

LET'S TALK MONEY®

March/April 2019

Making a Roth IRA Conversion

If you're nearing or in retirement and concerned that income tax rates will rise, you may want to convert a portion or all of your taxable retirement plan assets to a tax-free Roth IRA*. Here's how it works.

Overcoming Obstacles

A major obstacle for many people considering a Roth conversion is their tax bill. The amount you convert from a tax-deferred retirement plan, such as a 401(k) or a traditional IRA, is considered a distribution and is added to your taxable income in the year you convert. This can create a larger tax bill than expected and potentially move you into higher income tax brackets.

If you're nearing retirement but still working, the extra income can also cause you to become ineligible for current contributions to an existing Roth IRA. In 2018, income limits begin at \$189,000 and phase out at \$199,000 for taxpayers who are married and filing jointly or heads of households, with limits for single filers phasing out between \$120,000 and \$135,000.** But you do have alternatives if that's the case.

Little by Little

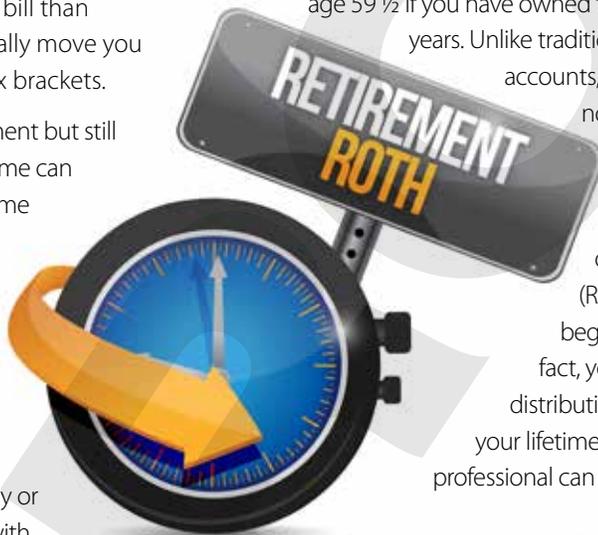
Consider converting tax-deferred retirement account assets in portions in order to meet the income qualifications and keep your Roth IRA

contribution eligibility. In this way, you spread out the conversion tax bill over time. If you were still working in 2018, you can contribute up to \$5,500 annually to the Roth IRA, just as you can to a traditional IRA. If you're at least age 50, you can add another \$1,000 in catch-up contributions.

Qualified Roth IRA distributions are tax-free after age 59 ½ if you have owned the IRA at least five years. Unlike traditional retirement

accounts, the Roth IRA is

not subject to what's known as required minimum distributions (RMDs), which must begin at age 70 ½. In fact, you needn't take a distribution from a Roth in your lifetime. Your financial professional can tell you more.



** Converting from a traditional IRA to a Roth IRA is a taxable event. A Roth IRA offers tax free withdrawals on taxable contributions. To qualify for the tax-free and penalty-free withdrawal of earnings, a Roth IRA must be in place for at least five tax years, and the distribution must take place after age 59 ½ or due to death, disability, or a first time home purchase (up to a \$10,000 lifetime maximum). Depending on state law, Roth IRA distributions may be subject to state taxes.*

*** <https://www.irs.gov/retirement-plans/plan-participant-employee/amount-of-roth-ira-contributions-that-you-can-make-for-2018>*



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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.

Retirement Version

LTM Client Marketing

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2018 Tax Changes: Coming and Going

As the filing deadline nears for your 2018 federal tax return, it may be helpful to brush up on changes that can affect how much you pay. Some of the changes cited below are subject to income limits and other qualifications, so check with your tax professional to learn about these and other changes to your 2018 return. Also beware that many individual changes will expire in 2026.

More Tax Breaks

The standard deduction increased significantly to \$12,000 for individuals, \$24,000 for couples filing jointly and \$18,000 for heads of households. Income brackets at which you pay ordinary and capital gains tax also increased significantly, as did the threshold at which taxpayers must pay the Alternative Minimum Tax (AMT). Your children under age 18 may net you a \$2,000 child tax credit, if you qualify by income.

