WIDMANN FINANCIAL SERVICES

4321 Northview Drive, Bowie, MD 20716
www.widmannfinancial.com
(301) 262-2919 (phone) • (301) 262-3481 (fax)

Financial Briefs

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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 pretax 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.

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 Considering a Roth 401(k)

With a traditional 401(k), you receive the tax benefits up front because the contributions lower your taxable income during the current tax year. When you begin taking distributions from your 401(k) in retirement, you will then have to pay ordinary income tax on the withdrawals. With a Roth 401(k), you make contributions with after-tax dollars and your earnings grow tax-free, meaning that you will not have to pay taxes when you withdraw your money. Typically, people who don't need to lower their income today or believe they may be in the same or higher tax bracket during retirement benefit from a Roth 401(k) plan.

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

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.

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 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.

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.

Business Data

Indicator	Month-end Apr-22	May-22	Jun-22	Dec-21	Jun-21
Prime rate	3.50	4.00	4.75	3.25	3.25
3-month T-bill yield	0.89	1.12	1.75	0.08	0.05
10-year T-note yield	2.89	2.85	2.98	1.52	1.45
20-year T-bond yield	3.14	3.28	3.38	1.94	2.06
Dow Jones Corp.	4.33	4.27	4.80	2.48	2.29
GDP (adj. annual rate)#	+2.30	+6.90	-1.50	+6.90	+6.30

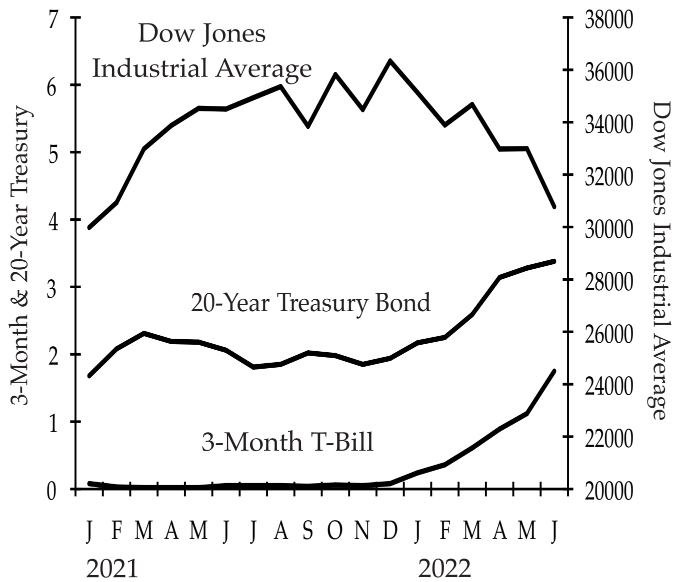
Indicator	Month-end Apr-22	May-22	Jun-22	% Change YTD	12 Mon.
Dow Jones Industrials	32977.21	32990.12	30775.43	-15.3%	-10.8%
S&P 500	4131.93	4132.15	3785.38	-20.6%	-11.9%
Nasdaq Composite	12334.64	12081.39	11028.74	-29.5%	-24.0%
Gold	1911.30	1838.70	1817.00	0.7%	3.1%
Unemployment rate@	3.60	3.60	3.60	-14.3%	-37.9%
Consumer price index@	287.50	289.11	292.30	5.2%	8.6%

— 3rd, 4th, 1st quarter @ — Mar, Apr, May Sources: *Barron's*, *Wall Street Journal*

Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

January 2021 to June 2022



News and Announcements

Your 401(k) Contribution Amount

Before deciding how much to contribute to your 401(k) plan, find out three key figures:

What is the maximum percentage of your pay that can be contributed? The maximum legal contribution limit in 2022 is $20,500 plus an additional $6,500 catch-up contribution for participants age 50 and over, if permitted by the plan. However, most employers set limits in terms of a percentage of your pay to comply with government regulations. This limit ensures the plan does not discriminate in favor of highly-compensated employees.

How much of your contribution is matched by your employer? Employers are not required to provide matching contributions, but many do. A common match is 50 cents for every dollar contributed, but many other variations also exist.

Up to what percentage of your pay does your employer match? Most plans only match contributions up to a certain percentage of your pay. For instance, the plan may only match contributions up to a maximum of 6% of your pay.

Assume your 401(k) plan allows contributions up to 10% of your pay annually, with a 50 cent match on every dollar contributed, up to a maximum of 6% of your pay. With a $100,000 salary, you can contribute up to $10,000 to the plan. Your employer will match up to the first $6,000 of contributions ($100,000 times 6%), contributing a maximum of $3,000 (50 cents for every one dollar).

How much should you contribute to your 401(k) plan? If at all possible, contribute the maximum allowed. In the above example, that would be 10% of your pay. At a minimum, contribute enough to receive the maximum matching contribution. That would be 6% of your pay in the above example. Please call if you'd like help deciding how much you should contribute to your 401(k) plan. FR2022-0314-0011