401(k) Plan Participant Monthly Newsletter

December 2021

RECEIVING 1099 FORMS

1099 forms are used for reporting distributions from a retirement or tax-deferred account, such as an IRA, 401(k) or annuity during any given tax year. This form will be sent ***any time*** there is a distribution from the account, which can be confusing because this does not necessarily mean a ***cash*** distribution. One common form of distribution is a direct rollover, where one transfers a 401(k) or retirement account from one financial institution to another financial institution. Although a direct rollover is not a taxable event, it is still a distribution type that must be reported to the IRS so you will receive a 1099-R form to file with your taxes. Whenever you take any cash distributions, you will receive a 1099 form as well, even if you paid taxes on the distribution.

BUDGETING

Budgeting is one of the most important elements of personal finance that a person should know. Budgeting is how one decides to allocate their money. It involves figuring out how much you earn each month and how much you plan to spend. Keep in mind that budgeting can be difficult at first; it may take a period of time to review your spending habits and then make any necessary adjustments. These are just a few of the different methods of budgeting that we will discuss during this month's webinar but keep in mind that there is no set method that works well for everyone:

- **50/30/20 budget** - using this budgeting system you allocate 50% of your budget to your "essential needs" such as food, housing, insurance, transportation etc. 30% of your income is allocated to your "wants", which can include eating out, shopping, travel etc. Finally the last 20% of your budget goes towards your savings and/or paying off debts.
- **Zero based budget** - using this budget method you plan your spending by taking your monthly income and allocating it to various budget categories until you get to $0. The premise of this system is that you find a job for every single dollar, even if that job is savings or debt repayment.
- **Pay yourself first** - this method is also known as "reverse budgeting". Using this method you determine how much you want to save or need to pay off debt and then you can allocate the rest to your various spending categories.
- **Envelope system** - using this strategy you have an envelope of cash for each spending category of your budget - when the envelope is empty you're done spending in that category.

Learn more about these strategies and how you can use Onward Money to start your budget by attending our December webinar on Budgeting & Healthy Habits!

Upcoming Seminars

Budgeting & Healthy Habits — December 2021

One of the first steps in financial planning and preparing for retirement is getting a clear picture of your full financial situation. It's a fact of life: most of us take on debt at some point. It may not be possible to avoid, but it is possible to manage. Setting up a budget and having a sound plan in place can not only reduce stress, but can increase your overall wellness. Join us for some budgeting strategies and tips on how to get your budget started so you can feel strong and confident about your ability to retire successfully.

Onward Money Tips and Tricks — January 2022

You are invited to use Onward Money, our completely free financial planning tool where you can budget and track spending as well as set up and view your entire consolidated financial picture.
We understand it can be a daunting task learning to use new software and we don't want you to go it alone! Join one of the virtual seminars that we will be holding and you'll learn some tips and tricks to utilizing the software.

Voluntary Auto Increase — February 2022

Most people need to save quite a bit to reach the amount they will need in retirement - often much more than they are currently saving. The first step to successful retirement planning is knowing what you need to save for retirement - and that's where having a financial plan will come in handy. The second (and often-times most overlooked) step is establishing how you will get there - and that's where VAI can help. Once you know how much you need to save, could utilizing Voluntary Auto Increase help you to achieve those goals?

Medicare & Insurance — March 2022

Learn about the different types of insurance available and the benefits of each. You will also learn about the different plans and supplements available through Medicare.

EMERGENCY FUND

Saving is one of the most important components of personal finance but also one of the most overlooked. Most people simply aren't doing it. In fact, the vast majority (two-thirds of Americans, to be more precise) would have difficulty coming up with the money to cover a $1,000 emergency.

One of the most important things that a person should establish when saving money is an "emergency" fund. This emergency fund can help you with covering unforeseen expenses without having to accumulate more debt. It can also serve as an income replacement in the event that you lose your job or are unable to work for a time. Most experts recommend saving between three and six month's worth of expenses into your emergency fund. We can help you with a defensive planning review anytime to help ensure you are covered in the event of an emergency.

FLEXIBLE SPENDING ACCOUNTS (FSA)

A flexible spending account is a special account you put money into that you use to pay for certain out-of-pocket health care costs. Using an FSA can reduce your taxable income as you do not pay taxes on this money.

Fast Facts about FSAs:

- FSAs are limited to $2,750 per year per employer. If you're married however, your spouse can put in up to the same amount with their own employer.
- You can use the funds in your FSA to pay for certain medical and dental expenses for you, your spouse and your dependants.
- You can spend FSA funds to pay deductibles and copayments, but you cannot use them to pay insurance premiums.
- FSAs may be used to cover medical equipment or supplies such as crutches, bandages and diagnostic devices such as blood sugar test kits.
- You generally must use the money in an FSA within the plan year. At the end of the year or extended grace period, if applicable, you lose any money left over in your FSA so it is important to plan carefully and not put more money in your FSA than you think you'll need.

MEET OUR TEAM: TAYLOR WOSJNOWSKI

Taylor was brought onto the team working as a Wealth Management Assistant. When she started she had only a few months experience in the financial world but has worked in customer service for many years. In the near future Taylor hopes to obtain her Series 7 and 65 licenses along with Life & Health, so she can keep growing in the industry. Outside of work, Taylor enjoys a variety of activities such as hiking, spending time with family and friends and traveling when time allows!

HOME OWNERSHIP:

Home ownership is the proverbial "American Dream" and one of the most common goals that the average person strives to attain in their lifetime. Unfortunately, home ownership can be incredibly expensive. According to estimates from Zillow, the average home is valued around $276,000 and depending on the area in which you choose to live, it can far exceed that! Here are a few tips to keep in mind when starting the home buying process:

- **Know your budget and only buy what you can afford** - a general rule of thumb is that your housing costs shouldn't exceed more than 30% of your monthly income. And these monthly costs don't just include your principal and interest - you also have to account for home insurance and taxes, which can cost more than many people realize. Unfortunately many lenders are willing to approve borrowers for more than they can feasibly afford so make sure you evaluate your financial situation to determine the monthly home costs that will fit comfortably in your budget and stick as close to that amount as possible when looking at potential homes. Buying a house, especially for the first time, can be exciting but it is easy to get in over your head if you are not careful.
- **Start saving for a down payment** - for most home loans you must have a down payment in order to purchase a home. Down payments typically range from 3.5% for an FHA loan to 20% for a conventional mortgage. You can purchase a home with less than 20% but you will have to pay (PMI) private mortgage insurance and that amount will be added to your monthly payment and can cost you hundreds more each month. You also have to account for other upfront costs such as closing costs, home inspection and general moving costs.
- **Maintain a "home emergency fund"** - once you've purchased your home the costs don't stop there! Maintaining a home is expensive and it is recommended that you allocate about 1%of your home's value each year towards home maintenance and repairs. It is also recommended to keep a separate home emergency fund, just to cover any unexpected repairs or home expenses that may come up.

Ask us how Onward Money can help! Using Onward Money you can easily determine whether or not a home purchase will work successfully within your current financial plan as well as help to look at any other variables to see how you can make a home purchase a successful part of your financial plan. Give us a call today for help with getting started!

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