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## Financial Briefs

JULY 2022

### 401(k) Plan Mistakes to Avoid

We all know how important it is to save for retirement, and 401(k) plans have become one of the most effective ways to save. However, many workers who have access to a retirement plan don't participate. That's probably the biggest mistake you can make. If you have access to a plan, you should take full advantage of it.

If you are participating in your employer's retirement plan, you are headed down the right path. But just because you are participating doesn't mean you're all set. There are 401(k) mistakes that can derail an investor's retirement plan. Here are some of the biggest mistakes and how you can keep things on track:

#### Not Knowing How Much You Need to Save for Retirement

If you don't have a goal for how much you need to save to live comfortably during retirement, you will probably fall short. The first step is to determine how you want to spend your retirement. In addition to paying your basic expenses, do you want to travel? Maybe you want to start a small business that you've always dreamed about. Or perhaps you have a hobby that you would like to pursue. All of these things need to be factored into your estimate for retirement savings so that you can live the lifestyle you

want.

Most financial experts agree that you will need at least 70–90% of your preretirement income to live comfortably. But don't just use a rule of thumb; make sure to review your specific situation.

#### Not Saving Enough

Most experts suggest that you save 10–20% of your income for retirement. Because many companies auto-enroll new employees into their 401(k) plans using a default dollar amount, many employees fail to adjust the dollar amount and end up not saving enough to meet their retirement goals.

Others may feel they just don't earn enough to contribute 10% to 20% of their income due to competing demands on their money, such as debt or building an emergency fund. If that is the case, at least try to save enough money to get the company match.

Another method that can help you increase the amount you save in your 401(k) is a contribution rate escalator. Many companies now offer this feature as part of their retirement plans. A contribution rate escalator increases how much you're saving by making small automatic  
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### 10 Ways to Boost Savings

Saving money doesn't have to be hard. By embracing some simple lifestyle changes or taking full advantage of tax perks and other savings incentives, you can easily boost the amount of cash you save. Here are some ideas to get you started.

- **Take advantage of savings perks:** If you contribute pre-tax earnings to a 401(k) plan or IRA, you're saving money beyond your actual contribution amounts. Say your monthly gross pay is \$5,000 per month. You currently don't contribute to a 401(k) plan. You decide to start saving

3% each month (or \$150) into your employer's 401(k) plan. This \$150 comes out of your paycheck pre-tax, which means that even though you're saving \$150, your paycheck only shrinks by \$112 — in other words, you've saved \$38 a month on taxes, or \$456 per year. Another way to save? Make sure that you're contributing enough to get your employer match, since this is a great way to increase your savings without actually shrinking your take-home pay.

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## 401(k) Plan Mistakes

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dollar increases over time.

### Not Paying Attention to Fees

There are typically three types of fees associated with your 401(k) plan, including administration fees, investment fees, and service fees. These fees can eat into your retirement account's potential growth. To understand how much you are paying in fees and expenses, carefully review your regular statements. Also, at the end of the year, you should receive a statement that will show how much you paid in 401(k) fees.

Also, if you have an old 401(k) plan from a previous employer, you should compare that plan's fees to your current 401(k) plan to see if rolling it over to your new plan makes sense. You should also consider an IRA rollover so that you can select the best investment options.

### Too Much Stock in Your Company

Having company stock in your 401(k) plan may come with significant growth potential, but it may also increase the volatility of your retirement portfolio. If your 401(k) plan includes company stock, make an assessment of your risk. Most experts agree that your portfolio should not have more than 10% to 15% of any one stock.

### Not Rebalancing Your Portfolio

The reason for asset allocation is to balance your portfolio across asset classes such as stock, bonds, or cash so that if one is performing poorly, others will help offset losses. Over time, however, your investments may drift from your original asset allocation.

You should review your portfolio on a regular basis to determine if it needs rebalancing. Some 401(k) plans provide an automatic rebalancing feature that can do the work for you. If you do not have the time or inclination to rebalance your portfolio, you may want to invest in target-date retirement funds or asset allocation funds.

## 5 Reasons to Start Saving

If you're interested in getting started with savings, or if you want to save more, here are five reasons to stay motivated.

**1. You'll be prepared for emergencies.** Here's an alarming fact: most Americans don't have enough money saved to cover even relatively small unexpected expenses, such as emergency room co-pays, minor car repairs, or a broken furnace. Without cash on hand to cover these irregular but inevitable costs, you're more likely to turn to credit cards or loans when the need arises. The result? A downward financial spiral that can be difficult to pull yourself out of.

**2. You'll be more independent.** Having savings gives you more flexibility and independence. With a healthy amount of savings, you can feel more free to take risks, like starting your own business, heading back to school to train for a new career, purchasing a home of your own, or moving to a new city. Plus, without savings, you're living on the financial edge, and you're more likely to find yourself stuck in situations that you may not be satisfied with. Committing to savings today, even if it's just a small amount, will start to give you the

freedom to make different choices.

