LET'S TALK MONEY®

March/April 2021

A 401(k) Plan: Paving the Road to Retirement

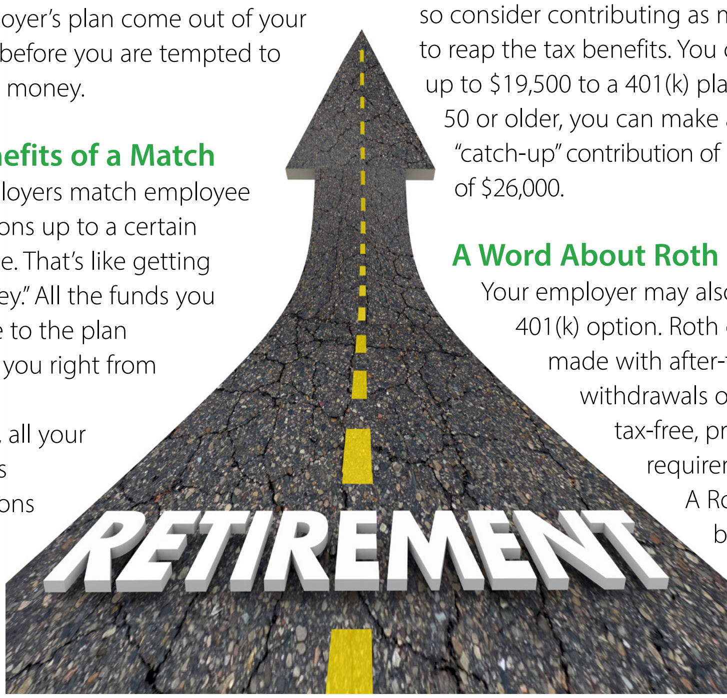
There's a lot to like about a 401(k) plan. Whether you already participate in your employer's plan or you're just now thinking about joining, reviewing the benefits as tax time approaches is a smart idea.

The Pretax Advantage

When you participate in a traditional 401(k) plan, your contributions to the plan are taken out of your pay before income taxes are deducted, thus lowering your taxable income. Your plan contributions and any earnings grow tax deferred until you withdraw them, typically at retirement, when you may be in a lower tax bracket than you are now. And with automatic payroll deduction, contributions to your employer's plan come out of your paycheck before you are tempted to spend the money.

The Benefits of a Match

Most employers match employee contributions up to a certain percentage. That's like getting "free money." All the funds you contribute to the plan belong to you right from the start. Over time, all your employer's contributions will also belong to you, based on a vesting schedule outlined in your employer's plan documents. Remember, the sooner you start contributing to your plan, the longer you'll have to benefit from compounding – earning interest on both contributions and earnings.



2021 Tax Deduction

You have until December 31, 2021, to make contributions to a 401(k) and get the tax deduction on your 2021 income-tax return, so consider contributing as much as possible to reap the tax benefits. You can contribute up to $19,500 to a 401(k) plan. If you're age 50 or older, you can make an additional "catch-up" contribution of $6,500, for a total of $26,000.

A Word About Roth 401(k)s

Your employer may also offer a Roth 401(k) option. Roth contributions are made with after-tax so withdrawals of earnings are tax-free, provided all requirements are met. A Roth 401(k) may be a good option if you expect to be in a higher tax bracket after retirement.

OnMark Asset Management, LLC
525 3rd Street
Suite 235
Lake Oswego, OR 97034

Tel: 503-726-5963
Email:
info@onmarkam.com
Website:
www.onmarkam.com

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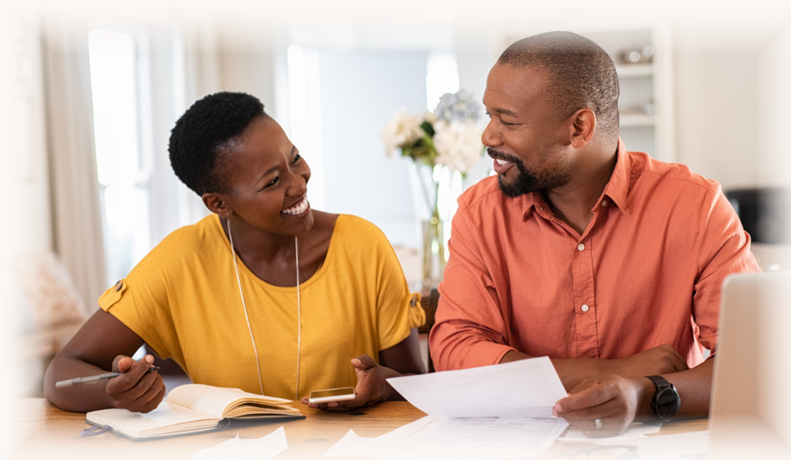
Cultivate Your Financial Smarts

When there's a lot going on in your life, you might be tempted to put thinking about your finances on the back burner. But that's never a good plan. Improving your financial outlook can be as easy as laying down – and following – a few simple ground rules.



