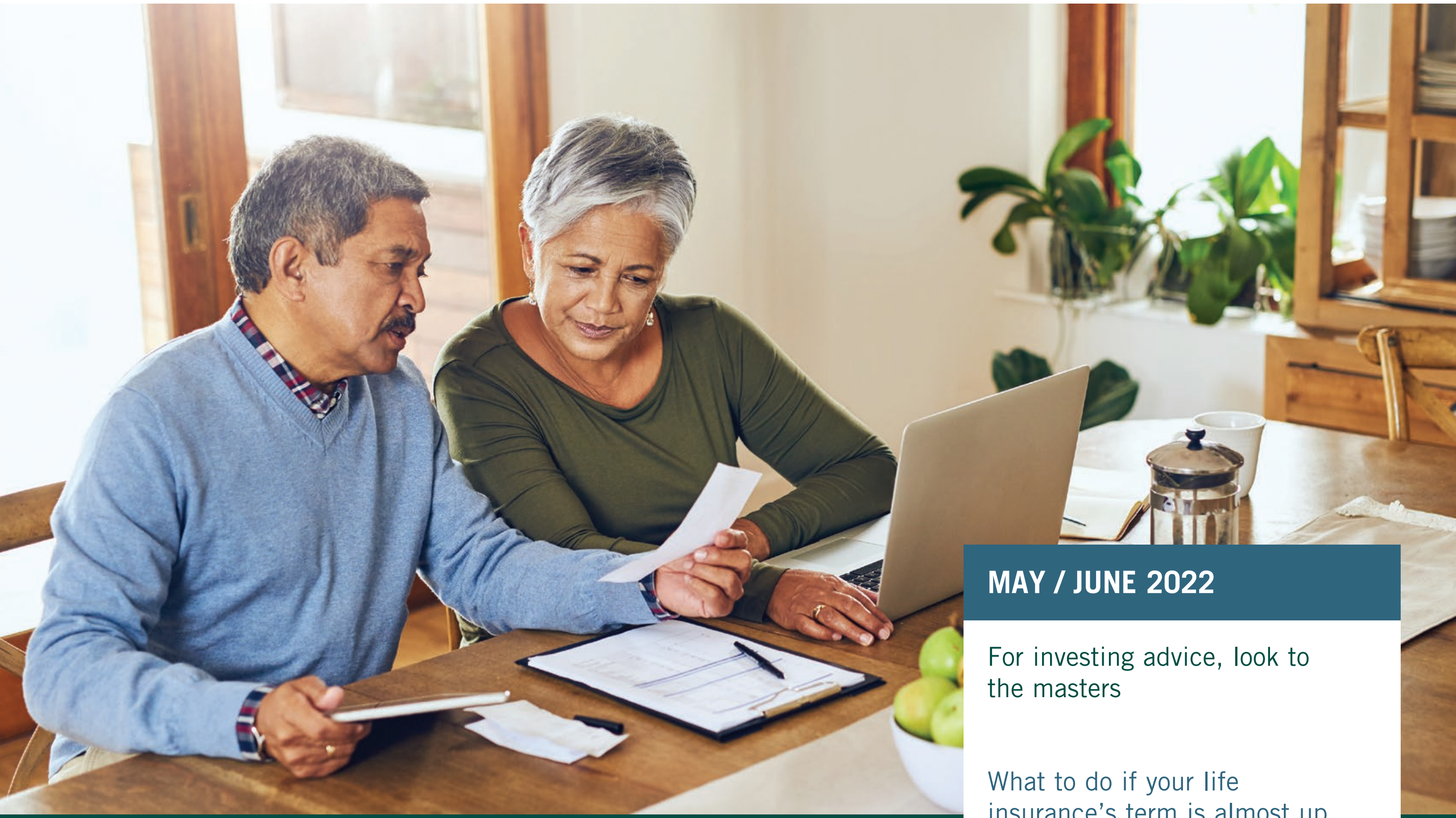
# WEALTH MANAGEMENT **ADVISOR**



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Saving for retirement

## YOUR 401(k) IS MAXED OUT — NOW WHAT?

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# Your 401(k) is maxed out — now what?

