

# LET'S TALK

# MONEY<sup>®</sup>

September/October 2023

## Planning for Retirement? Keep Taxes in Mind

Do you have big plans for retirement? The IRS has some big plans, too, namely to collect the taxes you didn't pay on the tax-deferred savings in your employer's qualified retirement plan or traditional IRA. As you contemplate life after work, think about how the money you've invested for retirement will be taxed. Your tax advisor and financial professional can help.

### 401(k), 403(b) Plan/Traditional IRA —

Contributions and earnings are tax deferred until withdrawal. Starting in 2023, required minimum distributions (RMDs) start at age 73. For 401(k) and 403(b) plans, RMDs can be delayed if you're still working and don't own more than five percent of the company. For traditional IRAs, RMDs must start at age 73 even if you're still working. Withdrawals are taxed at your ordinary income tax rate.

Withdrawals before age 59½ generally incur a 10% penalty.

### Roth IRA and Roth 401(k)

— Contributions are made with after-tax dollars, but withdrawals of earnings are tax free. Account owners can make penalty free withdrawals of earnings after age 59½ once the account has been open for at least five years.

**Pensions** — Withdrawals are taxable at ordinary income tax rates, assuming no after-tax contributions were made.

**Social Security** — Benefits aren't taxed if provisional income is less than \$25,000 for single filers and \$32,000 for married joint

filers. With income between \$25,000 - \$34,000 single and \$32,000 - \$44,000 joint, up to 50% of benefits may be taxed. If provisional income exceeds \$34,000 single and \$44,000 joint, up to 85% of benefits may be taxed. Provisional income equals your income and any tax-exempt interest, plus 50% of your Social Security benefit.

**Annuities** — If annuities are purchased with pretax dollars, such as in a qualified retirement account, payments are taxable as ordinary income.

### Stocks, Bonds, Mutual Funds —

Proceeds from the sale of investments held longer than one year are taxed at long-term capital gains rates. Gains on investments held less than one year are taxed at ordinary income tax rates.

**Municipal Bonds** — Interest is exempt from federal, and sometimes state, tax. Capital gains rates apply to the sale of municipal and corporate bonds.

**Dividends** — Qualified dividends are taxed at capital gains rates. Nonqualified dividends are taxed at ordinary income tax rates.



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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

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helping financial professionals stay connected

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# Should You Consolidate Debt?

Debt consolidation offers a way to combine some or all your debts into a single payment, often at a lower interest rate. If you have substantial debt that carries high interest rates, a debt consolidation loan may lower your payments and allow you to pay off your debt more quickly.

## Which Debts Should You Consolidate?

Begin with any unsecured debt that you have. Unsecured debt is any debt that isn't backed by an asset, such as your home or car. Paying off credit card balances that carry high interest rates is frequently the reason people seek debt consolidation loans, but consolidation may also benefit those with medical debt or cash advance (i.e., Payday) loans, which typically have high interest rates.

## Favorable Terms

A debt consolidation loan allows you to pay off multiple creditors and make a single payment each month to one lender. Unlike credit cards, consolidation loans have a clear timeline for paying off the debt. The monthly payment may be lower than the combined payments you are currently making.



## Benefits of Consolidation

Having a single payment each month can simplify your finances and make them more manageable. By not having to keep track of multiple debts, you're less likely to miss payments that incur late fees and reduce your credit score.

## First Steps

Before you apply for a debt consolidation loan, make sure you aren't behind on any payments. It's also a good idea to check your credit score to see where you stand.

# A Checklist for Loved Ones

The death of someone close to you brings with it many important tasks that must be completed, despite your grief and confusion. The following checklist can help you prioritize.

- ❖ Locate the will and other estate planning documents.
- ❖ Request several copies of the death certificate from the funeral home director. They'll be required as proof of death in a variety of situations.
- ❖ Notify financial institutions, creditors, Social Security Administration, and the three credit bureaus.
- ❖ If appropriate, contact pension plans or annuity providers to find out if a spouse is entitled to benefits. If the deceased was a veteran, also contact the Department of Veterans Affairs.
- ❖ Retitle assets, such as property and joint accounts.
- ❖ Notify the deceased's insurance companies and file claim(s) for life insurance proceeds. The National Association of Insurance Companies maintains a database to help with locating a policy.
- ❖ Remove social media accounts if you have access.
- ❖ If you're the spouse, update your own estate planning documents, including beneficiaries on retirement accounts and life insurance policies.
- ❖ Set up a meeting with your financial professional, estate attorney and tax advisor.



# Claiming the Lifetime Learning Credit

Higher education costs have skyrocketed over the years, so who wouldn't appreciate a little help paying for them? The Lifetime Learning Credit is a nonrefundable tax credit that can offset the cost of tuition and related expenses at eligible institutions.

