

Joe Ciaramitaro - Spring 2023

Coaching Your Financial Future



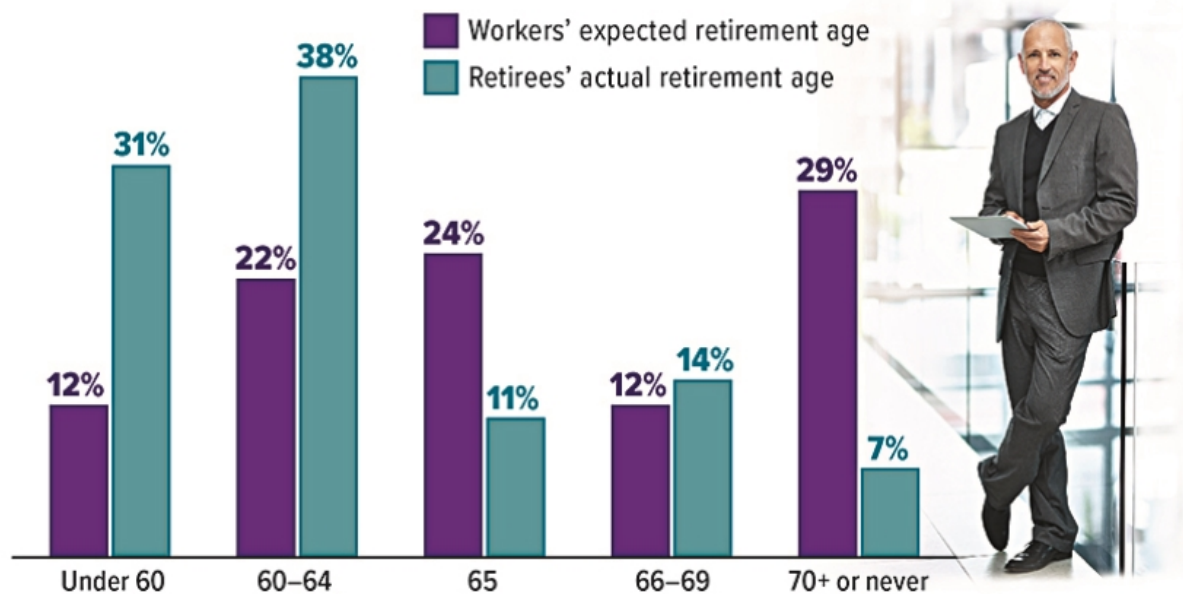
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Retirement Age Expectations vs. Reality

Workers typically plan to retire much later than the actual age reported by retirees. In the 2022 Retirement Confidence Survey, 65% of workers said they expect to retire at age 65 or older (or never retire), whereas 69% of retirees left the workforce before reaching age 65. When choosing a retirement age, it might be wise to consider a contingency plan.



Source: Employee Benefit Research Institute, 2022

Consider a Bond Ladder for Rising Interest Rates

After dropping the benchmark federal funds rate to a range of 0%–0.25% early in the pandemic, the Federal Open Market Committee of the Federal Reserve has begun raising the rate aggressively in response to high inflation and a stronger economy.

Following 0.25% and 0.50% increases in March and May 2022, the Committee implemented successive 0.75% increases at its June and July meetings — the first 0.75% increases since 1994 — to a target range of 2.25%–2.50%. June projections (most recent available) indicate the rate could rise to a range of 3.25%–3.5% by the end of 2022 with an additional one or two 0.25% increases in 2023.¹

Rates and Bond Prices

Raising the federal funds rate places upward pressure on a wide range of interest rates, including the cost of borrowing through bond issues. When interest rates go up, the prices of existing bonds typically fall, because new bonds with higher yields are more attractive. Investors are also less willing to tie up their funds for a long time, so bonds with longer maturity dates are generally more sensitive to rate changes than shorter-dated bonds. Yet shorter-dated bonds usually have lower yields.

Despite the challenges, bonds are a mainstay for conservative investors who may prioritize the preservation of principal over returns, as well as retirees in need of a predictable income stream.

Step by Step

One way to address rising rates is to create a bond ladder, a portfolio of bonds with maturities that are spaced out at regular intervals over a certain number of years. For example, a five-year ladder might have 20% of the bonds mature each year. This strategy puts an investor's money to work systematically, without trying to predict rate changes.

