Loose Change®

a penny saved is a penny earned

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Alison Brew
Account Manager
LTM Client Marketing
45 Prospect Avenue
Albany, NY 12206

Tel: 518-870-1083
Toll Free: 1-800-243-5334 ext. 510
Fax: 1-800-720-0780
abrew@ltmclientmarketing.com
ltmclientmarketing.com

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UITs: A Good Fit for Your Portfolio?

Investors who are looking to add diversification* to a portfolio may want to consider a unit investment trust (UIT).** UITs are fixed portfolios of stocks, bonds or other securities professionally chosen to meet a specific investment objective, such as growth, income or capital appreciation.

Different Strokes

UITs are constructed to fit a variety of investment objectives.

- Equity UITs hold domestic and/or international stocks. They may mirror a market index, invest in specific market sectors or follow a particular investing strategy.
- Corporate bond UITs hold bonds issued by corporations.
- International bond UITs hold debt issues of foreign companies and governments.
- Municipal bond UITs hold bonds issued by states or municipalities.
- U.S. government securities UITs hold government securities, such as U.S. Treasury bonds and notes.
- Mortgage-backed securities UITs hold mortgages backed by government-sponsored enterprises, such as Ginnie Mae and Freddie Mac.

Once selected, investments in a UIT generally don't change. Your goals and risk tolerance will help determine the type of UIT that works best in your portfolio.

What's in It for Me?

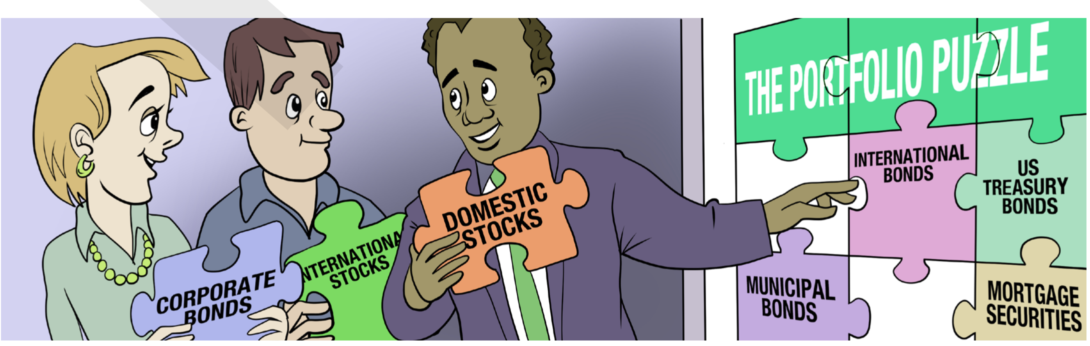
Because of their diversified portfolios, UITs can help reduce investment risk at an affordable price. Keep in mind, though, that a UIT has charges and fees (outlined in the trust's prospectus) that can affect returns, so it's important to compare options before you invest. Your financial professional can help.

Cashing In

UITs are dissolved on a date that's established when the trust is created. Duration can be from one or two years to several years. Once the UIT is terminated, securities are sold, and any proceeds are distributed to investors.

**Diversification cannot eliminate the risk of investment losses. Past performance won't guarantee future results. An investment in stocks or mutual funds can result in a loss of principal.*

***Investors should consider the investment objectives, risks, charges, and expenses of the fund before investing. Contact the issuing firm to obtain a prospectus which should be read carefully before investing or sending money. Because fund values fluctuate, redeemed shares may be worth more or less than their original value. Past performance won't guarantee future results. An investment in UITs may result in the loss of principal.*



Buying on Time

Paying for items over time is nothing new. 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 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?

If you miss a payment, you'll be charged a late fee, and possibly interest, on your purchases. These fees can quickly spiral out of control.

A Better Way

Companies offer the installment option to encourage shoppers to buy more. 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.

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Working for Tips

Under federal law, employers must pay at least $2.13 per hour, as long as the hourly wage combined with the tips received equals the federal minimum wage of $7.25 per hour or more. If not, employers must make up the difference. Keep in mind that many states require a higher hourly wage for tipped workers.