## Who Can Claim the Credit?

The credit can be claimed for you, your spouse or any other eligible dependent listed on your tax return. The person must have qualified education expenses at an eligible institution and be taking undergraduate, graduate or professional degree courses or courses to obtain or improve job skills. You or your dependent must be enrolled for at least one academic period that begins in the tax year for which you're claiming the credit. You don't have to be pursuing a degree. The credit is also available for postsecondary continuing education and professional development certificate programs.

## Eligible Institutions and Expenses

Eligible institutions include public and private colleges and universities, vocational schools, and other postsecondary institutions. The credit can be claimed for tuition and fees and required expenses, such as equipment and supplies. The credit cannot be used for living expenses, including room and board, insurance, medical costs, transportation, or special services. Generally, it also cannot be used to purchase books from a school bookstore.

## What Is It Worth?

The Lifetime Learning Credit is worth 20% of the first \$10,000 of qualified expenses, for a maximum of \$2,000. The credit is per tax return, not per person. Income limits apply. You must file a federal tax return and attach *Form 8863 Education Credits*. Keep in mind that if you use 529 funds or are reimbursed for educational expenses by an employer, you can't claim the credit for the same expenses. Consult your tax advisor regarding your situation.

# The Cost of College

Institutional financial aid offices have constructed an average student budget for full-time undergraduate students for the 2022-23 school year. The budget items include tuition/fees, room and board, books/supplies, transportation, and miscellaneous expenses. Amounts are before any financial aid is awarded.

Public 2-year in-district commuter	\$19,230
Public 4-year in-state on campus	\$27,940
Public 4-year out-of-state on campus	\$45,240
Private nonprofit 4-year on campus	\$57,570

Source: College Board 2023, Trends in College Pricing 2022



## FAFSA Makeover

The FAFSA (Free Application for Federal Student Aid) that students and parents complete to apply for financial aid is becoming shorter and easier to navigate, thanks to the FAFSA Simplification Act. Scheduled to begin with the 2024-25 award year, the revisions to the form are designed to streamline the application process. Here are some highlights. The Act:

- ❖ Changes the methodology for determining aid. The Expected Family Contribution (EFC) is replaced by the Student Aid Index (SAI);
- ❖ Expands access to Federal Pell Grants and Federal Direct Loans, so more students will qualify;
- ❖ Includes a new interface to directly receive tax information from the IRS;
- ❖ Eliminates the reporting of financial contributions from others (grandparents, etc.);
- ❖ Increases the amount of income excluded from the financial aid eligibility formula;
- ❖ Eliminates the discount for having multiple children in college, effectively reducing financial eligibility for those families.

Additional information is available at [studentaid.gov](https://studentaid.gov)



# Let a Sound Financial Strategy Guide Your Decisions

Your ultimate destination may be retirement, but having a well-thought-out strategy can help you make informed financial decisions throughout your lifetime. A good strategy can help you understand where you currently stand and help you reach the goals you set for yourself.



## Who Needs It?

In a word, everybody. The importance of knowing how your money is spent and where it's invested cannot be overstated.

Your first step in the process should be to define your goals. You are saving for retirement, sure, but you will have many other goals along the way that you are striving to reach. Paying off debt, accumulating the down payment on a home, and saving for college for your kids may all be important components of your financial strategy.

## How Will You Get There?

Consider the steps you need to take to reach all your goals. Participating in your employer's 401(k) or other qualified retirement plan and contributing through automatic payroll deduction can get you started with saving for retirement. Make sure you contribute enough to qualify for any employer matching funds.

Having money from each paycheck directly deposited into a savings account can help you save money to pay off debt and

fund a home purchase. And, by contributing to a 529 college savings plan, you will have a head start on paying college costs.

## Build Your Portfolio

Once you have defined your goals, building an investment portfolio that will help you reach them is the next step. Think about the kind of investor you are based on how comfortable you are with risk. Then consult your financial professional and come up with an investment strategy you can live with based on your goals and risk tolerance.

## No Limits

A financial strategy should encompass all aspects of your financial life. In concert with your attorney and tax professional, your financial professional can help you manage risk, while working toward all your financial goals.

Meet with your advisors annually to review your progress and make adjustments, if necessary.

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## ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

June 02, 2023

Reference: **FR2023-0511-0073/E**

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1. Let's Talk Money Newsletter - SepOct 2023 Retirement  
Rule: FIN 2210

Our review is based on your representation that the final version of this communication will prominently disclose the name of the member, pursuant to FINRA Rule 2210(d)(3)(A).

The communication submitted appears consistent with applicable standards.

Reviewed by,

Jeffrey R. Salisbury  
Principal Analyst

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