LET'S TALK MONEY®

November/December 2020

Retirement and the COVID Crisis

The COVID-19 pandemic has likely affected most retirement plan balances and people's ability to save monthly. But the hardest hit were retirees or those nearing retirement.

Boomers at Risk

Unfortunately, retirees and older workers have little time to recover portfolio losses. Some nearing retirement may have experienced permanent job loss, forcing them to tap retirement savings, claim Social Security benefits or even retire earlier than planned leading to permanently reduced income.

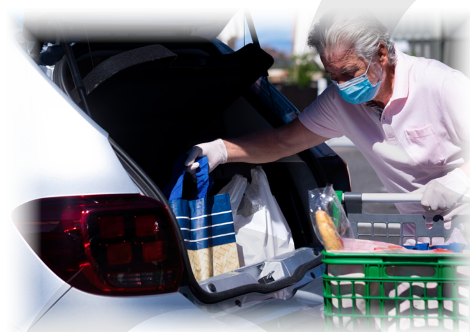
Generally, most people should try to avoid accessing retirement funds early. However, if you must tap your retirement accounts due to the pandemic the CARES Act included several tax breaks that may be helpful:

- The CARES Act waives the usual 10% early withdrawal penalty on coronavirus-related distributions taken from IRAs and 401(k)s before age 59½ in 2020.

- Coronavirus-related distribution income can be spread out over three tax years – potentially lowering your overall tax hit. However, it may make sense to report the entire distribution this year if your estimated income for tax year 2020 is unusually low.

- If your 401(k) plan allows for employee loans, the CARES Act doubled the amount you may borrow from $50,000 to $100,000 in 2020.

Know that these tax breaks will expire December 31, 2020, unless Congress acts to extend them.



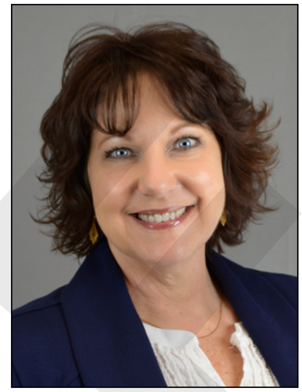
Take Action

For most people, the best path is the same as always:

Stay the course with your investments. Remember that markets have historically recovered and reached new highs.* You do not want to miss out on the upswing, so maintain an asset mix in your portfolio that's appropriate for your needs, goals, time horizon and risk tolerance. This may require that you work with your financial professional to assess your situation and rebalance your portfolio.

During stressful times like these, it is important to reign in emotions so as to prevent making bad decisions. Work closely with your tax and financial professionals to help focus your savings and tax strategies toward a financially secure future.

**https://www.morningstar.com/features/what-prior-market-crashes-can-teach-us-in-2020 . Past performance does not indicate future results.*



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Retirement Version

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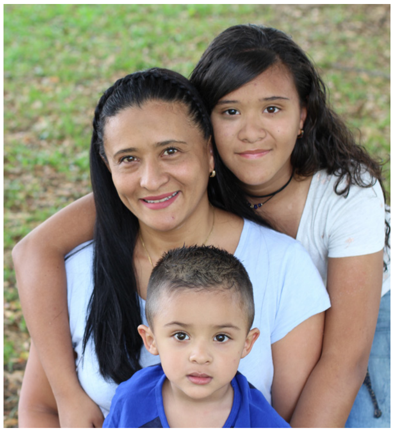
Widowed Parents and Taxes

Life can be turned upside down in a minute. A sudden car accident could result in someone becoming a widow(er). That type of event changes everything, including your tax filing status. It is especially difficult for parents of minor children. Here's a brief overview of what any recently-widowed parent should know.

Filing Status



You may retain the married filing jointly status for the year in which your spouse died, even if you filed separately. This is important, because it lets you keep a much higher standard deduction, which is $24,800 in 2020.

After that, you may be able to file as *qualifying widow(er) with a dependent child* status for up to two years. This would allow you to retain the same standard deduction as married filing jointly.

Who Qualifies?