Community Tip Pool

Tip pooling is when the tips collected are put into a large "pool" and redistributed among a larger group of employees. Usually, a distribution rate is set by the employer and includes employees who don't customarily receive tips like dishwashers, chefs, and cooks.

Employers, managers, and supervisors are prohibited from keeping employees' tips. Like pay rates, states have their own rules for tip pooling that may go beyond the federal requirements.

Reporting

All cash tips are subject to Social Security, Medicare, and income tax. Employees are required to report monthly tip totals to the employer for tax reporting and withholding. Employers must retain tip reports, withhold taxes on the hourly wage and tip income, and deposit the tax with the IRS. In addition, employers are also responsible for paying the employer's share of Social Security and Medicare taxes.

Hire Your Children

One of the monetary benefits of having children is that you get to claim them as dependents when you file your income taxes. But business owners may be able to take advantage of another benefit: a tax deduction for putting your child to work.

Hiring your children to work in your business provides them with an opportunity to earn money while giving you a break on taxes. When you hire your children, you're able to deduct their wages, lowering your business's taxable income. However, payments for the services of a child are subject to income tax withholding regardless of age.

The IRS has strict rules for business owners who want to hire their children.

If you fail to follow them, you'll forfeit the tax deduction for their salaries and benefits.

Give Them a Real Job

The duties your child performs must be necessary and appropriate for your business. Tasks such as answering phones, filing, helping with your website or social media accounts, running errands, etc., can qualify. Just make sure the work is suitable for the age of your child and keep accurate records of the hours your child works.

Offer Reasonable Compensation

The compensation your child receives should be the amount you would pay an outsider for doing the same work. Paying your child by check or through direct deposit — never in cash — provides a record of your child's earnings to show the IRS.

Reap the Tax Benefits

Your child can earn up to $12,950, the standard deduction for a single taxpayer in 2022, without owing income taxes. You get to deduct the earnings of each child your business employs, potentially reducing your taxable income by a substantial amount.

Your tax professional can help you with the details of hiring your children and keep you from running afoul of IRS tax rules.

Legacy Planning: Keep Taxes in Mind

If you're planning to leave a financial legacy to your family or favorite charity, be sure to work with your financial professional, estate planning attorney and tax specialist. They can help ensure that your documents are drafted properly and consider taxation of your plan.

Your Accounts

Start by confirming that your accounts are titled appropriately and beneficiary designations are up to date. Review designations periodically, especially if your intentions or tax laws change.

Your Strategy

You may be tempted to withdraw funds for living expenses from taxable investment accounts to take advantage of lower capital gains rates. But that strategy could leave your heirs with a large tax bill. Why? Withdrawals from a traditional IRA or qualified retirement plan account are taxed at ordinary income tax rates.

However, appreciated assets, such as stocks, generally receive a step up in basis at the owner's death, so any appreciation since you acquired the investment won't be taxable to your heirs. (This benefit may be limited in the future.)

Work Arounds

- Consider converting all or a portion of the money in a traditional IRA or qualified retirement account to a Roth IRA. Make sure you have other assets to pay income taxes on the conversion.

- Naming a charity as the beneficiary of a qualified retirement plan account or traditional IRA allows the organization to receive the assets tax free. Your estate may also receive an estate tax deduction for the donated assets. Find rated charities at *https://www.charitynavigator.org*.

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Mortgage Loans: 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 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. Your personal circumstances will dictate which type of mortgage 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 veterans and don't require a down payment. However, if the housing market drops, borrowers could owe more than their home's value.

How Much House Can You Afford?

With mortgage rates trending higher, you'll want to find out how much money you can borrow before you start house hunting Knowing your price range allows you to focus on homes that are within your budget.

Prequalified versus Preapproved

You can learn how much you'll be able to borrow by getting either prequalified or preapproved for a mortgage. Prequalification gives you an estimate of the loan amount based on the income, employment, bank account and credit information you report to the lender. Preapproval requires you to provide the actual documentation the lender needs to make a decision: W2s, pay stubs, bank statements, investments, loans/debts, and other relevant financial information for you and your spouse, if applying jointly.

