LET'S TALK FINANCIAL WELLNESS®

January/February 2024

High Earners: Pay Attention to Your Financial Well-being

Everyone should closely monitor their finances, but higher-income individuals may need to take extra measures to keep more of their money. While goals should always be the driving force behind financial decisions, knowing your options for preserving income can be a valuable resource.

Tax-advantaged Accounts

Maximizing contributions to tax-advantaged accounts lowers your tax bill by reducing your annual taxable income. Consider contributing the maximum allowable amounts to 401(k) or other workplace plans, traditional or self-employed IRAs, and health savings accounts. Additionally, you can make catch-up contributions to retirement accounts starting at age 50 and to health savings accounts beginning at age 55.

Roth Conversions

High earners may not be eligible to make contributions to a Roth individual retirement account. However, they can convert assets in a traditional IRA to a Roth IRA and pay taxes on the conversion. Your savings will have the potential to accumulate tax-free. Qualified withdrawals from your Roth IRA will also be tax-free, and you'll avoid having to take required distributions.

Asset Allocation Adjustments

Where you hold investments can have a big impact on earnings. Consider keeping tax-efficient mutual funds and exchange-traded funds in taxable accounts. Funds that generate higher taxes should be reserved for your 401(k) or IRA, where they'll remain tax deferred until withdrawal.

Charitable Contributions

Contributing to charity may help you save on taxes. You could donate appreciated assets, such as stocks, to a charity and avoid paying capital gains tax; establish a charitable trust and take a tax deduction when the trust is created; or set up a donor-advised fund to manage your charitable donations and deduct your contribution on your income taxes.

Deferred Annuities

A deferred annuity is a contract with a life insurance company that is set to pay you a regular income or a lump sum of money at a future date. You won't pay taxes on the money used to purchase the annuity until you begin making withdrawals, thereby reducing your current taxable income. Annuities are complex products, so consult your financial professional before investing.*

** Annuity products are not FDIC-insured, and their guarantees are backed solely by the claims-paying ability of the issuing life insurance company. Distributions from annuities are taxed as ordinary income and, if taken prior to reaching age 59½, may be subject to an additional 10% IRS tax.*

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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.
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Standard Version

Prudential

Replacing Income if You Can't Work

Short-term disability insurance replaces a portion of your income if you have a temporary disability, such as an illness, injury, or pregnancy, that prevents you from working. Call your insurance professional to learn more.

The Basics

Short-term disability generally replaces 40 to 70 percent of your monthly income until you can return to work or your benefit period ends, typically three to six months. Coverage applies only to injuries or illnesses that are not work-related.

There are two types of short-term disability policies. One covers you if you're unable to perform the duties of your own occupation, while the other covers you if you cannot work at any job.

Pregnancy Coverage

Sometimes, disability coverage starts two weeks before a woman's due date and continues for six weeks after the birth. The beginning date of coverage can be amended with updated medical information. The Family and Medical Leave Act (FMLA) provides 12 weeks of unpaid maternity leave.

Buying a Policy

The cost of a short-term disability policy depends on your age, gender, occupation, and overall health. Before purchasing a policy, look for the insurer's definition of disability, the length of the waiting and benefit periods, and the coverage amount.

Tax-favored Savings for Disabled Individuals

Achieving a Better Life (ABLE) accounts are tax-advantaged savings accounts for individuals with disabilities and their families. Funds in the account can be used to pay for various qualified expenses without losing eligibility for government benefits, such as Supplemental Security Income (SSI). Be sure you work with your legal and tax professionals to avoid any missteps.

Who Is Eligible?

To be eligible for an ABLE account, individuals must have been diagnosed with a significant disability before age 26 (This limit will raise to age 46 in 2026). The beneficiary, the beneficiary's family, and friends can contribute to the account. Contribution limits are tied to the annual gift tax exemption amount (currently $17,000). Disabled individuals who earn income can contribute that income to their ABLE accounts above the gift tax exemption limit.

What Are Qualified Expenses?

Funds in an ABLE account are invested and potentially grow tax-free. Money can be used to pay for expenses such as basic living costs, education, housing, transportation, employment training, health care, assistive technology/services, financial management and administrative services, and legal fees.

What Does a Happy Retirement Look Like?

You might think not having a steady paycheck will be what you'll miss most once you retire. But if you've successfully accumulated enough savings in a retirement account or you're one of the fortunate people with a pension, paycheck loss might not be the most critical change in your life.

Once You Were, Now You're Not
While working, you interact daily with coworkers with common goals. What happens to those social interactions once you're no longer working? They stop, and their loss can lead to feelings of isolation you didn't anticipate.

You Couldn't Wait for the Day
No rushing in the morning. No traffic jams. No projects that should have been done yesterday. Just the freedom to do what you want. Retirement should bring joy, but it sometimes brings an identity crisis. Who are you now that you're no longer a teacher, a doctor, a construction worker?

A Harvard Study
The Harvard Study of Adult Development began in 1938 at Harvard University. Researchers originally collected data on the physical and mental health of 268 Harvard sophomores over their lifetimes, with the study eventually expanding to include their offspring and other subjects. Researchers' findings: Close relationships with a spouse, family, friends, and social circles are what keep people happy throughout their lives.

Keys to a Happy Future
Of course, money is important. You can't enjoy retirement if you're struggling financially. But money alone won't guarantee a successful retirement. Happiness comes from maintaining close personal connections. Volunteering with an organization whose work is important to you can help you meet like-minded people. Joining clubs, getting involved in your community, or pursuing a hobby with friends, family, and new acquaintances can help you forge lasting relationships and make your retirement an enjoyable chapter in your life.

