Joe Ciaramitaro - Summer 2021

Coaching Your Financial Future

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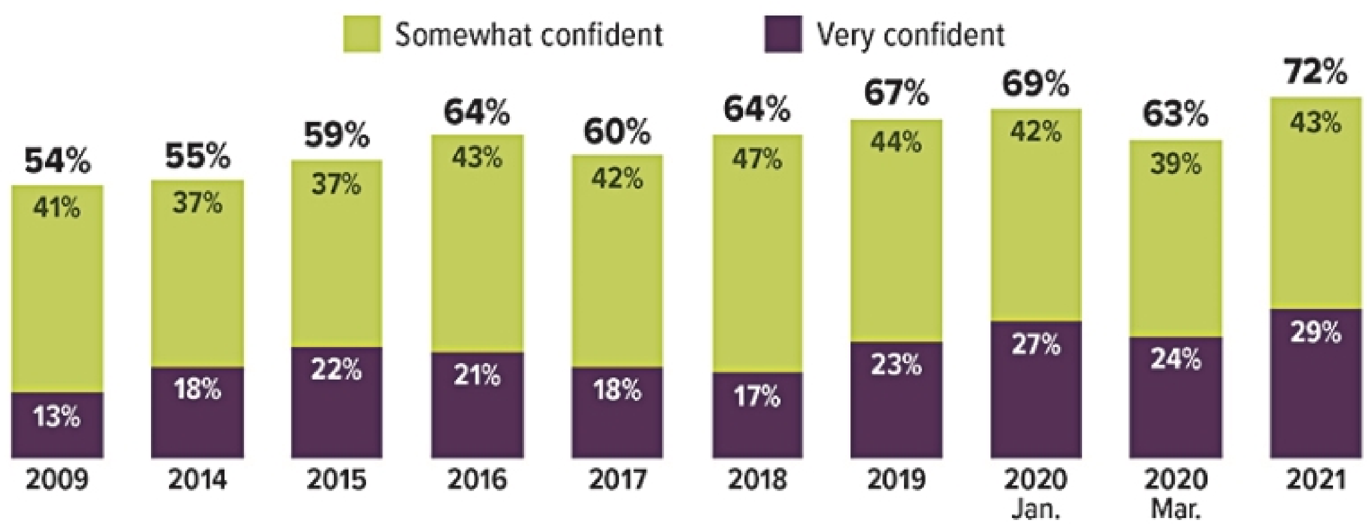
Can You Fund Your Retirement?

In January 2021, more than seven out of 10 workers were very or somewhat confident that they would have enough money to live comfortably throughout their retirement years. This was the highest confidence level since 2000 and a significant rebound from levels in March 2020 after the pandemic began. Overall, retirement confidence has trended upward since the Great Recession.



Source: Employee Benefit Research Institute, 2021 (two surveys were conducted in 2020)

How Well Do You Understand Retirement Plan Rules?

Qualified retirement plans, such as IRAs and 401(k)s, have many rules, and some of them can be quite complicated. Take the following quiz to see how well you understand some of the finer points.

1. You can make an unlimited number of retirement plan rollovers per year.

A. True

B. False

C. It depends

2. If you roll money from a Roth 401(k) to a Roth IRA, you can take a tax-free distribution from the Roth IRA immediately as long as you have reached age 59½.

A. True

B. False

C. It depends

3. You can withdraw money penalty-free from both your 401(k) and IRA (Roth or traditional) to help pay for your children's college tuition or to pay for health insurance in the event of a layoff.

A. True

B. False

C. It depends

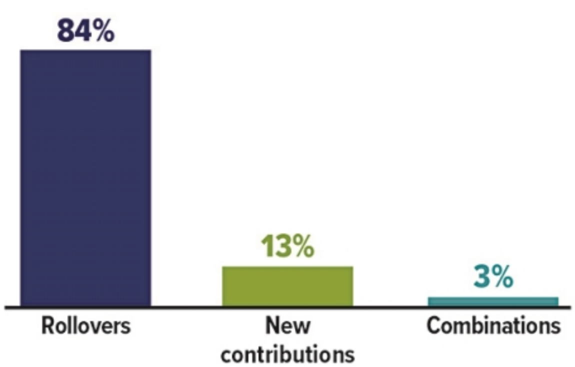
4. If you retire or otherwise leave your employer after age 55, you can take penalty-free distributions from your 401(k) plan. You can't do that if you roll 401(k) assets into an IRA.

A. True

B. False

C. It depends

Shares of Traditional IRA Assets Opened with...



Source: Investment Company Institute, 2020 (data reflects IRAs opened in 2016)

1. C. It depends. Rollovers can be made in two ways — through a direct rollover, also known as a trustee-to-trustee transfer, in which you authorize the funds to be transferred directly from one account or institution to another, or through an indirect rollover, in which you receive a check in your name (less a required tax withholding) and then reinvest the full amount (including the amount withheld) in a tax-deferred account within 60 days. If the full amount is not reinvested, the outstanding amounts will be considered a distribution and taxed accordingly, including any applicable penalty. Generally, individuals can make an unlimited number of rollovers in a 12-month period, either direct or indirect, involving employer-sponsored plans, as well as an unlimited number of direct rollovers between IRAs; however, only one indirect (60-day) rollover between two IRAs is permitted within a 12-month period.

2. C. It depends. Beware of the five-year rule as it applies to Roth IRAs. If you establish your first Roth IRA with your Roth 401(k) rollover dollars, you will have to wait five years to make a qualified withdrawal from the Roth IRA, regardless of how long you've held the money in your Roth 401(k) account, even if you are over 59½. However, if you have already met the five-year holding requirement with *any* Roth IRA, you may take a tax-free, qualified withdrawal.

