



401(k) Plan Participant Monthly Newsletter

July 2021

UNDERSTANDING ROTH VERSUS PRETAX CONTRIBUTIONS

Pre-Tax - contributions are tax deferred, meaning you pay no taxes on the contributions until you take a distribution from your account

Roth - contributions are taxed now, so you can access the money tax free when you go to use it later*

**so long as the money is not touched within 5 years of the account being opened*

Like most financial decisions, choosing one versus the other (or a mix of both) can be intimidating—no one wants to make the “wrong choice.” So let’s walk through the differences and some considerations you might want to factor into your decision.

Here are some considerations to factor into your decision:

- *How does your marginal tax rate now compare with your expected tax rate in retirement?*
- *How much do you plan to contribute this year? Will the amount you defer into the 401(k) plan substantially decrease your tax burden for the year?*
- *Do you need this money sooner than it will become available?*
- *Where do you live now, and where do you plan to live when you’re taking withdrawals? What are the state tax rates in both of those places?*

The good news is that you don’t have to choose! Your plan allows you to utilize both pre-tax and Roth options in any combination up to the IRS maximum. Or, you can always make an annual decision about which investment type works better for you in any given year. Maybe you’re not ready to pay the taxes on a Roth right now. Your “no” this year doesn’t have to be a permanent no. In fact, if you time a conversion properly, you can lessen your tax liability. Or, perhaps you have traditional 401(k) savings and you’d like to convert it now. Your situation is unique to you—just like your financial goals. Working with a fiduciary advisor means that you can work together to craft a plan for your retirement that works best for you. And, because the question of investing in traditional or Roth 401(k) savings through your 401(k) isn’t a one-time choice, it’s a good idea to check in on your situation at least annually, to ensure you are still making the best move each year. Call our office to schedule time to review your options and whether Roth contributions would be right for you.

Upcoming Seminars

Estate Planning

July 2021

Estate planning is often overlooked by most people when planning for retirement because most people don’t know where to begin. Designating who will receive your assets and handle your responsibilities once you are no longer able to is an important decision that should be well-planned and thought out. Join us to take the first step and learn how to get started with planning your estate.

Medicare & Insurance

August 2021

Learn about the different types of insurance available and the advantages to each.

Saving for Retirement in your 20s and 30s

September 2021

Join us to discuss tips for early savers and learn how establishing your retirement plan early can benefit you in retirement. It’s never too soon to start saving for your retirement!

Asset Allocation/

October 2021

Understanding Risk

Understanding risk can help you invest smarter and panic less during times of higher volatility in the market. Most people have no idea how this volatility can affect their ability to retire. Join us to learn how an understanding of investment risk and asset diversification can help you make smarter and more confident financial decisions.

Financial Planning/ Distribution Strategies

November 2021

As you near retirement, financial planning and determining your distribution strategy for your retirement assets is more important than ever. Join us as we talk through some strategies and financial planning items that you should keep in mind as your retirement deadline approaches.

BORROWING AGAINST YOUR RETIREMENT CAN BE MORE COSTLY THAN YOU THINK

As your account balance begins to grow, it may be tempting to “dip into” your retirement savings by taking a loan against your retirement plan to pay your annual taxes, repair a leaking roof, catch up your everyday pile of bills, and so on. And while the decision to take a plan loan is yours to make, we want to make sure that you consider what taking a loan will really cost you.

With a retirement plan loan, you pay yourself back the amount owed on the loan plus interest. But the true cost can be shown with the loss in your retirement savings. You lose money when you borrow from your retirement account for several reasons, which are listed below:

- You lose making money on the earnings, or compounding of those earnings.
- You repay the loan with after-tax dollars.
- There is (typically) an initial set-up and quarterly loan fee.
- Most employees decrease or cease the amount they are contributing to compensate for the loan payment.

To further illustrate the costliness of taking a plan loan, consider the following hypothetical example*: Jane took a \$10,000 loan at 7% interest from her retirement account; her account balance before the loan was \$20,000. She previously made contributions of \$150 per paycheck (including the employer match). Because she had to repay the loan, she decreased her contribution to \$50. Additionally, prior to the loan, she was earning a 10% return. Now she will repay the loan over five years. If you take into account loss of interest, compounding, and tax on repayments, the actual retirement plan loan is actually costing Jane 13.77%! And don't forget about those decreased contributions, which can add up to hundreds of thousands of dollars over many years. Now don't get us wrong; every financial situation is unique, but we advise you to be sure and thoroughly review your particular circumstances to verify that a loan is in your best financial interest before taking those steps. If you'd like an objective opinion on whether a loan is right for you, give us a call.

***This example is hypothetical and intended for illustrative purposes only. (Ability to take a 401(k) loan is subject to 401(k) plan provisions).**



ACCOUNT STATEMENTS

Do you miss receiving your 401(k) statement by mail? Do you want to see how your account is performing on a more frequent basis?

Give us a call and we can help you set up your account online! You may have noticed that you no longer receive paper statements for your account unless you opted back into receiving them. This is because, as part of an initiative to "go paperless", all John Hancock statements became electronic via email UNLESS you as the participant opt back into receiving them. You can request these statements directly on the participant website or you can call John Hancock participant services at (800) 395-1113 and make the request by phone.

By setting up your participant website, you can:

- Request for John Hancock to send you quarterly paper statements by mail
- Monitor your account balance daily
- Make changes to your deferral amounts/beneficiaries/address*
(*contingent on if your 401(k) plan elected to allow these changes)

All you need to get set up online is your name, date of birth, social security number and plan contract number - if you do not have this number we are happy to provide it to you, just let us know!

MEET OUR TEAM: GREG LAVIN



You may know Greg best as "the 401(k) guy". Greg is the owner and founder of Onward Financial Network. He has over 30 years of experience in the wealth management and qualified plan industries. He lives in Green Lake on a small farm that he loves and tends to when he is not working. His hobbies include biking, cooking and golfing.

7 S Main St, Fond du Lac, WI 54935
P: 920.273.0007 | F: 920.273.0011 | W: onwardfn.com