**3. You'll be able to reach your goals.** We all have goals. Whatever your dreams, they likely have one thing in common — you're probably going to need some money if you want them to become a reality. Few of those dreams are achievable if you don't save for them.

**4. You'll be able to earn more money.** Saving isn't just about setting aside what you've already earned. It's also about putting your money to work for you. Depending on where you save and invest your money, you can earn more just by being diligent about saving, rather than spending. And because of the power of compounding earnings, even relatively small amounts can grow significantly, provided you don't touch your principal.

**5. You'll be happier.** No one wants to suggest money is the only thing that can make us happy. But there's also evidence that *saving* money, even in small amounts, can make you happier. In contrast, having debt (often a consequence of a lack of savings) tends to lead to more unhappiness.

Convinced that saving for the future is the right thing to do? Please call to discuss how you can make regular saving part of your financial plan. ■■■

### Not Contributing Enough to Get the Company Match

If your employer matches any percentage of your contributions, you should at least contribute enough to get that match. Look at your benefits package to determine how much your employer will contribute and take full advantage of this benefit.

In 2022, you can contribute up to \$20,500 in your 401(k) or up to \$27,000 if you are age 50 or older.

### Not Taking it With You When You Go

Many people change jobs and may not consider what to do with their existing retirement plan. Often,

the old 401(k) gets left behind and may not be optimally invested. It is important to remember that these dollars can continue to work for you, so it is critical that you thoughtfully choose what to do with it. If allowed, your new employer may permit you to roll it into a 401(k) at your new job.

You could also consider rolling it to a Traditional IRA. Either way, make sure that you're investing in the right fund strategy for your life stage. Talk to your advisor about how to maximize the growth of an old retirement plan.

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

## Boost Saving

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- **Get your benefits:** Your employer may offer benefits that could save you money. Flexible spending accounts are common benefits that allow you to set aside pretax income for out-of-pocket medical expenses. Also common are programs for commuters that let you pay for parking or public transit on a pretax basis. Some employers even offer discounts on gym memberships or other services. Take the money you save by participating in these programs and use it to boost your savings.
- **Cut recurring expenses:** Monthly subscription boxes, streaming entertainment services, gym memberships that you don't use — these regular costs can add up. While some may be worthwhile, trimming the fat in the area of recurring expenses can help you save more. Keep what you use and drop the ones you don't use.
- **Buy generic:** Do you always buy the name-brand version of the product? If so, you might be wasting money. In many cases, the generic version of a product is just as good — if not identical — as the pricey, branded version.
- **Make it automatic:** Not sure where your money goes each month? Automate your savings so that you don't have to think about setting aside extra cash.
- **Be generous:** If you itemize your taxes, make sure you're keeping track of all your charitable donations — from checks you write to the value of goods donated.
- **Cut one habit:** Do you indulge in daily soda or an expensive coffee drink? Cut the habit (or, if that's too hard, limit it to two or three times a week). Set aside the money you would have spent.
- **Repair, don't replace:** It's easy to toss a slightly worn or damaged item and buy a new one to replace it. But many of the items we throw out can actually be repaired. By purchasing quality

## Are You Saving Enough to Retire Well?

Are you saving enough to retire well? It depends on what your definition of retire well is.

### So how much might the average worker actually need?

Assume a current income of \$50,000 per year, an 8% return on your savings before retirement, 35% of your portfolio invested in stocks after retirement, inflation of 3% per year, and a life expectancy of 90 years. Not counting any other forms of retirement income (Social Security or pension benefits, for example), you'll need between \$1.3 and \$2.5 million in your account when you're ready to retire.

That's a big range and the decisions you make can dramatically affect how much you need to save for retirement. If you're 50 when you start saving, for example, you can cut the total amount you'll need to save per month almost in half by delaying your retirement by five years. If you really want to retire at age 65, you can cut how much you need to save substantially if you scale back the retirement lifestyle you're planning.

To determine how much money you'll need to have saved for your retirement, you'll need to consider:

**1. How much do you already have saved?** If you're 50 years old and you already have \$250,000 in your retirement account, you won't have to save nearly as much as if

you had no nest egg.

**2. How many more years do you plan to work?** The longer you are saving and earning returns on those savings, the more money you'll have when you're ready to retire.

**3. What is your estimated Social Security benefit?** Most Americans will likely receive some sort of benefit from the program. It's important to remember, however, that Social Security is just a supplement to your other retirement savings.

**4. How much income will you need in retirement?** A huge factor that will determine how you answer this question is whether you'll have a mortgage payment when you're retired. For most people, a mortgage payment makes up about a quarter of their pretax monthly income. So if you plan to have paid off your house by the time you retire, you can keep all of your other expenses the same and still only need 75% of the income you needed when you had a mortgage payment.