Cashless Payments on the Rise

Cash is out. Peer-to-peer (P2P) payments are in. P2P services allow an individual to send money to another person's bank account through a third-party website or mobile app after linking a bank account or credit/debit card. Since contactless transactions became popular during the pandemic, consumers have begun using P2P systems instead of cash or cards, and many small businesses, nonprofit organizations, and vendors offer that option.

Popular Apps

There are several peer-to-peer payment services, and each one may work a little differently. Zelle is provided by a bank and accessed directly from the bank's website. Other P2P services, such as Venmo, PayPal, and CashApp, can be accessed through a mobile app when both users have linked their bank account information. Google Pay and Apple Pay Cash are other popular options.

Cost

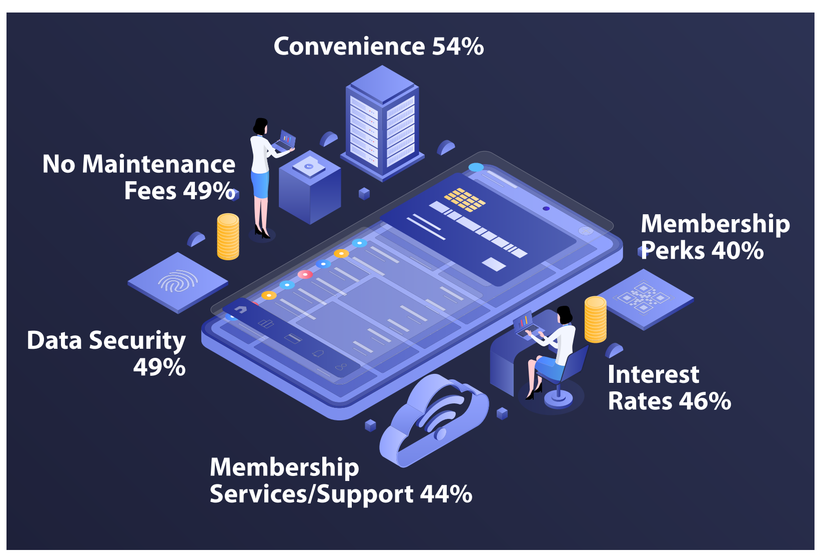
P2P services are generally free for transfers between bank accounts. However, fees may be charged for linking a debit or credit card.

Digital-only Banks: Yay or Nay?

Digital-only banks — banks that have no physical locations but exist only online — are making some inroads into the banking industry. A recent Harris Poll found that 39% of respondents had opened a bank account with an online-only institution.

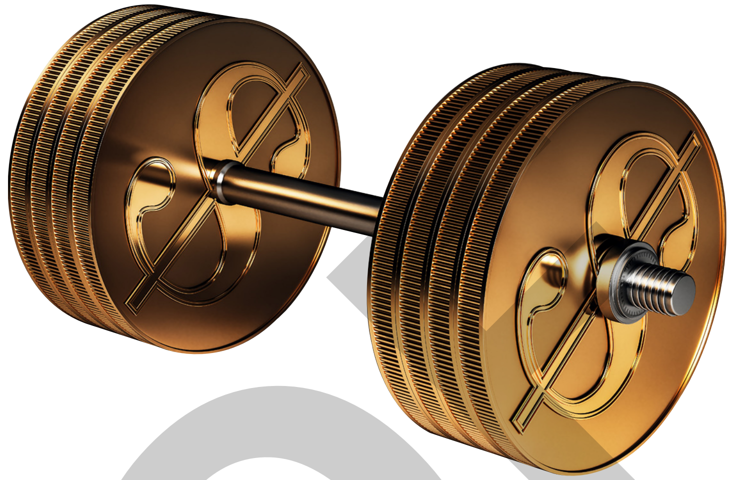
Consumers said they'd consider these major factors when deciding whether to open an online-only bank account. (See adjacent image.)

Source: The Harris Financial Services Poll, December 2022



Weigh in on the Barbell Strategy

You don't have to be a fitness buff to know that a barbell is a long bar with weights at either end that's used for strength training and bodybuilding. You might have used one at the gym. But what is the barbell investing strategy?



A Different Approach

Investors who employ a barbell strategy choose investments that represent opposite ends of the risk spectrum while ignoring anything in the middle. Although this approach more commonly appeals to fixed-income investors, it may be attractive to certain equity investors as well.

How It Works

Fixed-income investors create a portfolio consisting of half short-term bonds and half long-term holdings. With this strategy, investors can take advantage of current interest rates by investing in short-term bonds while benefitting from the higher yields offered by long-term bonds. When interest rates are rising, investors can reinvest in bonds paying higher rates as their short-term bonds come due. When rates fall, investors have a cushion because their long-term bonds have locked in higher rates.

Not Without Risk

Certain risks are inherent to bond investments. *Interest rate* risk is the potential for a change in interest rates to reduce the value of fixed-rate investments. As interest rates rise, bond prices typically fall, and vice versa. *Inflation risk* is the risk that rising inflation will lower the purchasing power of your bonds. *Reinvestment risk* is the possibility of reinvesting money at a lower interest rate.

A Barbell Strategy with Equities

Equities investors might use a barbell strategy to create a portfolio comprised of half stocks and half fixed-income investments. Another option is to pair the stocks of large, stable companies with riskier stock investments, such as emerging markets.

Look for Opportunity

The best time for bond investors to implement a barbell strategy is when there are significant gaps between short-term and long-term bond yields since this approach is closely tied to interest rates. Keep in mind that a barbell strategy requires frequent monitoring by investors and their financial professional to be successful.

FINRA

ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

October 24, 2023

Reference: **FR2023-1010-0126/E**
Link Reference : FR2023-0714-0059

Org Id: 23568

1. LTM Jan-Feb 2024 Standard
   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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