With rates projected to continue rising, it might make sense to create a shorter bond ladder now and a longer ladder when rates appear to have stabilized. Keep in mind that these are only projections, based on current conditions, and may not come to pass. The actual direction of interest rates might change.

Reinvesting or Taking Withdrawals

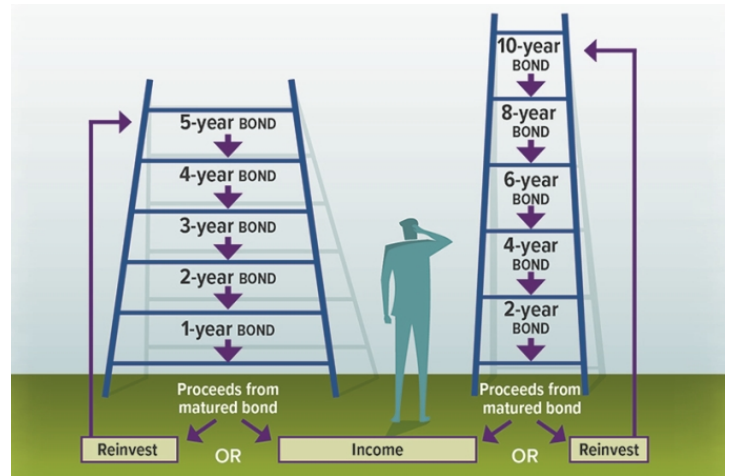
When bonds from the lowest rung of the ladder mature, the funds are often reinvested at the long end of the ladder. When rates are rising, investors who reinvest the funds may be able to increase their cash flow by capturing higher yields on new issues. Or a ladder might be part of a withdrawal strategy in which the returned principal from maturing bonds is dedicated to retirement spending.

Bond ladders may vary in size and structure, and could include different types of bonds depending on an

investor's time horizon, risk tolerance, goals, and personal preference. Owning a diversified mix of bond investments might also help cushion the effects of interest rate and credit risk in a portfolio. Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

Rung by Rung

Here are two sample structures for a bond ladder. When bonds mature, the proceeds can be used for income or reinvested in bonds to fill the longest maturity rung.



Individual Bonds vs. ETFs

Buying individual bonds provides certainty, because investors know exactly how much they will earn if they hold a bond to maturity, unless the issuer defaults. However, individual bonds are typically sold in minimum denominations of \$1,000 to \$5,000, so creating a bond ladder with a sufficient level of diversification might require a sizable investment.

A similar approach involves laddering bond exchange-traded funds (ETFs) that have defined maturity dates. These funds, typically called target maturity ETFs, generally hold many bonds that mature in the same year the ETF will liquidate and return assets to shareholders. Target maturity ETFs may enhance diversification and provide liquidity, but unlike individual bonds, the income payments and final distribution rate are not fully predictable. Bond ETFs are subject to the same inflation, interest rate, and credit risks associated with their underlying bonds.

Exchange-traded funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

¹ Federal Reserve, 2022

Time for a Spring Cleanup: Organizing Your Financial Records

The arrival of spring is always a good time to dust off the cobwebs that have built up in your home during the winter. It's also a good time to clean out and organize your financial records so you can quickly locate something if you need it.

Keep Only What You Need

If you keep paperwork because you "might need it someday," your home office and file cabinets are likely overflowing and cluttered with nonessential documents. One key to organizing your financial records is to keep only what you absolutely need for as long as you need it.

Tax records. Keep all personal tax records for three years after filing your return or two years after the taxes were paid, whichever is later. (Different rules apply to business taxes.) If you underreported gross income by more than 25% (not a wise decision), keep the records for six years, and for seven years if you claimed a deduction for worthless securities or bad debt. It might be helpful to keep your actual tax returns, W-2 forms, and other income statements until you begin receiving Social Security benefits.

Financial statements. You generally have 60 days to dispute charges with banks and credit cards, so you could discard statements after two months. If you receive an annual statement, throw out monthly statements once you receive the annual statement. If your statements include tax information (e.g., you use credit-card statements to track deductions), follow the guidelines for tax records.

Retirement account statements. Keep quarterly statements until you receive your annual statement; keep annual statements until you close the account. Keep records of nondeductible IRA contributions indefinitely to prove you paid taxes on the funds.

Real estate and investment records. Keep at least until you sell the asset. If the sale is reported on your tax return, follow the rules for tax records. Utility bills can be discarded once the next bill is received showing the previous paid bill, unless you deduct utilities, such as for a home office.

