401(k) Plan Participant Monthly Newsletter

May 2022

MONTHLY WEBINAR: ROTH IRA PLANNING

When choosing between a Roth IRA and a Traditional IRA it is important to understand each account's unique set of rules and benefits. Some things to consider are income restrictions as well as potential tax advantages.

While similar to other qualified retirement plan accounts, the money invested in the Roth IRA grows tax-free. However a Roth is less restrictive than some of the other accounts in several ways.

Those who don't need their Roth IRA assets in retirement can simply leave the money to accrue indefinitely and pass the assets to their heirs tax-free upon death. A Roth account is the only account that does not require Required Minimum Distributions or RMDs. If you need help deciding whether or not a Roth IRA is a good choice for you, please reach out to our office and we'll be happy to work with you to determine your strategy.

We can help you with getting started - attend this month's webinar for more information on Roth IRA planning!

DOLLAR COST AVERAGING

Dollar cost averaging is a simple technique that entails investing a fixed amount of money in the same fund or stock at regular intervals over a long period of time. Instead of investing in a particular asset one time, with a single purchase at one price, with dollar cost averaging you divide the amount of money you'd like to invest and buy small quantities of the asset over time at regular intervals. This decreases the risk that you might pay too much for an investment before market prices drop. Many people have attempted to time the market and buy when prices appear to be low - this sounds easy, in theory. In practice, however, it is impossible, even for professionals, to determine how the market will move over the short term so it's best not to attempt this. Being invested in a 401(k) retirement plan is a good example of the dollar cost averaging strategy at work. Dollar cost averaging is investing the same amount of money into the same stock or mutual fund at regular intervals. Whether the market is up or down, you're putting the same amount of money into it. In the long run, this is a highly strategic way to invest.

Upcoming Seminars

Roth IRA Planning — May 2022

Roth IRAs are a smart savings tool for younger people just starting out because they're likely to face higher income tax rates as they move along in their careers. A Roth IRA can offer a convenient way to manage taxes as well as tax-free income in retirement to someone further along on their career path. Join us to learn more about Roth IRAs and how to start one!

Understanding Risk & Market Volatility — June 2022

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.

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!

RISKS OF FRONT-LOADING YOUR 401(K)

If you're a good saver, you know the value of maximizing your 401(k) plan and making sure you get the employer match on your contributions. And, if you are a *really* good investor, you may be aware of the benefits of "front-loading" your 401(k) contributions and adding as much as possible to your plan early in the year. Front-loading your 401(k) is when, rather than spacing out their contributions throughout the year, an employee opts to max out their 401(k) contributions over the first few months of the year instead. It is important to be strategic when determining the amount you will contribute to your retirement account each year, but if you're not careful, you could actually be missing out on some "free money" utilizing this contribution strategy.

There are many different variables that you need to take into consideration when deciding how much to contribute to your 401(k). Some of these things include: IRS annual contribution limits, whether or not you are considered a highly compensated employee (as the amount you can contribute may be affected), as well as whether or not not your company is doing matching contributions. Again, it is all about being strategic and working with an advisor is your best bet for determining your best investment strategy, so if you're unsure, we're only a phone call away!

While it is generally considered advantageous to invest in the market early to take advantage of potential market gains as the markets tend to have a positive bias, as we all know, the markets don't always go up - they also go down, sometimes dramatically. In order to protect your investment from a sudden drop in a volatile market, you can use a dollar-cost averaging investment strategy by timing your contributions regularly throughout the year.

Outside of market volatility, the other key factor to consider is how the matching contribution within your 401(k) plan works. Let's say that you earn $50,000 and your employer matches your contributions up to 5% of your salary. This means your potential match contributions could be as much as $2,500. However, if you "front-load" your 401(k) early in the year, some plans will only match contributions during each pay period that an employee contributes. So, in other words, you could receive a reduced matching contribution by maxing out your 401(k) too early because now you won't be able to contribute for some part of the year. Each plan works a little bit differently so it's critical that you understand how your retirement plan's matching contribution works before making the decision to "front-load" your 401(k). Doing a little planning at the start of the year, can help make sure you don't miss out on company benefits while also ensuring you are maximizing your retirement strategy - give us a call if you would like to review your contribution amounts to ensure you are making the most of your 401(k) plan.

RODNEY SMITH

As you may or may not have yet heard, there have been some changes to the team here at Onward Financial Network. Wealth Management Advisor Rodney Smith has recently departed in pursuit of opportunities in the insurance industry. Rodney is sad to leave the clients he enjoyed working with over the last few years but Medicare and Insurance have always been a true passion of his. We wish Rodney the best in his endeavors. Because we have a strong continuity process and procedure in place, we are confident that any work you have started with Rodney will continue right where you left off.

SPEND ON EXPERIENCES, NOT THINGS

Research says that putting your money towards experiences such as a concert or a picnic in the park with friends and loved ones - instead of material objects - can give you more overall happiness. Why?? Research published in the Journal of Positive Psychology reveals that people who spent money on experiences rather than material goods were happier overall because the excitement from purchasing material goods tends to diminish quickly and it's easy to begin taking those items for granted. Plus with material possessions, there is always something "bigger and better" that becomes available and your focus shifts towards desiring those items and not the items you currently possess. However, the joy and memories of an experience last much longer and can give us stronger feelings of overall satisfaction. Plus it is harder to quantify the relative value of an experience, which makes it harder to compare them to something else.

WHAT IS A MARKET CORRECTION?

You may have heard the term "market correction" in regards to recent volatility in the stock market. But what does that term mean? A correction refers to a 10 to 20 percent drop in stock prices. Think of it as similar to the grocery store where, from time to time, items are advertised on sale. Stock market corrections happen on average about once per year but can happen more often and be quite dramatic, which can be scary for some investors. Market corrections can last anywhere from days to months, sometimes even longer but if you're diversified and don't let your emotions rule your investment approach, you're likely to do well during the course of a market correction. Without stock market volatility and corrections, you wouldn't be able to earn the returns on your investments so, like it or not, they are a regular part of the investment process.

HOW TO DETERMINE YOUR NET WORTH

Your net worth is one of the most important aspects of your financial plan. Your net worth is simply the difference between the value of assets that you own and the amount of debts that you owe. To calculate your net worth, start by adding up all of the your assets, including your bank and investment accounts and any physical assets you own - such as your home and car. Next, add up all of your debts and liabilities. Subtract the amount of your debt from the value of your assets and have your net worth.

ONWARD FINANCIAL NETWORK

Objectivity / Competency / Attention to Detail