3. B. False. You can take penalty-free withdrawals from an IRA, but not from a 401(k) plan, to pay for a child's qualifying education expenses or to pay for health insurance premiums in the event of a job loss. Note that ordinary income taxes will still apply to the taxable portion of the distribution, unless it's from a Roth account that is otherwise qualified for tax-free withdrawals.

4. A. True. If you leave your employer after you reach age 55, you may want to consider carefully whether to roll your money into an IRA. Although IRAs may offer some advantages over employer-sponsored plans — such as a potentially broader offering of investment vehicles — you generally cannot take penalty-free distributions from an IRA between age 55 and 59½, as you can from a 401(k) plan if you separate from service. If you might need to access funds before age 59½, you could leave at least some of your money in your employer plan, if allowed.

When leaving an employer, you generally have several options for your 401(k) plan dollars. In addition to rolling money into an IRA and leaving the money in your current plan (if the plan balance is more than $5,000), you may be able to roll the money into a new employer's plan or take a cash distribution, which could result in a 10% tax penalty (in addition to ordinary income taxes) on the taxable portion, unless an exception applies.

A Financial Wellness Plan Can Help Pave the Road to Retirement

If we've learned any lesson over the past year, it's that no matter how carefully we plan and prepare, we'll likely encounter unexpected hurdles. While a global pandemic has certainly underscored the need to pay close attention to our physical wellness, it has also revealed the need to shore up our financial wellness.

According to PwC's 9th Annual Financial Wellness Survey conducted in January 2020, financial matters were the top cause of stress for employees even well before the pandemic hit in earnest. More than one-third of full-time employed millennials, Gen Xers, and baby boomers had less than $1,000 in emergency savings. Only 29% of women said they would be able to cover their basic necessities if they found themselves out of work for an extended period, compared with 55% of men. And more than half of millennials and Gen Xers and 35% of baby boomers said they would likely use their retirement funds for something other than retirement, with most noting it would be for an unexpected expense or medical bills.[1]

Although tapping your retirement savings can help you get through a crisis, it can hinder your ability to afford a comfortable retirement. Having a plan to guard your financial wellness throughout your working years can help you avoid putting your retirement at risk.

What Is Financial Wellness?

The Consumer Financial Protection Bureau (CFPB) defines financial well-being as:[2]

1) Having control over day-to-day and month-to-month finances. In order to achieve this, your expenses need to be lower than your income.

2) Maintaining the capacity to absorb a financial shock. This typically refers to having adequate emergency savings and insurance.

3) Being on track to meet financial goals, meaning you have either a formal or informal plan to meet your goals and you are actively pursuing them.

4) Having the financial freedom to make choices that allow you to enjoy life, such as a splurge vacation.

The CFPB has identified several key factors that contribute to an individual's ability to achieve financial well-being. Among them are: (1) having the skills needed to find, process, and use relevant financial information when it's needed; and (2) exhibiting day-to-day financial behaviors and saving habits.

Assistance Is Available

Many employers have begun offering financial wellness benefits over the past decade. These programs have evolved from a focus on basic retirement readiness to those addressing broader financial challenges such as health-care costs, general finance and budgeting, and credit/debt management.[3]

If you have access to work-based financial wellness benefits, be sure to take time and explore all that is offered. The education and services can provide valuable information and help you build the skills to make sound decisions in challenging circumstances.

In addition, a financial professional can become a trusted coach throughout your life. A qualified financial professional can provide an objective third-party view during tough times, while helping you anticipate and manage challenges and risks and, most important, stay on course toward a comfortable retirement.

1) PwC, May 2020

2) Consumer Financial Protection Bureau, January 2015

3) Employee Benefit Research Institute, October 2020

The Four Elements of Financial Well-Being

	Present	Future
Security	Control over your day-to-day, month-to-month finances	Capacity to absorb a financial shock
Freedom of choice	Financial freedom to make choices to enjoy life	On track to meet your financial goals

Source: CFPB, September 2017

Income Investors May Find Closed-End Funds on Sale

Most mutual funds are open ended, which means the investment company can issue and redeem fund shares to meet investor demand. By contrast, closed-end funds issue a fixed number of shares in an initial public offering (IPO), and thereafter shares are traded on an exchange.

Both open-end and closed-end funds may hold stocks, bonds, and other types of underlying investments. Unlike open-end funds, closed-end funds do not have to maintain cash reserves or sell securities to meet redemptions, so fund managers can invest in less-liquid securities. They can also use riskier leverage strategies, which can magnify a fund's positive or negative returns and volatility.

Closed-end funds are often designed to generate a steady income, called the distribution rate, that tends to be higher than what might be offered by an open-end fund with similar securities. However, closed-end funds may be better suited for long-term investors who can tolerate the potential price swings.

View Discounts in Perspective

The market price of closed-end fund shares trading on a secondary market is determined by supply and demand. The trading price fluctuates with market conditions and can be higher or lower than the net asset value (NAV) of the shares. Shares, when sold, may be worth more or less than their original cost.

If the current price is higher than the NAV, shares are selling at a premium. If the price is lower, they are selling at a discount. A wide discount does not necessarily make a fund a better value. However, buying shares at a wider-than-normal discount may provide a bonus if the gap between the share price and the NAV narrows after investment.

When making investment decisions, it's important to understand the reasons for the fund's current valuation, compare the discount to the historical average, and assess whether the fund is likely to meet its objectives, including any potential income stream.

Distributions from closed-end funds can come from three possible sources: income distributions, including payments from interest and dividends; realized capital gains; and return of capital. Distribution rates are not guaranteed and can increase or decrease in response to market conditions.

Closed-end funds incur broker trading fees and charge management fees. They are generally not redeemable; the investment company does not have to buy back shares to fulfill investor demand.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.