Of course, you'll also want to think about the activities you want to pursue. If it's traveling the world, you'll need more income than if your plans are to stay home and golf or spend more time with the grandkids down the street.

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

items and taking good care of them, you'll likely save yourself money in the end.

- **Use coupons:** Clipping coupons may seem distinctly old school. Fortunately, you can now take advantage of coupon savings without having to spend an entire Sunday morning sorting through newspaper inserts. When shopping online, always do a quick search for online promo codes. Or sign up for your favorite grocery store's rewards program.
- **Review your insurance premiums:** Raising deductibles or bundling policies could save you

a bundle. Also, make sure you actually need the insurance you have — cell phone insurance and warranties are often a waste of money. Finally, make sure you're getting all the discounts you qualify for, like car insurance premium reductions for being a safe driver or homeowners insurance discounts for having an alarm system.

Please call for help analyzing your budget and identifying ways to cut your expenses and save more of what you earn. ■■■

## News and Announcements

### From the Alexander Household

Have you ever had a negative first impression of someone but later become great friends? Or have you interviewed an applicant for a job thinking they would be a perfect fit only to learn your initial perception was wrong? This phenomenon is explored by Alexander Todorov in his book, *Face Value: The Irresistible Influence of First Impressions*.

Todorov's book utilizes research showing that a substantial percentage of election results can be predicted using snap judgements of politicians' faces. Most people subconsciously determine someone's character by their expressions, familiarity of facial features and appearance. These first impressions are inherently unreliable, especially when a bias limits further inquiry into another's talents, integrity, loyalty, work ethic and other character traits.

Thinking of errors related to first impressions, I am reminded of when I met my mother-in-law. She was polite but reserved, so I did not expect to have a close relationship. Both my husband Kerry and his mother, Nikki, have outgoing personalities while I am more comfortable observing and listening. Our personal styles led to less than ideal first impressions. Over the years, we developed an exceptionally close relationship based on mutual respect and love. She made holidays special with her decorating style and culinary skills, often made roundtrip drives from Dallas with her husband, Aubrey, to see our sons' school plays and became one of my most reliable and loving friends. I admire her passion and courage, especially as she battled cancer.

I am writing on June 22, which would have been Nikki's 79th birthday. I am glad we were able to move past our first impressions, resulting in an incredibly rewarding relationship. I try harder now not to "judge a book by its cover."

*Carol Ringrose Alexander,*

*CTP®, AIT®, CEPS, RLP®, CDJA™*

### From the Rudy Household

Years ago, when our daughters were much younger, we signed up the oldest two girls for a half-day Summer Camp in our community. The next year, our youngest daughter was old enough to participate and my wife, Amy, decided that she would join the fun by volunteering as a group leader during the camp. Although everyone was in a different group, they enjoyed seeing each other from afar throughout the day. Year after year, this camp was something they all looked forward to each summer.

We thought this was going to be an activity that ended once each girl reached the age limit for the camp. However, Amy continued to volunteer, and the real fun began when, one by one, the girls graduated from being a camper to being Amy's teen assistant.

As an added twist this year, our daughter Megan turned 18 just weeks before the camp. She was prepared to be a teen assistant again, but since she was 18, she was eligible to volunteer as an adult group leader. She was assigned as the leader of a group with two of her younger friends serving as her teen assistants. Its fun to think that Megan has participated as a camper, as a teen assistant, and now as an adult group leader. Although it's only one week, this camp is a consistent and meaningful summer activity for the girls. They enjoy seeing former campers around the city and appreciate the opportunity to share the experience together.

*Chad A. Rudy, CTP®*

### From the Bolander Household

July is one of my favorite months of the year for lots of reasons. Not only do we celebrate the birth of our great nation with amazing fireworks and stirring patriotic music, but I also have several friends and family members whose birthdays are this month, including my own!

The Meeker Independence Day celebration is a good time for a picnic and visiting with friends. It is usually held at the lake with plenty of live local talent belting out tunes, bands playing on a flatbed trailer, and an occasional recording of Sousa's *Stars and Stripes Forever* thrown in the mix. There are face-painting booths, games and vendors selling items that glow and twinkle. Then, when it's dark enough the volunteer fire department kicks off the fireworks display. When my family decides to avoid the crowd, we watch the lake show from our front yard plus the aerial displays throughout the valley and even miles away to Shawnee and beyond.

July fun continues with National Watermelon Month, National Hot Dog Month and National Ice Cream Month, all favorites of mine, but topping the food celebrations is the Blackberry Festival in the nearby town of McLoud. In my book, you can't beat homemade blackberry cobbler with a scoop of vanilla ice cream. However you celebrate, have a great July!

*Brenda C. Bolander,*

*CTP®, CPA/PTS*