

## *AFM News and Views*

*December 2022*



*Our mission is to serve our clients, in an atmosphere of trust, to help grow and preserve their wealth. We provide personal attention and comprehensive strategies, striving to enable our clients to live and retire with stability. Alltrust Financial Management serves clients seeking comprehensive financial guidance, with a team approach, in a manner that continuously seeks to exceed our clients' expectations. We strive to be recognized and respected as a financial management firm delivering personal attention.*

## **Know the ins and outs of 401(k) to maximize savings for retirement**

Source: *USA TODAY E-Edition*

If you're part of today's workforce, you've heard of a 401(k). In fact, nearly 35% of working-age individuals ages 15 to 64 have one, according to the Census Bureau.

But what exactly is it?

A 401(k) is a tax-advantaged retirement investment account. Typically, at companies with 401(k) plans, you elect a certain percentage of your paycheck to go to your 401(k) before it's subject to the taxes you would otherwise pay on income. Many companies will match or partially match your contributions to incentivize you to save money for retirement.

Having a 401(k) match plan has become 'a common expectation' for jobs and is used as a tool to recruit and retain employees, said Nathan Voris, director of investments, insights and consultant services for Schwab Retirement Plan Services.

'Employers have a vested interest in having financially secure employees and having a great 401(k) is a component of that,' he added.

You're free to invest the funds in your 401(k) however you choose, as you would with a regular investment account. Instead of buying and selling individual stocks, most people choose to put their 401(k) money toward a target date retirement fund.

These funds are designed around desired retirement dates, often taking more risk the further away you are from retiring.

But unlike a regular investment account, you cannot withdraw the funds whenever you want without facing penalties.

### **When can you withdraw?**

You can withdraw funds from a 401(k) at any point, but until you turn 59½, the money will be taxed like regular income and subject to an additional 10% tax. These rules are in place to discourage people from depleting funds that are supposed to support them once they retire.

There are exceptions to the additional 10% tax for certain early withdrawals. For instance, you can use your 401(k) money to pay for health insurance while you're unemployed without facing that tax.

Once you turn 72 you have to start taking a required minimum distribution withdrawal annually.

### **How much can you contribute?**

The IRS recently announced that the contribution limit for 401(k) plans will increase by \$2,000 to \$22,500 for 2023 because of inflation. That doesn't include any employer matches.

### **Is a 401(k) an IRA?**

While 401(k)s and individual retirement accounts, or IRAs, both enable you to invest money tax-free for retirement, they have important differences.

IRAs are available to people who have access to a 401(k) through their employer and those who don't. Like a 401(k) you'll face penalties if you withdraw money before you turn 59½. But unlike a 401(k), you can only contribute up to \$6,500 a year starting in 2023. And the money you contribute will have already been taxed, unlike with 401(k) where it is taken out of your paycheck before it gets taxed.

There are two different kinds of IRAs: traditional and Roth. Traditional IRAs function a lot like 401(k)s except you could be eligible for tax deductions for making contributions to an IRA. When you withdraw money from a traditional IRA after you turn 59½, it'll be taxed like ordinary income.

But with a Roth IRA, there is no immediate tax benefit when you contribute post-tax dollars. The major advantage of a Roth IRA is once you withdraw funds after you turn 59 1/2, you won't have to pay any taxes.

### **Do you lose your 401(k) if you quit or get fired?**

You don't have to forfeit your 401(k) if you quit or get fired from your job, the money is still yours. If you get a new job where you're eligible for a 401(k) you may be able to transfer your 401(k) funds from your prior job to it. You could also transfer it to an IRA.

In most cases, you can leave it in the same account even though you won't be eligible for any matching you previously received and you won't be able to contribute more money to it.

### **Can I cash out if I quit my job?**

Yes, you can cash out of your 401(k) at any time but you could be subject to tax penalties for doing so.



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### **MONTHLY CONTEST**

National Parks are often called "America's best idea." Maybe 2022 will be a year you have the good fortune to plan a visit to one of these national treasures. This year, we are doing some US National Park trivia. We will pick a random winner each month from the correct answers we receive.

**This Month's Question:** What was the name previously given to Denali, the highest elevation in North America?

Please email your responses to [julia.b.lamere@lpl.com](mailto:julia.b.lamere@lpl.com)

### **RESULTS OF LAST MONTH'S CONTEST**

**Question:** Which grade school year can a US student get a free parks pass?

*Answer: 4<sup>th</sup> Grade*

### **UPDATES AVAILABLE FROM LPL RESEARCH DEPARTMENT**

- Daily Market Update: <http://LPLresearch.com>
- YouTube Channel: <http://www.youtube.com/lplresearch> (which can also be found on our website)

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Are you anticipating an email change? Let us know. We want to make sure you receive all our email communications. Send your new e-mail to [melissa.arbisi@lpl.com](mailto:melissa.arbisi@lpl.com)

If you have any input or comments about our newsletter, let us know. We love to hear from you!

Your referrals mean a great deal to our business. If you know of a friend or family member who might benefit from our service, please let us know. We will work hard to ensure that your referrals feel it was a wise investment of their time – and their future-to have met with us.

Don't keep us a secret! Share this with your family and friends.

Till next month,

The Alltrust Team

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A Roth IRA offers tax deferral on any earnings in the account. Qualified withdrawals of earnings from the account are tax-free. Withdrawals of earnings prior to age 59 ½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Limitations and restrictions may apply.

Contributions to a traditional IRA may be tax deductible in the contribution year, with current income tax due at withdrawal. Withdrawals prior to age 59 ½ may result in a 10% IRS penalty tax in addition to current income tax.