



# 401(k) Plan Participant Monthly Newsletter

August 2022

## 529 PLANS - WHAT ARE THEY?

A 529 plan is a tax-advantaged savings plan designed to help pay for education. 529 plans are run individually by each state so each state's rules may vary. There are two major types of 529 plans and there are unique advantages and disadvantages to each:

- **Savings Plans** grow tax-deferred and withdrawals are tax-free if used for qualified education expenses
- **Prepaid Tuition plans** allow the account owner to pay in advance for tuition at designated colleges and universities, locking in the cost at today's rates.

As with other kinds of investing, the earlier you get started, the better. With a 529 savings plan, your money will have more time to grow and compound. With a prepaid tuition plan, you'll most likely be able to lock in a lower tuition rate the earlier you start, since many schools raise their prices every year.

*Be sure to attend our August webinar if you would like to learn more about 529 plans and the options available.*

## CONTRIBUTIONS DURING A DOWN MARKET

When the market is down, it can be difficult to stomach putting more money into your retirement plan but this is exactly what you should be doing. When the market is down, everything is on sale so it is ideal to be putting more money in and buying while everything is priced cheaper. There are no guarantees, of course, but historical data has shown that taking advantage of the down markets is a powerful opportunity. Think of it this way: if you walk into the grocery store and see the ground beef (or any commodity that you were planning to buy anyway) is on a major sale, chances are you're not only going to buy that item, but probably more than you came intending to buy, because "it is just too good a deal to pass up" and "the price might be higher next time so I need to get it while I can." The stock market works the same way, and if you continue contributing to your 401(k) while the market is down, you are dollar-cost averaging, which is actually lowering the average cost of your investments and making those investments more valuable. See the graphic below which illustrates dollar cost averaging at work.

Period	Amount Contributed	Fund Share Price	Shares Purchased
1 (market high)	\$500	\$100	5
2 (market low)	\$500	\$50	10
3 (recovering market)	\$500	\$75	6.67
Totals	\$1,500	\$75 average	21.67
Value	\$1,625.25	21.67 shares x \$75	

## Upcoming Seminars

### 529 Savings Plans

August 2022

529 Savings plans have become a popular way for people to save for their dependents' future education expenses. Join us to learn more about the different types of plans and advantages to having a savings plan in place.

### Saving for Retirement in your 20s and 30s

September 2022

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!

### Budgeting & Healthy Habits

October 2022

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.

### Retirement Readiness/ Distribution Strategies

November 2022

As you near retirement, financial planning and determining your distribution strategy for your retirement assets is more important than ever. The methodology to plan one's retirement is not a single model, but a combination of a few different models that are checked and double checked against each other. Join us as we talk through some strategies and financial planning items that you should keep in mind as your retirement deadline approaches.

## FACTS ABOUT SOCIAL SECURITY

- The **Social Security Act** was signed into law by President Roosevelt on August 14, 1935. This new act created a social insurance program designed to pay retired workers age 65 or older a continuing income after retirement.
- Social Security numbers were created in 1936 for the sole purpose of tracking the earnings histories of U.S. workers, for use in determining Social Security benefit entitlement.
- Social Security benefits are based on the earnings on which people pay in their social security payroll taxes.
- As many employers have shifted from offering a traditional pension plan as their retirement plan option, Social Security income will mostly be many workers' only source of guaranteed retirement income that is not subject to investment risk or market fluctuations.
- In addition to Social Security's retirement benefits, workers earn life insurance and Social Security Disability Insurance (SSDI).
- Once someone starts receiving Social Security, their benefits increase to keep pace with inflation.
- Most retirees enroll in Medicare's Supplementary Medical Insurance (also known as Medicare Part B) and have the premiums automatically deducted from their Social Security checks.
- Women represent more than half of Social Security beneficiaries in their 60s and 7 in 10 beneficiaries in their 90s. Women make up about 96 percent of Social Security survivor beneficiaries.
- Social Security benefits are much more modest than many people realize. The average Social Security retirement benefit in January 2022 was about \$1614 a month, which equates to about \$19,370 per year.
- Social Security's "replacement rate" fell as the program's full retirement age gradually rose from 65 to 67 in 2022. Meaning, for someone who worked all of their working career at an average wage and retires at age 65 in 2022, Social Security benefits will replace about 37% of their past earnings.
- Without any Social Security benefits, about 4 in 10 adults aged 65 or older would have incomes below the poverty line. Estimates show that Social Security benefits lift more than 16 million older adults above the poverty line.

While some of these statistics can be scary to think about, this is a good example of why planning for retirement income outside of Social Security is so important. Social Security alone won't give you the life you desire in retirement so it is important to put in the work before you retire to ensure you will accomplish the quality of life you are hoping for in retirement. Whether it is reviewing how much money you are saving towards retirement each year and knowing how much you will need to live successfully once in retirement, these are all things you should be reviewing at least every few years if not on an annual basis.

*If you'd like to start your financial or retirement planning or talk to us more about how Social Security income fits into your retirement plans, please give us a call.*

## STUDENT LOAN DEBT

The value of a college degree has never been higher - at least in financial terms. Over the past decade the cost of a university education has risen three times faster than other school-related expenses. Most borrowers finance at least some of these costs by taking out student loans, with the end goal of having their investment pay off with higher earnings down the road. There are different types of student loans available - federal student loans which are provided directly by the federal government and the US Department of Education and private student loans provided by private lenders. Student loan payments have increased more than two and half times faster than the rate of inflation. Paying off student loans is significantly more challenging today than it was in the past, but that are many different strategies that borrowers can use to cut their interest rates and lower their monthly payments.

***In addition to the total student loan debt in the United States, here are some other useful student loan statistics:***

- Current US Student Loan Debt = est. \$175 trillion
- 1 in 4 Americans have student loan debt: an est. 44.7 million people
- Average student loan debt amount = \$37,172
- Average student loan payment = \$393/month
- Average cost of one year at a public university = \$21,370, which is 34.8% of the median household income of \$61,372.

About \$1.05 trillion of American's student loan debt is in the form of direct loans. More than 70% of bachelor's degree recipients emerge from college today with substantial student loan debt and currently, 52% of direct federal loan debt is in repayment.

## REALIZED VERSUS UNREALIZED LOSSES IN THE STOCK MARKET

In times of high market turbulence, it can be disconcerting to see your account balance drastically changing, and often times, not in the direction that you want to see. What's important to remember while this is happening, is that these losses will not affect you as long as you remain invested in the stock market. These losses are what's referred to as an "unrealized" loss. This means that the loss only exists on paper; it is not a true loss of capital. Only when the investment is sold, or cashed out, does the loss become a "realized" or true loss. So if you've got plenty of time before retirement, you've got plenty of time for your account balance to recover, and if we use history as our guide, it WILL recover. This is another reason why risk tolerance assessment is so important as you should only have as much risk on your account as you would feel comfortable with losing when the market is down. If you're close to retirement, you must make sure you have a plan in place to ensure the temporary losses you are seeing do not become realized losses. Meet with our team to come up with a distribution strategy to protect yourself and your retirement assets.