The 36% Guideline

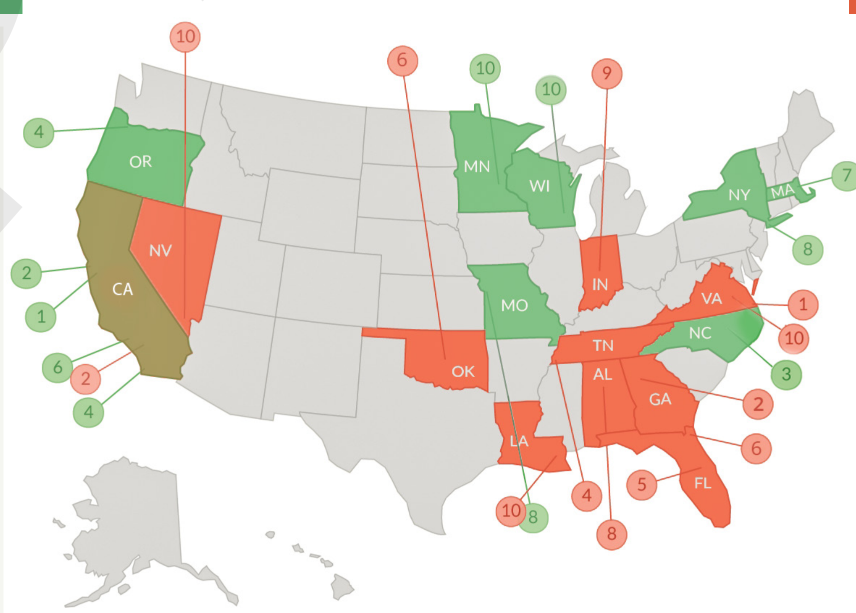
Lenders typically want your total monthly debt payments (loans, credit cards, car payments), plus your mortgage, homeowners insurance and property taxes to be no more than 36% of your pretax income. Many financial websites offer mortgage calculators to help you estimate how much payments will be at various interest rates.

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

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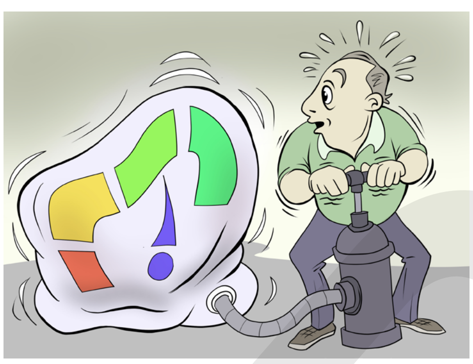
How to Raise Your Credit Score

- 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.

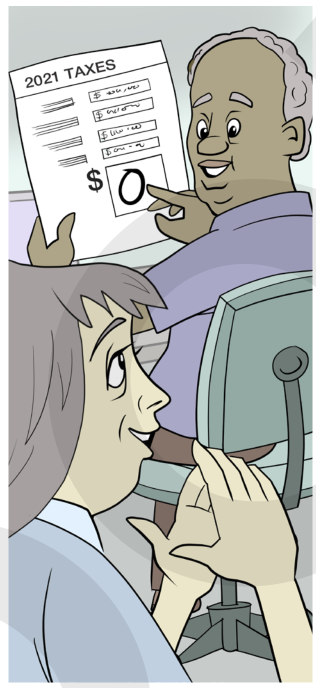


Consider Taxes in Your Retirement Planning

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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1234 Main Street
New York City, NY 10001

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Buffalo, NY
Permit No. 37

YOUR CLIENT’S NAME
123 MAIN STREET
CITY, STATE 11111

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ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

April 11, 2022

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1. Loose Change Jul/Aug 2022 Newsletter
   Rule: FIN 2210

The communication submitted appears consistent with applicable standards.

Reviewed by,

Jeffrey R. Salisbury
Principal Analyst

hrm

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