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Financial Briefs

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Growing Your 401(k) Plan

Your 401(k) plan's ultimate size is primarily a function of two factors — how much you contribute and how much you earn on those contributions. Of course, you know you should contribute the maximum amount possible ($18,500 in 2018 plus a $6,000 catch-up contribution for individuals over age 50, if permitted by the plan). But what steps should you take to maximize your returns? Consider these tips:

- **Take advantage of employer-matching contributions.** Contribute at least enough to take full advantage of any matching contributions. You simply lose the money if you don't use it. A 50% match on your contributions is the equivalent of earning 50% on your money in the first year. If you plan to contribute the maximum and your employer matches contributions, have the $18,500 taken out of your pay uniformly throughout the year. Most employers match contributions as they are made, so you could forgo some matching if you reach the limit before year-end. For instance, assume you earn $150,000, your employer matches 50 cents per dollar on up to 6% of your pay, and you contribute 18.5% of your pay. After two-thirds of the year, when you have earned $100,000, you will have contributed the maximum of $18,500, and your employer will have contributed $3,000. If you contribute 12.3% of your pay instead, your contributions will be spread throughout the year and your employer will contribute $4,500, an additional $1,500 match.
- **Select your investment alternatives carefully.** Since you are responsible for investment decisions, understand any alternatives and review all available information before making choices. Keep in mind the long-term nature of your retirement goal and select investments for that time period. For most participants, that will mean that a significant portion of their portfolio should be invested in growth alternatives, such as stocks.

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Taking Required Minimum Distributions

While the tax code allows you to save money tax deferred in retirement plans such as individual retirement accounts (IRAs), 401(k) plans, and other retirement plans, the Internal Revenue Service wants its cut. That's why holders of most retirement accounts must start withdrawing money at age 70½. The amount that you are required to withdraw is called a required minimum distribution (RMD).

Generally speaking, the RMD applies to all retirement funds except those in Roth IRAs and employer plans like a 401(k) plan for those still working at age 70½. Once you retire after age 70½, you must begin taking your RMD from that plan as well.

If you fail to withdraw your RMD, the IRS will impose an Excess Accumulation Penalty, which equals 50% of the RMD you failed to withdraw. To avoid this penalty, follow these steps:

- **Determine whether you're required to take an RMD.** For your retirement accounts, you must take your first RMD by April 1 of the year after you turn 70½. If you wait until April 1 of the year after you turn 70½ (rather than taking your first RMD that same year), you'll have to take another RMD by December 31 of that same year. After that, you'll be required to take your RMDs by December 31 of each following year. For example, if you turn 70½ in 2018, you must take your first RMD by April 1, 2019. Then, you must

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Growing Your 401(k)

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- **Rebalance periodically.** Numerous studies have found that rebalancing reduces portfolio volatility, often with increased returns. By rebalancing, you are following a fundamental investment principle — you are buying low (those investments that are underperforming) and selling high (those investments that are performing well). Remember that you set your asset allocation strategy because you believed those were the appropriate percentages of various investments you should own. Thus, you need to make rebalancing a habit so your portfolio doesn't become more risky than intended. Since your 401(k) plan is tax deferred, there are no tax ramifications to buying and selling within the account.
- **Limit the amount of company stock owned.** Purchasing too much company stock is risky. Not only is your job and livelihood tied to the company, but your retirement savings are also tied to the same company. It is generally recommended that any one stock not comprise more than 5% to 10% of your portfolio's value. If you own company stock in your 401(k) plan, look at how much of your total balance it represents. Take steps to immediately reduce that percentage if it is over 10%.
- **Don't borrow from your 401(k) plan.** While it may be comforting to know you can gain access to your 401(k) fund when needed, only borrow as a last resort. It's true that you are borrowing from yourself and will pay interest to yourself, but there are also hidden costs to this borrowing. When you borrow, some of your investments are sold. While your loan is outstanding, you miss out on any capital gains or other income those investments may have earned. Interest rates are typically very reasonable, often prime rate or a couple of points over prime. That makes it easier to pay back the funds but could mean your 401(k) account is earning lower returns than if it was invested in other alternatives. Also, if you leave the company while a loan is outstanding, you must repay the entire balance within a short period of time or the loan will be considered a distribution, subject to income taxes and the IRS 10% early withdrawal penalty if you are under age 59½ (55 if you are retiring).

Please call if you'd like help with decisions involving your 401(k) plan.

Is Your 401(k) Plan Enough?