Loan documents. Keep documents and proof of payment until the loan is paid off. After that, keep proof of final payment.

Insurance policies. Keep policy and payment documents as long as the policy is in force.

Auto records. Keep registration and title information until the car is sold. If you deduct auto expenses, keep mileage logs and receipts with your tax records. You might keep maintenance records for reference and to document services to a new buyer.

Medical records. Keep records indefinitely for surgeries, major illnesses, lab tests, and vaccinations. Keep payment records until you have proof of a zero balance. If you deduct medical expenses, keep receipts with your tax records.

These are general guidelines, and your personal circumstances may warrant keeping these documents for shorter or longer periods of time.

Personal Document Locator

A personal document locator is a detailed list of your personal and financial information that can assist others in the event of your death or disability. Typically, a personal document locator will include the following:



Personal information
(e.g., date of birth,
Social Security number)



Names and phone
numbers of
personal contacts



Online accounts,
with usernames
and passwords



Names and phone numbers of professional service
providers (e.g., banker, physician, attorney,
tax preparer, financial professional)



Location of important
legal and financial
documents

Securely Store Your Records

You can choose to keep hard copies of your financial records or store them digitally. You usually do not need to keep hard copies of documents and records that can be found online or duplicated elsewhere. Important documents such as birth certificates and other proof of identity should be stored in a safe place, such as a fire-resistant file cabinet or safe-deposit box. You can save or scan other documents on your computer, or store them on a portable drive, or use a cloud storage service that encrypts your uploaded information and stores it remotely.

An easy way to prevent documents from piling up is to remember the phrase "out with the old, in with the new." For example, if you still receive paper copies of financial records, discard your old records as soon as you receive the new ones (using the aforementioned guidelines). Make sure to dispose of them properly by shredding documents that contain sensitive personal information, Social Security numbers, or financial account numbers. Finally, review your records regularly to make sure that your filing system remains organized.

50 and Older? Here's Your Chance to Catch Up on Retirement Saving

If you are age 50 or older and still working, you have a valuable opportunity to super-charge your retirement savings while managing your income tax liability. Catch-up contributions offer the chance to invest amounts over and above the standard annual limits in IRAs and workplace retirement plans.

2023 Limits

In 2023, the IRA catch-up limit is an additional \$1,000 over the standard annual amount of \$6,500. Participants in 401(k), 403(b), and government 457(b) plans can contribute an extra \$7,500 over the standard limit of \$22,500. For SIMPLE plans, the catch-up amount is \$3,500 over the standard limit of \$15,500.¹

Tax Benefits

Contributions to traditional workplace plans are made on a pre-tax basis, which reduces the amount of income subject to current taxes. Contributions to traditional IRAs may be deductible, depending on certain circumstances.

If you are not covered by a retirement plan at work, your traditional IRA contributions are fully tax deductible. If you are covered by a workplace plan, you may deduct the full amount if your adjusted gross income is \$73,000 or less as a single taxpayer or \$116,000 or less if you're married and file jointly. If you are not covered by a workplace plan but your spouse is, you are eligible for a full deduction if you file jointly and your income is \$218,000 or less.²

Contributions to Roth accounts do not offer immediate tax benefits, but qualified distributions are tax-free at the federal, and possibly state, level. A qualified distribution is one made after the account has been held for five years and the account owner reaches age 59½, dies, or becomes disabled.

Distributions from traditional accounts prior to age 59½ and nonqualified distributions from Roth accounts are subject to ordinary income taxes and a 10% penalty, unless an exception applies.

Still Time for 2022 Contribution

If you qualify, you can make a deductible IRA contribution for 2022 up until the tax filing deadline on April 18, 2023. The total contribution limit for someone age 50 or older in 2022 is \$7,000. You can open a new IRA or invest in a current one, but be sure to specify the contribution is for the 2022 tax year. The income limits for a full deduction in 2022 are \$68,000 for single taxpayers, \$109,000 for married taxpayers filing jointly, and \$204,000 for taxpayers who aren't covered by a workplace plan but their spouse is.²

1) Participants in 403(b) and 457(b) plans may benefit from other catch-up contributions specific to each plan type. Participants in government 457(b) plans cannot combine age 50 catch-up contributions with other catch-up contributions. When calculating allowable annual amounts, contributions to all plans except 457(b)s must be aggregated.

2) Phaseout limits apply. Married couples filing separately cannot take a full deduction. You must have earned income at least equal to your IRA contribution. Talk to a tax professional.

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