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Retirement & Investment Services

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WHAT'S INSIDE

What Are Traditional IRAs and Roth IRAs?

A traditional IRA is a personal savings plan that offers tax benefits to encourage retirement savings. In 2026, you can contribute up to $7,500 per year (an additional "catch-up" contribution of $1,100 is allowed if you are age 50 or older). You and your spouse together may contribute double the annual limit, even if your spouse has little or no compensation.

Contributions may be fully or partially tax deductible, depending on certain factors. Investment earnings in a traditional IRA grow tax deferred, but distributions will be subject to federal and possibly state income tax (excluding the portion that represents nondeductible contributions).

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Meet the Team

BRIAN HOPPER
CRPC®, Vice President, Wealth Management
CRPC conferred by College for Financial Planning

TRAVIS WHITE
Financial Professional

ANDREW COUGHLIN
Financial Professional

What Are Traditional IRAs and Roth IRAs?

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The Roth IRA is another type of personal savings plan that offers tax benefits to encourage retirement savings. The same contribution limits that apply to traditional IRAs also apply to Roth IRAs. With a Roth IRA, however, your allowable contribution may be reduced or eliminated if your annual income exceeds certain limits. Contributions to a Roth IRA are never tax deductible, but if certain conditions are met, distributions will be completely income tax free.

Tip: The annual IRA contribution limit for any year (including the catch-up amount) is a combined limit that applies to all of your IRAs. For example, if you have both traditional IRAs and Roth IRAs, your total contribution to all of your IRAs cannot exceed $7,500 (plus catch-up contributions if you are eligible to make those).

How can traditional IRAs and Roth IRAs be used to fund college expenses?

The premature distribution tax (also known as the early withdrawal penalty tax) is a 10% federal penalty tax that may apply when you take money from a traditional or Roth IRA. This penalty tax is generally imposed on the taxable portion of any IRA distribution made prior to age 59½, and is in addition to ordinary federal income tax. However, federal law provides a number of exceptions to the penalty tax. One of these exceptions allows you to withdraw money for qualified higher education expenses. The money that you withdraw must be used to pay the qualified higher education expenses of you or your spouse, or the children or grandchildren of you or your spouse.

Your withdrawals must be used to pay qualified education expenses

To qualify for the exception to the premature distribution tax, your IRA withdrawals must be used to fund qualified higher education expenses. Qualified higher education expenses include tuition, room and board, fees, books, supplies, and equipment required for enrollment.

In addition, the education expenses in question must be actual out-of-pocket costs. Consequently, education expenses paid with any type of tax-free resources (e.g., scholarships, distributions from a Coverdell education savings account, employer-provided assistance) will not count as qualified higher education expenses for this purpose.

The federal government does not consider the value of your traditional IRA or Roth IRA in determining your child's financial aid eligibility

In its formula for financial aid, the federal government counts some assets and excludes others in determining a family's total available assets to contribute toward college costs. One type of asset the government excludes from this formula is retirement assets, including IRAs and most employer-sponsored retirement plans.

Can your child contribute to a traditional IRA or Roth IRA?

It depends. If your child has taxable compensation (e.g., earnings from a part-time job), then he or she can contribute to a traditional or Roth IRA. It is critical that your child has taxable compensation. If you give your child money as a gift and the child has no taxable compensation, then he or she is ineligible to contribute to an IRA. If your child qualifies to have a traditional or Roth IRA, he or she can reap the same benefits as you if the money is used to meet college expenses.

Specifically, the 10% premature distribution tax does not apply to IRA distributions that are used to pay qualified higher education expenses. The main benefit of setting up an IRA in your child's name is that any taxable distributions from the IRA will be taxed at the child's rate, which is typically lower than your tax rate.

Is it Time to Declare Your Financial Independence?

No matter how much money you have or which life stage you're in, becoming financially independent starts with a dream. Maybe you want to finally pay off the mountain of debt you've accumulated or stop relying on someone else for financial support. Or perhaps your dream is to retire early so you can spend more time with your family, travel the world, or open your own business. Financial independence, however you define it, is freedom from the financial obstacles that are keeping you from living life on your own terms.