If you work at a company that offers a 401(k) plan, especially if the plan offers matching contributions, it may be the most important part of your retirement investment plan. But should it be the only part?

In 2018, the maximum annual 401(k) contribution is $18,500, not including employer-matching contributions. If you are at least 50 years old, you can contribute an additional $6,000 in 2018, if permitted by the plan. Your plan may impose lower limits to ensure that it complies with nondiscrimination rules.

Here are five questions to help you decide whether your 401(k) plan is the only plan you'll need for retirement:

- **What kind of lifestyle do you want to fund in retirement?** You'll find general rules of thumb indicating you'll need anywhere from 70% to over 100% of your preretirement income during retirement. How much you'll need depends on your individual circumstances. For example, if your mortgage will be paid off and you plan to stay home and watch your grandchildren during retirement, 70% of your preretirement income may be sufficient.
- **Can you count on Social Security?** Social Security benefits were never designed as the sole source of retirement income, but they are still a valuable source of income. Those with lower incomes will find that Social Security replaces a higher percentage of their preretirement income than those with higher incomes.
- **How much does your employer contribute to your 401(k) plan?** The $18,500 maximum contribution to your 401(k) plan does not include employer contributions. Employer-matching contributions vary by plan, but a typical match is 50 cents for every dollar contributed up to a maximum of 6% of your pay. However, recently, many employers have reduced or eliminated matching contributions. If your employer offers a match, make sure you take full advantage of it. A generous matching contribution can contribute substantially toward your retirement.
- **What are average returns on your 401(k) investments?** You can only choose from the investments offered by your 401(k) plan. But within those parameters, select investments that match the long-term nature of your investments and will help grow your retirement funds over time.
- **What other sources of income can you count on?** If you already have other retirement assets, you might not need to count as heavily on your 401(k) plan. Other potential sources of retirement income might include a defined-benefit pension plan, individual retirement accounts (IRAs), an inheritance, or other investments.

If you contribute the maximum possible to your 401(k) plan and still aren't sure you'll have enough for retirement, please call for a review.

Taking Required

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take your second RMD by December 31, 2019.

If you've inherited a retirement plan, you're generally required to take an RMD the year after the plan holder's death, unless the plan owner turned 70½ before death. In that case, you're required to take the RMD the same year as the owner's death. Spouse beneficiaries may be able to delay required distributions.

- **Identify all your retirement accounts.** List all your retirement accounts, including employer plans, traditional IRAs, SEPs, and SIMPLE accounts. This list will help ensure you calculate your RMD correctly and that you've considered all accounts.
- **Calculate your RMD.** To calculate your RMD, divide your retirement account balance as of December 31 of the prior year by a life expectancy factor determined by the IRS. Lifetime tables are created by the IRS for this purpose.
- **Create a withdrawal plan.** You don't have to take an RMD from every one of your accounts, as long as your total withdrawal equals the total amount calculated. You can group your retirement accounts by account type and take a single distribution from one account in each group. However, you can't cross over between IRAs, 401(k)s, and 403(b)s, for instance. You'll also have to decide whether you want to take your withdrawals monthly, quarterly, or annually.
- **Perform a year-end checkup.** Toward the end of each year, make sure you've identified all your accounts, calculated your RMDs accurately, and distributions have been taken. You only have until December 31 to make any necessary adjustments to avoid the 50% excess accumulation penalty.

This is a brief guide to RMDs. Please call to discuss the topic in more detail.

Your 401(k) Plan after Changing Jobs

There are a lot of emotions and moving parts to consider when you leave a job, no matter what is driving the move. But it is important to remember that your 401(k) plan from your former employer will continue to require your attention, even if you have a new one at your new job.

And while you can certainly hold more than one 401(k) plan, there are some factors to consider when it comes to deciding whether to maintain separate accounts or roll your assets into a single account.