The estate tax exemption* more than doubled to \$11.18 million for single taxpayers and \$22.36 million for couples filing jointly. You can deduct charitable contributions of up to 60% of your adjusted gross income, and inflation indexing boosts the annual gift tax exclusion to \$15,000 per taxpayer per recipient. The limit on qualifying income for taking itemized deductions also disappears in 2018.

Fewer Tax Breaks

A combined limit of \$10,000 for state and property tax deductions is new to 2018, which taxpayers in highly taxed states will notice. The mortgage cap on the amount of all home loan interest you can deduct is \$750,000, down from \$1 million. Interest on home equity loans and second mortgages is deductible only for money used for home improvements. Deductions for personal exemptions, moving expenses (service members exempt), unreimbursed job expenses, and casualty and theft losses outside a federal disaster area are also history.

Business: Give and Take

Corporate income taxes decreased, and owners of S corporations and other business entities may see taxes reduced through a special pass-through income tax provision. Section 179 expensing limits doubled to \$1 million with a \$2.5 million phase-out, and certain equipment and bonuses may be 100% depreciated in the year the expense is incurred.

However, employee transportation benefits are no longer deductible. Neither are entertainment expenses. Larger businesses will also see the end of full interest expensing, which is now limited to any business interest income plus 30% of the business' adjusted taxable income.

Look Ahead

Alimony payments received according to agreements created or modified after 2018 will no longer be taxable.** You may deduct unreimbursed medical expenses exceeding 7.5% of adjusted gross income. If you don't have a qualified health insurance plan, you may owe a tax penalty of \$695 per adult or 2.5% of household income, whichever is higher, in 2018. The penalty expires in 2019.

Still Time

Income qualification and contribution limits, which are indexed to inflation, increased for a variety of qualified retirement plans and you still have time to set up and contribute to a traditional IRA before your tax filing deadline. You may also contribute to a Roth IRA until that date. While a Roth IRA doesn't offer tax-deferred contributions, its growth and eventual distributions (when meeting certain terms) are tax-free.***

* <https://www.irs.gov/businesses/small-businesses-self-employed/whats-new-estate-and-gift-tax>

** <https://www.irs.gov/taxtopics/tc452>

*** Distributions from traditional IRAs and employer sponsored retirement plans are taxed as ordinary income and, if taken prior to reaching age 59 1/2, may be subject to an additional 10% IRS tax penalty.



Spring-Clean Your Finances

Now is not only a good time to spring-clean your house, but to take care of financial matters you may have put off. Consider the following:

Get Your Act Together – If you have receipts here, statements there and insurance documents who knows where, start your spring cleaning by organizing them and streamlining your recordkeeping. The accompanying article lists how long you should keep certain tax records, but you can also use it as a guide to reduce other financial records, including utility statements and most credit card receipts.

Document the Important Stuff – This begins with a will so that your loved ones have direction when you can't give it. Talk to an attorney to draw up a will and, while you're at it, a healthcare proxy and powers of attorney.

Coordinate Your Insurance – Consider putting all of your insurance documents in one place so that loved ones can find the information needed to make a claim. Include policy and contact information not only for individual life, health and property/casualty insurance, but also for any benefits you may buy through work, such as disability income insurance.

While you're at it, talk with your insurance professional to make sure you're covered appropriately and beneficiary designations are current.

Organize Your Investment Information – Leave information about your various investments and retirement accounts in an accessible place for loved ones to find. Use technology to organize these documents. And work with a financial professional to help you stay on track with your investing goals.



Get Organized!

Organizing your financial records can help you find what you need this tax season. Begin by understanding how long you need to keep the following records, courtesy of the IRS:

- Three years for most records if you have reported all your income.
- Four years for employment tax records.
- Six years if you under-report at least 25% of your income.

- Seven years if you filed a claim for worthless securities or bad debt.
- Indefinitely for years when you didn't file a tax return or filed a fraudulent one.



Five Credit(able) Steps to a Higher Credit Score

Your credit score is often the driver when looking for the best deal on a credit card or auto loan. Here are some steps to help increase your credit score:

1. Check your credit scores. Get a free credit report every year from Equifax, Experian and TransUnion. Examine each for errors.



2. Shrink your debt. You may want to start by paying off your credit card with the highest interest. This is one step to a better income-to-debt ratio and a better credit score.