Here are some general requirements for filing as a qualifying widow(er) with a dependent child:

- You must have qualified for married filing jointly status in the year of your spouse's death;
- You have a dependent child, stepchild, or adopted child (not foster child) living with you, or temporarily at school, and you pay over 50% of the costs of your home;
- You have not remarried. Remarriage in the same year as a death would require the widow(er) to file as either married filing jointly with their new spouse or married filing separately. With either, a married filing separately tax return would need to be filed for the deceased spouse.

Tax tips for Recently Widowed

1. **Claim Your Tax Refund**
You may be entitled to your deceased spouse's tax refund.

2. **File as a Head of Household**
If you were able to file as a qualifying widow(er) for two years you'll have to change your tax filing status in year three. If you are providing support to a child, grandchild, sibling or other relative, you may qualify for head of household status. This is normally preferable to filing as a single taxpayer.

3. **Sell Your Home**
If you have a highly appreciated marital home, consider selling it within two years. This preserves a much larger $500,000 capital gains exclusion than the $250,000 exclusion available to single filers.

4. **Assess Life Insurance Needs**
Your life insurance needs may have changed. Meet with your financial professional to review your new situation.

5. **Social Security**
If you were both taking a Social Security income benefit at the time of your spouse's passing, you will now only be receiving one of those benefits. However, the new benefit should be the larger of the two. Many people compensate for the loss of one monthly Social Security check by taking out more from retirement accounts. But this could trigger tax on up to 85% of your Social Security benefits. Non-taxable income from Roth IRAs doesn't count against you when calculating taxes on Social Security benefits.

Bunching Deductions

As the year draws near a close, it is time to see if there are any moves you can make that will help reduce your annual income tax bill. The Tax Cuts and Jobs Act, passed in late 2017, complicated the matter of taking deductions, but there are some helpful options if you plan ahead.

The Obstacle

The Tax Cuts and Jobs Act doubled the standard deduction. For tax year 2020, it's now $12,400 for single filers and $24,800 for married filers. That affected many people who had few deductions because they are better off taking the standard deduction.

A Possible Solution

That's where bunching deductions comes in. Here's generally how it works: By paying two years' worth of qualifying deductible expenditures before year's end you may be able to exceed the standard deduction and deduct those expenses on your 2020 return. Then next year, take the standard deduction. Alternatively, you can push deductions into next year and take the standard deduction this year.

What Deductions Qualify?

Some examples of deductions that you could bunch include:

Charitable Giving - Rather than making your usual contribution every year, it may make more sense to make a double contribution every other year – or a triple contribution every third year. That way, you aren't effectively taxed on your charitable deductions.

Medical Expenses - If your medical expenses are in excess of 10% of your adjusted gross income, you can deduct them. So, it may make sense to schedule that elective surgery you had planned before year's end—or next year, if you expect higher medical expenses.

Property Taxes - If this year looks to be a high earning year, you could pre-pay property taxes that have actually been assessed, but this deduction is also now capped at $10,000. If moving to a new state, shift deductions to the higher-tax state.

This is a simplified list of potential deductions. Talk to your tax and financial professionals to see how bunching deductions may help you to maximize your tax breaks.

Safe Deposit Box Tips

Safe deposit boxes are one way to keep valuable documents and other items safe offsite.

Here are some items you might consider keeping in your safe deposit box:

- Deed and title documents
- Paper stock and bond certificates
- Vaccination records
- Birth and adoption certificates
- Marriage and death certificates
- DD-214s and other military records
- Precious metals
- Social Security cards

What *not* to keep in a safe deposit box:

- Original copy of your will
- Cash (no FDIC protection)
- Advance directive and power of attorney documents
- Drugs
- Firearms and ammunition
- Hazardous chemicals

Even though safe deposit boxes are usually in banks, the FDIC does not insure the contents. You may be able to purchase insurance separate, or add the items to your homeowners insurance policy.

Increased Charitable Giving Incentives

During the COVID-19 pandemic, Congress recognized the need to boost charitable contributions. So, they included a section in the CARES Act to encourage Americans to open their wallets to those in need.

Their solution: A $300 "above the line" deduction. That means you can deduct up to $300 for cash donations to qualified charities – and you don't have to itemize your expenses to do it.

This $300 deduction does not apply to contributions to donor advised funds. Nor does it apply to contributions of anything other than cash.

