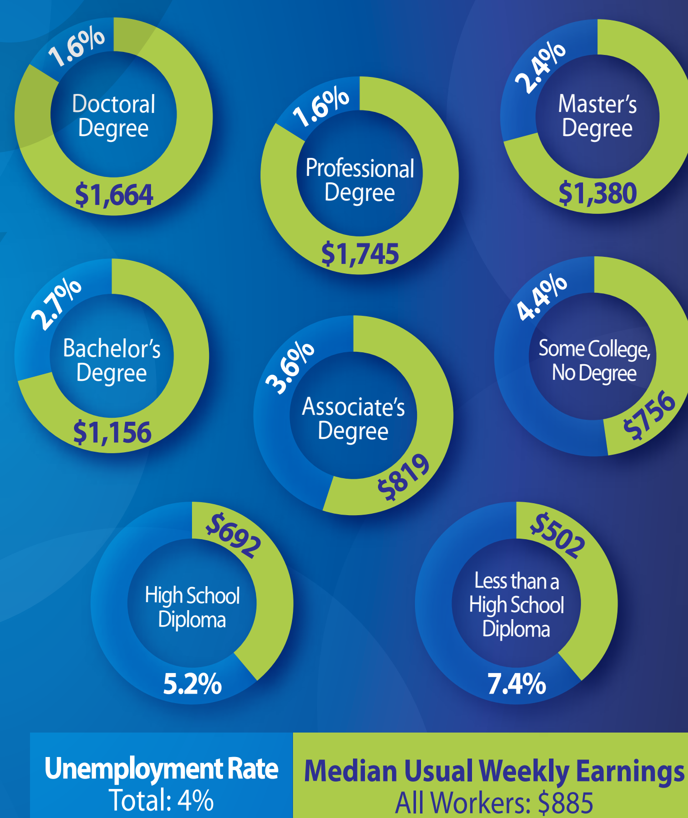
Effect on Unemployment

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.

Teach Your Kids

When it comes to investing, you might want to emulate Warren Buffett, who is one of the world's most successful investors. Despite his success, he is most comfortable buying equities he understands and whose products he often consumes rather than less familiar companies.

For example, he generally steers clear of stocks of technology firms during their formative years, when they have little history to analyze. Buffett will, however, buy stocks of companies that make products he consumes and understands, such as ice cream or soda pop. This real-world approach can make investing more exciting when teaching your teen how investments work.

Age-Appropriate

The stock performance of a particular company might not move teens. But knowing a company that owns their favorite pizza and food chains, or that another firm powers their smart phones and other devices, may elicit their interest.

If your children are in grade school, using this approach on their level can also help them learn about money. They may, for instance, like movies about their favorite superheroes or animated characters. Work with their interests to help them learn the relationship between these products and the companies that make them. It can trigger an interest that will last a lifetime.

Professional Help

Few people can emulate Warren Buffet's consistent record of successful investing, not to mention his buying power. But you can rely on asset managers of mutual funds, who specialize in researching and trading shares of companies that make products and services you know and understand. With mutual funds, your children can own shares of companies that even the biggest names in investing own. Talk to your financial professional to learn more.

** Mutual funds involve risk and are offered by prospectus, which you can get from your registered representative. Carefully consider investment objectives, risks, charges and expenses of the investment company before investing. An investment in mutual funds may result in the loss of principal. Past performance won't guarantee future results.*

We Value Your Input...

Your feedback is very important to us. If you have any questions about any of 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.

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Financial Industry Regulatory Authority

October 30, 2017

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Org Id :8408

REVIEW LETTER

1. 2018 LTM MarApr FINRA Standard
   Rule: FIN 2210
   5 Pages

The material submitted appears consistent with applicable standards.

Reviewed by,

Brian L. Finnell
Associate Principal Analyst

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