3. Expand your income. You might accomplish this step with a part-time job, overtime or freelancing.



4. Automate your savings. Lower debt and more income means you can save more for big goals, including retirement. Make your IRA and 401(k) plan contributions automatic.



5. Review as needed. Once you create a sparkling credit profile, check regularly to keep it that way.



Avoid These Retirement Planning Mistakes

It's easy to put things off until tomorrow, especially when that tomorrow is years away. This attitude is just one of many ways we can derail or delay saving for retirement. Here are some mistakes to avoid.

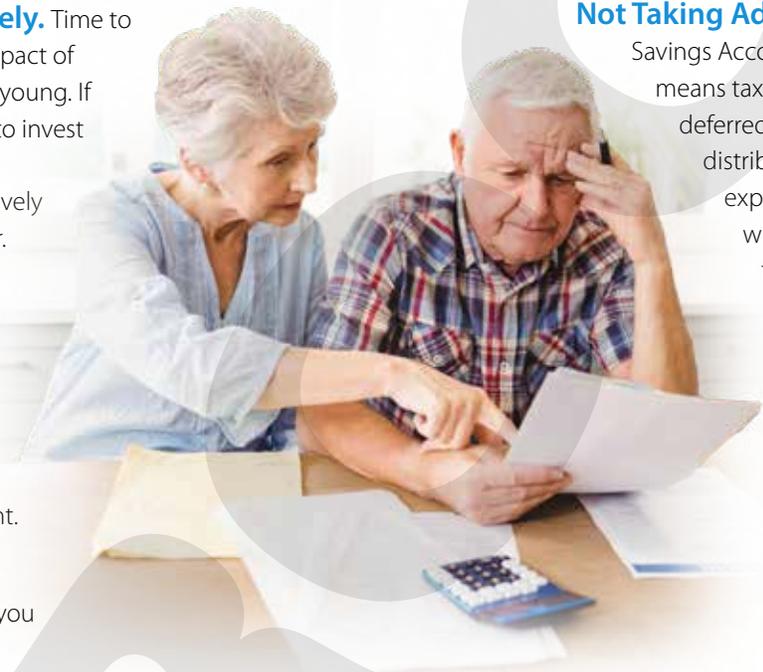
Starting Late. Check out www.investor.gov's compound interest calculator to figure how time can work to your advantage. If you contribute \$800 per month that gains 5% annually, compounded daily, you will accumulate over \$1.2 million after 40 years. Delay contributions 20 years, double the monthly contribution to \$1,600 with the same terms over the next 20 years, and you'll have about \$660,000. Time and compounding make a huge difference, so save early and regularly.

Investing Inappropriately. Time to recover may help ease the impact of market volatility when you're young. If you're retired, you may want to invest for enough growth to match inflation, but more conservatively than when you were younger.

Not Maximizing Your Employer's 401(k) Match.

Don't leave money on the table. If your employer matches some of your contributions, consider putting in at least that amount.

Going Without a Retirement Account.



don't have a retirement plan through work, consider opening and contributing to an individual IRA. You have until the tax filing deadline in April to have it count for 2018.

Taking Plan Loans for Vacations. Don't tap your retirement funds for a frivolous expense, which puts you behind the eight ball for retirement and costs you interest, too. See the earlier interest calculator example.

Taking Plan Loans for College Expenses. This isn't a frivolous expense, but you and your child may be able to borrow or save for it in more appropriate ways. You can't borrow for retirement.

Not Taking Advantage of an HSA. Health Savings Accounts are triple tax-free. This means tax-deferred contributions, tax-deferred earnings and tax-free distributions for qualified health care expenses. After age 65, you can take withdrawals for any reason penalty-free — just pay income tax on the unqualified amount.

Making the Ultimate Mistake. You haven't created a long-term savings strategy? Work with a financial professional to create one and fine-tune it as your situation changes.

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ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

November 8, 2018

Reference: **FR2018-1010-0148/E**

Org Id: 8408

1. 2019 LTM Mar-Apr Retirement
Rule: FIN 2210
5 Pages

The communication submitted appears consistent with applicable standards.

Reviewed by,

Wayne L. Louviere
Manager

aec

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