The CARES Act also raised the allowable limit on itemized cash donation deductions for charities from 60% to 100% of adjusted gross income. That means that you can actually donate up to an entire year's AGI to charity, if you want – as long as you do it in cash.

Does Delaying Social Security Make Sense?

For many years, financial professionals have recommended that most people strive to delay taking Social Security benefits until age 70. The reason: Every year you delay starting benefits increases your eventual monthly check by 8%, in most cases.* If you get your full retirement benefits at age 66, waiting until you are 70 will increase your monthly benefit by 32%.

Should You Delay Benefits?

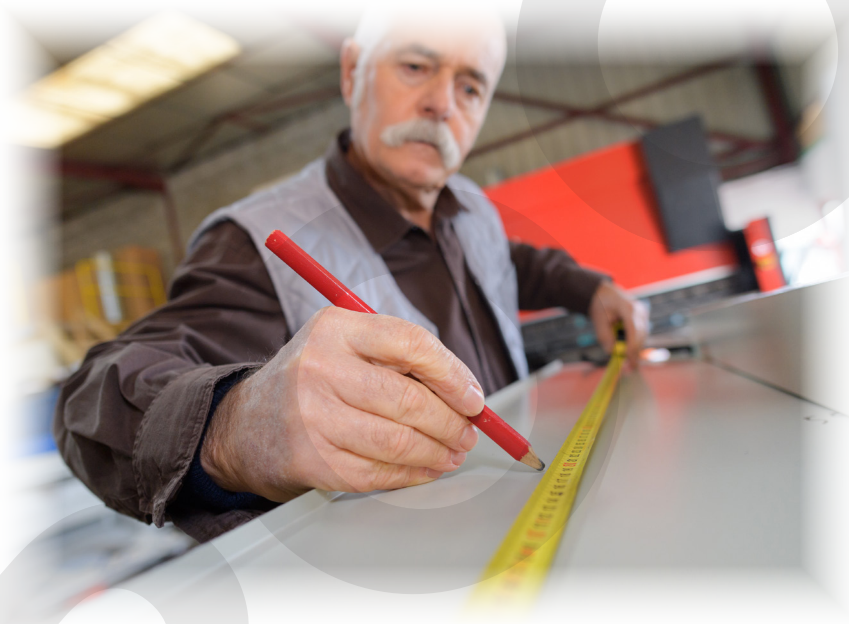
If you have significant health problems that are likely to shorten your life expectancy it may make sense to take benefits early. But, if you don't need Social Security income to live on, the conventional wisdom to delay starting Social Security benefits still makes sense for most people.

There are Multiple Reasons to Delay Benefits:

- Social Security benefits are guaranteed by the U.S. government. Once your Social Security benefits are locked in, they aren't subject to market risk.

- Social Security benefits have a built-in inflation adjustment. The government grants a cost-of-living adjustment (COLA) each year that increases Social Security benefits. Those COLA adjustments start at age 62, and you benefit from them whether or not you claim benefits at the time.

- The 8% credit you can earn each year by waiting is significantly higher than current interest rates.



It could be difficult for you to get that kind of return from ordinary investments – and it wouldn't be guaranteed.

Remember, there's no benefit to putting off benefits after age 70, when your benefit amount is maxed out. If you decide to retire at age 68 instead, you'll retain the 8% annual increase to date, however it accrues monthly, so your birthday affects the final amount.

Alternatively, if you start Social Security retirement benefits at age 62, which is the earliest age allowed, your checks will be 27% – 30% less than the maximum amount if you were born in 1960 or later.

Deciding when to start taking Social Security retirement benefits is a big decision that cannot be changed, so consult your financial and tax professionals in advance.

**Those born prior to 1943 may receive a slightly lower benefit by waiting. https://www.ssa.gov/planners/retire/delayret.html*

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.

Financial Industry Regulatory Authority

ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

July 24, 2020

Reference: **FR2020-0701-0092/E**
Link Reference : FR2020-0420-0308

Org Id: 23568

1. Lets Talk Money Newsletter Nov - Dec 2020 Retirement
   Rule: FIN 2210

The communication submitted appears consistent with applicable standards.

Reviewed by,

Natlyn D. Murrain
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