Create a Spending Plan

Add up your monthly expenses – rent/mortgage, utilities, insurance, food, commuting costs, loan and car payments, etc. – and subtract them from your after-tax income. If expenses are top heavy, look for places to trim.

Build Credit

Paying bills and making loan payments on time will help you earn a healthy credit score. Credit cards can help you establish credit, but make sure you pay off any balances each month to avoid accruing interest and lowering your credit score.

Start an Emergency Fund

Set aside money in a cash account in case of a job loss or an unexpected expense. Your goal should be at least six months' worth of living costs.

Set Concrete Goals

A down payment on a house, a college fund, retirement – identifying specific goals can keep you on track. Think about how much you'll need to save for each goal and review your progress periodically.

Contribute to a Retirement Plan

Take advantage of your employer's 401(k) or other retirement plan, or open an individual retirement account (IRA) on your own.

New Limits for HSAs

Covered by a high-deductible health plan (HDHP)? That makes you eligible to contribute to a health savings account (HSA). An HSA allows you to set aside money in a tax-advantaged account to pay current and future qualified medical expenses. For 2021, the annual HSA contribution limit is $3,600 for individuals with self-only HDHP coverage and $7,200 for individuals with family HDHP coverage. If you're age 55 or older, you can make an additional $1,000 catch-up contribution.

HDHP Defined

The IRS currently defines an HDHP as a health plan having a minimum deductible for 2021 of $1,400 for self-only coverage and $2,800 for family coverage. Limits on out-of-pocket expenses (including deductibles, copayments, and coinsurance, but not premiums) are $7,000 for self-only HDHP coverage and $14,000 for family HDHP coverage.

Reap the Tax Benefits

If you have health insurance through your employer, your HSA contributions typically are made through pretax payroll deduction. Any earnings generally are free from taxes as well.* And the money in your account can be withdrawn tax free at any time as long as it's used to pay qualified medical expenses. As health-care costs continue to rise, maximizing your contributions to an HSA makes good sense.

*Some states tax earnings.

Adoption: Understand the Costs

Adopting a child can be a joyful event – and an expensive one. If you're considering adoption, it's important to know the costs so you can plan and budget for them.

Costs to Consider

Adoption costs can range from $15,000 to $50,000. Agencies typically have a set fee schedule for their services. You'll also pay the costs of fingerprinting, background checks, doctor physicals and financial reports, as well as any travel costs you incur.

You'll also need to pay for a home study completed by a licensed agency, and you could be responsible for paying expenses and counseling for the birth mother.

Another option to consider is adopting through foster care, which typically costs much less.

The Tax Benefits

You may qualify for a tax credit of up to $14,440 per child for qualified adoption expenses, as well as an exclusion from income for employer-provided adoption assistance.

Adoption of a child with special needs qualifies for the full tax credit regardless of expenses incurred. Adoption of a stepchild does not qualify unless the child is under age 18 and unable to care for himself or herself. You must meet income limits and other requirements to receive the tax credit, so consult your tax professional.

The Tipping Dilemma

It isn't always easy to know how much you should tip and when. Here are some guidelines.*

Restaurants

Wait staff: 15%-20% for sit-down service and 10% for buffet service
Home delivery: 10%–15% of the bill – $2.00-$5.00 if it's pizza delivery, depending on the order size
Bartender: $1.00-$2.00 per drink, or 15%-20% of a running tab
Host/Hostess: $10-$20 for finding you a table on a busy night
Valet: $2.00-$5.00 when the car is returned

Salons

Hairstylist, Manicurist, Masseuse and other services: 15% to 20%

Travel

Taxi driver: 15% to 20%
Skycaps and hotel bellhops: $2.00 for the first bag and $1.00 per additional bag; $2.00-$3.00 for each additional service
Doormen: $1.00-$2.00 if they carry luggage or hail a cab
Housekeeping service: $2.00-$5.00 per day with a note marked "Housekeeping"
Concierge: for tickets or restaurant reservations, $5.00-$10.00 – $15.00 or more if tickets or reservations are hard to get

**emilypost.com/advice/general-tipping-guide*

Tipping in the States

How do you feel about tipping? Compare your opinions and habits with these survey responses, based on a representative sample of 1,031 adults in the U.S.

