401(k) Plan Participant Monthly Newsletter

July 2022

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* (*must be 5 years after first contribution to the account)*

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:

- How does your marginal tax rate now compare with your expected tax rate in retirement?
- How much do you plan to contribute this year? Would the amount you defer into the 401(k) plan substantially decrease your tax burden for the current year?
- Do you need this money sooner than it will become available in a Roth?
- 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?

Your plan allows you to utilize both pre-tax and Roth options in any combination up to the IRS maximum of $20,500 (or $27,000 after age 50). 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 always a good idea to review your contribution amounts at least annually, to ensure you are still making the best financial decision for that year.

Be sure to attend our July webinar to learn more about your options and whether Roth contributions would be right for you!

Upcoming Seminars

Roth Versus Pre-Tax Contributions — July 2022

Your retirement plan offers Roth, or after-tax, contributions in addition to traditional pre-tax contribution options. But which one should you use? This webinar focuses on the similarities and differences between each option and goes through some of the decision-making process that should be used to decide.

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.

John Hancock Participant Website — September 2022

Learn how to set up your online account, request paper statements, build your retirement goal, determine your risk tolerance and much more! Join us to see all the participant website has to offer participants!

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.

INHERITED OR "BENEFICIARY" IRAS

Beginning in 2020, for traditional or non-Roth IRAs passing to non-spousal beneficiaries (exceptions made for minor children, chronically ill or disabled, those less than 10 years younger than the decedent and properly drafted "see-through" trusts), the entire account balance must be distributed by the end of the 10th year following the owner's death. In other words, the beneficiary must withdraw the funds they inherited within 10 years and pay income taxes on the withdrawals.

The general impact of this change is that the distributions are now condensed to a shorter time frame and therefore taxed at higher rates than they were previously.

Spouses get the most leeway when it comes to beneficiary IRAs as they can treat the account as it if were their own and transfer it to their name or roll it into another IRA account. Additionally, they can choose to take distributions from the account over their life expectancy, known as the "stretch option" instead of having to liquidate the account over the 10 year time frame.

Another thing to keep in mind on inherited retirement accounts: whether the original owner was required to take an RMD. If required, it is now the responsibility of the beneficiary to ensure that this minimum has been met or face the 50% penalty. However, if the deceased was not yet required to take a minimum distribution, then there is no minimum distribution required. You should speak with your tax advisor to determine your best strategy for taking withdrawals from your inherited IRA account. You have the option to defer taking withdrawals for the entire 10 year period and let the account continue to grow however it's important to keep in mind that the higher the withdrawal amount in any given year, the higher the potential to put you into a higher tax bracket. So, again, careful planning is key.

ROTH CONVERSIONS

If you've been diligently saving for retirement through your employer's 401(k) plan, you may be able to convert these savings into a Roth 401(k) and gain some added tax advantages*. If you convert to a Roth 401(k), you'll owe taxes on the money now but enjoy tax free withdrawals later on both your contributions and their earnings. However, it is important to determine the tax implications before proceeding with a conversion as the converted funds will affect your taxable income and potential tax rates. You'll also want to make sure you have the cash available to cover the taxes you'll owe on the conversion.

Not every plan allows employees to convert existing pretax funds to Roth. If you can't convert and your plan has a Roth option, consider making your future contributions to a Roth rather than the traditional pretax - you are allowed to have both.

**Consult a tax advisor to review the costs and benefits of a Roth conversion.*

Securities offered through Securities America, Inc., member FINRA/SIPC.
Advisory services offered through Securities America Advisors, Inc.
Onward Financial Network and Securities America are separate entities.

CARES ACT DISTRIBUTIONS (CRD)

If you took a Corona-virus related distribution (CRD) from your 401(k) account in 2020 you avoided paying the 10% early withdrawal penalty, but did you know that you are able to pay this distribution back into your 401(k) to avoid being taxed as well? If you want to avoid being taxed you have the option to pay the distribution back into your account within three years. You can use any repayment schedule as long as the money is returned in full by year three. If you paid taxes on any of the withdrawal and then return the funds to your account, you would need to file an amended tax return for that year to claim a refund. If repayment is not feasible, you can also choose to pay taxes on the distribution spread out over a three year period instead of the year that you received the money. However, this allowance is only applied to CRDs; all other distributions are taxable in the year the distribution is completed. For assistance with returning a CRD to your 401(k) account, please call our office.

PUTTING MARKET FLUCTUATIONS INTO PERSPECTIVE

Staying invested in the stock market during highly volatile periods can be unsettling. Market fluctuations usually last a relatively short period of time so the discomfort is only temporary in most cases (although it usually doesn't feel this way!) If you attended last month's webinar addressing risk and market volatility, you learned more about why staying the course, while it can be difficult, is usually the best course of action during times of volatility. The longer you remain invested, the longer your investments have to recover from the losses of a downturn. However, as you get closer to retirement and don't have the time horizon to recover from those losses, your strategy will need to change. If you do choose to get out of the market during a market decline, you then have to figure out the best time to get back in-something that even professionals find challenging. If you don't time it right, you could miss the market rebounds that follow and put yourself even further behind than if you had just stayed the course. Though past performance is no guarantee of future results, history has shown that U.S stocks have always recovered and bounced back even after steep declines.

The graphic below illustrates the impact of changing to seemingly "safer" investments on a $100,000 investment during the initial market downturn at the lowest point in 2009. Investor A remained calm and stayed invested in the market despite heavy volatility. Investor B panicked and moved the money into fixed income, thinking it would be safer. While it was "safer" in the short term, he wasn't invested in the stock market during the rebound periods that followed and missed out on substantial opportunities for growth which you can see reflected in his account balance versus Investor A's after 5 years. Careful planning is crucial so it is important to review your personal situation and account on an annual basis and do the work needed to ensure that you are invested properly for your retirement time frame.

NOTE: The S&P Index has been used as a representation of the markets.