- **It is more difficult to execute saving strategies like asset allocation across multiple accounts.** One of the most crucial components of your financial plan is your asset allocation strategy, which should match your need for performance to your tolerance for risk. You achieve this by diversifying your portfolio across the basic asset classes (stocks, bonds, and cash) and sub-classes, such as large- versus small-company stocks, U.S. versus foreign stocks, and corporate bonds versus U.S. Treasury securities. When your portfolio is spread out over more than two accounts, it's more difficult to monitor your asset allocation strategy.
- **It can be hard to track when plans change providers.** Plan sponsors (employers) often change 401(k) plan providers as they try to maximize service and minimize administrative expenses. When the provider changes, this usually means a change in the plan's fund choices. If you are not paying attention during the transition, your funds could be automatically placed by the new provider. Obviously, the more accounts you have to pay attention to, the more likely it is something will slip through the cracks and not align with your wishes.
- **Rebalancing your portfolio is more complicated with multiple accounts.** It is important to review your portfolio on at least an annual basis. Rebalancing involves restoring your portfolio to its planned asset allocation proportions by selling off some of the investments that are performing well and reinvesting the proceeds in your underperforming investments. The more investments you have in more places, the more transactions you'll have to plan and execute.
- **Assessing the performance of your investment choices is harder when dealing with more than one account.** Monitoring your assets and making sure that they are performing well compared to the market can seem like a full-time job, especially when they are spread out over multiple accounts.
- **More accounts could equal more expenses.** Because 401(k) plan providers charge fees that directly affect the returns your portfolio generates, it is important to know exactly what each of your plan's provider charges. If former employers' plans charge more than your new one, you may be able to boost your portfolio return simply by consolidating your funds into the lower-fee plan.

There may also be very good reasons to maintain more than one retirement account. For example, rollover IRAs generally offer more investment choices and control than most 401(k) plans.

If you have accounts at more than one employer, you might benefit from a professional analysis of the pluses and minuses of keeping them.

Please call if you'd like to discuss this in more detail.

News and Announcements

From the Thurman Household

Football season is here, and I sure miss the two-way conversations with Dad. I would love to know his opinion on the current season.

By the time you receive this, my book, *More than a Millionaire* should be out in audio book format. The paperback was a finalist in the International Book Awards, Business Category.

Our son, Levi, is doing well, finishing up his semester at OCCC and doing some interning at a physical therapy office. He came home one evening after work and said, "I can't believe I get paid to do this!" — a very good sign.

My wife, Pati, finished a challenging 75-mile bike ride (but I'm being redundant). She says she's going for 100 next year. I've been told that a 100-mile bike ride is equivalent to a runner's 26.2-mile marathon. I don't know about that, but I do know I'll never find out.

Our business is on pace to have an all-time record year of new clients and new assets under management. This is due, in large part, to our client referrals. THANK YOU!

Hope you have an incredible month,

Randy Thurman, CFP®, CPA/PFS

From the Flinton Household

As the opossum ran furiously toward me, hissing and shaking, I yelled for my wife, Courtney, to shut the garage door. Unfortunately, the garage door moved slower than the opossum. As I jumped out of the way, the creature of the night ran under my car and found a cozy spot to nestle in as he surely contemplated his next move of attack.

I did what any red-blooded American would have done if their property was under siege: I grabbed the nearest rake and a can of OFF bug spray that was within my reach. I gave some incoherent instructions to my wife, who was peering out through the house door cracked open ever so slightly.

As I stood there peering beneath my car trying to get a clear view of the varmint, I could hear the laughter from my ever-so-loving wife. Apparently from her vantage point, this was a funny experience; meanwhile I was trying to protect our homestead from the intruder with a rake and OFF bug spray in hand. I'm still not entirely sure what I thought the OFF would help with, but it was the nearest chemical I could procure.

When I was in 4th grade living in Piedmont, I remember an opossum attacking our dogs, and I was given a .22 so I could shoot and kill the opossum as he tried to escape. As I reflect on the juxtaposition of the two incidents, I can't help but ask where my life went so wrong.

Make it a great month,

Andrew Flinton, CFP®

From the Bolander Household

It's a small world after all. You've probably had the experience of being in a completely different locale and running into a close friend or relative or meeting someone who knows your friends or relatives.

Well, that happened to my sister and me last month while taking in The Great Passion Play in Eureka Springs, Arkansas. It was both our granddaughters' school fall break, which provided a good opportunity to get the girls together. Besides that, my sister has been hoping to go there this year as The Play is celebrating its 50th anniversary!

We both had been there a time or two in the past but not recently. Of course, the story was just the same, but they have added some attractions that depict life in first-century Holy Land and to get up close to the show animals. The woolly sheep and the Great Pyrenees dog were the girls' favorites.

After a bountiful buffet dinner, my sister snagged us seats on the front row. During the introduction to The Play, we learned that the person in charge is pastor in a small community south of Ada, Oklahoma, where several of our cousins grew up and still live.

Despite the cool weather, it was a heart-warming trip all around!

Have a great holiday season!

Brenda C. Bolander, CFP®, CPA/PFS