46% Prefer to dine in a restaurant with wages built in to the entrée price to eliminate tipping

35% Prefer to supplement low wages with tips

91% Women who tip at a sit down restaurant, compared with **80%** of men

32% Women likely to tip 20%, compared with **27%** of men

67% Patrons who don't tip in coffee shops

63% Hotel guests who leave a tip for the housekeeper

https://www.consumerreports.org/tipping/is-it-time-to-rethink-the-rules-of-tipping-etiquette/

Say No to Lifestyle Inflation

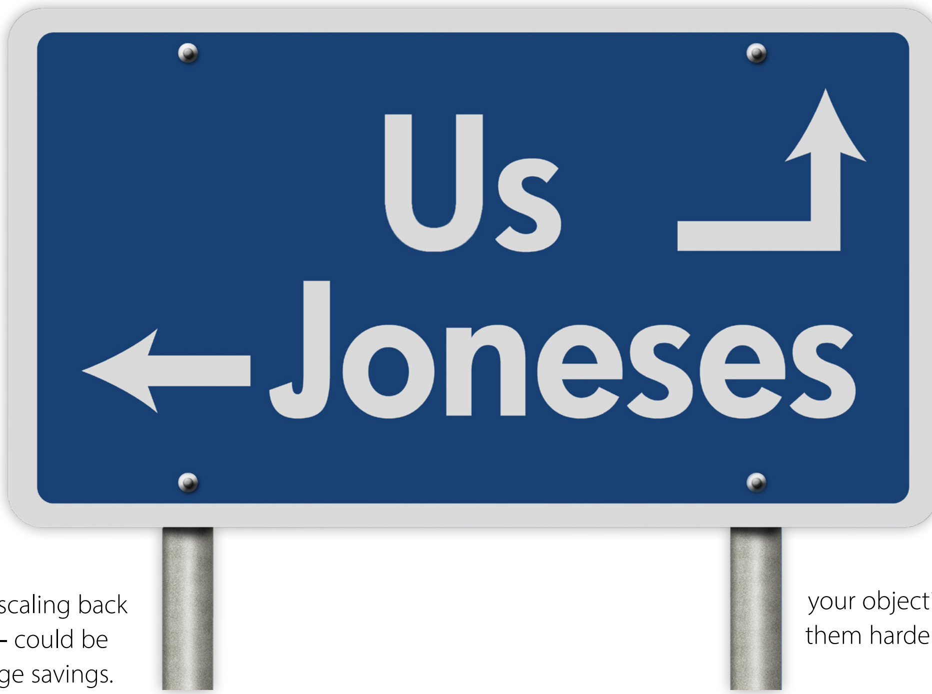
What's on your wish list? A bigger house? A new boat? An exotic vacation? As your career advances and your earning potential grows, it's tempting to want to "upsize" your lifestyle. But before you go all in with increasing your spending, prioritize your goals and focus on what's essential for a successful financial future.

Wants Versus Needs

It's fun to imagine yourself in a new home. Extra bedrooms, a home theater, and a pool all sound great until you consider the real cost to your savings. Think about how much more you could end up spending in monthly mortgage costs and taxes before you make a decision to buy more house than you really need. Instead of upgrading, add the money you would have spent on higher mortgage payments to your retirement savings. Having enough money once you retire is a worthwhile objective.

Family Fun

Of course you want to give your children the best possible life experiences that you can afford. But before you spend thousands of dollars on a family vacation at an expensive distant getaway, consider whether your children would have just as rich an experience camping in the mountains or taking a road trip through several states. The money you save by scaling back the expense – but not the fun – could be used to boost your child's college savings.



And that goes for other activities, too. Shop around for the best deals on your child's music, dance, or sports lessons, and add the savings to a college fund.

Review Your Plan

The success of any spending plan rests with your commitment to the goals you've set for yourself. When you conduct your annual financial review, make sure that you're not only on track to reach your established goals but that any new goals you've incorporated into your plan are realistic and affordable. An increase in your income shouldn't inflate your lifestyle if doing so would thwart your objectives or make them harder to achieve.

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