Envision the Future

If you were to become financially independent, what would change? Would you spend your time differently? Live in another place? What would you own? Would you work part time? Ultimately, it's up to you to define the life you want to live. It's your dream, so there's no wrong answer.

Work at It

Unless you're already wealthy, you may have had moments when winning the lottery seemed like the only way to become financially secure. But your path to financial independence isn't likely to start at the lottery counter of your local convenience store.

Though there are many ways to become financially independent, most of them require hard work. And retaining wealth isn't necessarily easy, because wealth may not last if spending isn't kept in check. As income rises, lifestyle inflation could slow, or even reverse, your progress.

Becoming — and remaining — financially independent requires diligently balancing earning, spending, and saving.

Earn more. No matter which goals you're pursuing, the wider the gap between your income and expenses, the shorter the path to financial independence. The more you can earn, the more you can potentially save. This might mean finding a job with a higher salary, working an extra job, or working part time in retirement.

And a job is just one source of income. If you're resourceful and able to put in extra hours, you may also be able to generate regular income in other ways — for example, renting out a garage apartment or starting a side business.

Spend wisely. Look for opportunities to reduce your spending without affecting your quality of life. For the biggest impact, focus on reducing your largest expenses, such as housing, food, and transportation. Practicing mindful spending can also help you free up more money to save. Before you buy something nonessential, think about how important it is to you and what value it brings to your life so that you don't end up with a garage, attic, or storage unit filled with regrettable purchases.

Save aggressively. Set a wealth accumulation goal and then prioritize saving. Of course, if you have a substantial amount of debt, saving may be somewhat curtailed until that debt is paid off. Take simple steps such as choosing investments that match your goals and time frame, and paying yourself first by automatically investing as much as possible in a retirement savings plan.

Keep Going

Life changes. Unexpected bills come up. Some years will be tougher financially than others. Expect to make some adjustments to your plan along the way, especially if you have a long-term time frame, but keep going.

Finally, make sure to celebrate both small milestones and big victories. Seeing the progress you're making can help you stay motivated as you pursue your dream of financial independence.

Meet the Team

ELLEN HARNISCHFEGER
LPL Operations Manager

DALE DENUNZIO
Sales Support Specialist

ANGELA LOBENE
Administrative Assistant

The Employment Situation: A Closely Watched Report

What is the Employment Situation?

Each month, the Bureau of Labor Statistics (BLS) publishes the Employment Situation Summary (commonly known as the "jobs report") based on information from the prior month. The data for the report is derived primarily from two sources: (1) a survey of approximately 60,000 households, or about 110,000 individuals (household survey), and (2) an establishment survey of over 650,000 worksites.

The information contained in each report includes the total number of employed and unemployed people, the unemployment rate, the number of people working full time or part time, average hourly and weekly earnings, and average hours worked per week. The report on private payroll excludes government workers. Because it is released by the BLS on the first Friday of every month, it provides the first comprehensive status check of the U.S. economy for the preceding month.

Why is it important?

According to the Bureau of Labor Statistics, when workers are unemployed, their families and the country can be negatively impacted. Workers and their families lose wages, and the country loses the goods or services that could have been produced. In addition, the purchasing power of these workers is lost, which can lead to unemployment for even more workers.

How does the jobs report influence the Federal Reserve?

The Federal Reserve's dual mandate is maximum employment and stable prices. The Employment Situation is the main gauge of the first mandate and an important factor in inflation risk. If the jobs report is stronger than expected during a period of rising inflation, the Fed may assume a more hawkish stance, either delaying interest rate cuts or hiking rates. A weaker-than-expected report with moderating inflation can lead to interest rate cuts. In general, the Fed rarely reacts to a single report, instead making policy moves based on a sequence of strong or weak jobs data.

We have LPL financial professionals available in **Buffalo**, **Rochester**, and **Syracuse**. Contact us today to schedule a no-cost, no-obligation consultation.

The Summit Retirement & Investment Services
thesummitristeam@lpl.com
(585) 453-7230
www.summitfcu.org/retirement-investments/