A 401(k) plan is an attractive employee benefit, allowing you to set aside significant savings for retirement on a tax-deferred basis. And if your employer offers matching contributions, the benefits are hard to ignore. But what if you've maxed out your 401(k) contributions?

For 2022, you can defer up to $20,500 per year in pretax salary to a 401(k) plan, plus $6,500 in "catch up" contributions if you're 50 or older. For many people, this amount is enough to enable them to achieve their retirement goals. But if you wish to invest more in tax-advantaged savings vehicles, you have several options.

### After-tax contributions

Some 401(k) plans allow you to make additional, after-tax contributions after you've maxed out your pretax contributions. Currently, the total contribution limit — which includes both employee and employer contributions — is $61,000 ($67,500 if you're 50 or older).

Let's say you're 40 years old and you're currently contributing the maximum — $20,500 — in pretax dollars to your 401(k) plan. If your plan permits after-tax contributions, you can set aside up to an additional $40,500 per year, reduced by any employer matching contributions. Even though these additional amounts aren't deductible, earnings on contributions grow tax-free and aren't taxed until they're withdrawn.

Also, many 401(k) plans allow participants to make Roth contributions. Contribution limits are the same as for traditional 401(k)s.

### BACK DOOR ROTH IRAs FOR HIGH-INCOME EARNERS

If your 2022 modified adjusted gross income will be more than $144,000 ($214,000 for joint filers), you're ineligible to contribute to a Roth IRA. However, you may be able to use a "back door" Roth. To take advantage of this technique, you make nondeductible contributions to a traditional IRA (assuming you're eligible) and immediately convert it to a Roth account. There are no income limits for Roth IRA conversions, and because you're converting after-tax dollars, there's no tax.

Back door Roth IRA contributions are subject to the usual limits on IRA contributions ($6,000 per year; $7,000 if you're 50 or older). Also, this technique is less effective if you own any traditional IRAs funded with pretax dollars. That's because a portion of the converted funds will be deemed to have been withdrawn from those accounts and subject to tax.

Another possible option is a "mega back door" Roth IRA. This works like a back door Roth IRA. However, the converted amounts come from nondeductible contributions to a 401(k) plan, up to the $40,500 maximum (less employer matches). But this option is only available if your 401(k) plan permits after-tax contributions and rollovers or withdrawals while you're employed.

## Traditional and Roth IRAs

Another option for boosting your tax-advantaged retirement savings is a traditional or Roth IRA. For 2022, the combined maximum contribution to traditional or Roth IRAs is $6,000 ($7,000 if you're 50 or older).

Depending on your income level, contributions to a traditional IRA may be only partially deductible or even nondeductible, but they still provide tax-deferred earnings. Higher income earners are ineligible to contribute to a Roth IRA, although there may be ways to circumvent this restriction. (See "Back door Roth IRAs for high-income earners" on page 2.)

## Annuity contracts

An annuity is an investment contract, typically with an insurance company. Annuity holders invest a lump sum or make annual premium payments in exchange for a guaranteed income stream for life. This income stream either begins right away (with an "immediate" annuity) or at a later date ("deferred" annuity).

Annuities don't offer current tax deductions. But their earnings grow on a tax-deferred basis, so they can be an attractive supplement to your 401(k) and other savings vehicles. Rates of return on annuities typically are modest, but the benefit of guaranteed income can make them valuable. There are several types of annuities — including fixed, variable and equity-indexed — so be sure you understand their terms before you invest in one.

## Health savings accounts

A health savings account (HSA) can be an effective way to fund medical expenses while supplementing other retirement savings vehicles. Like a traditional IRA or 401(k), an HSA — which must be coupled with a "high-deductible health plan" — is funded with pretax dollars. Currently, the maximum annual contribution is $3,650 (self-only coverage) and $7,300 (family coverage), plus an additional $1,000 if you're 55 or older.

An HSA's earnings grow tax-free. And you can withdraw funds tax-free at any time to pay for a range of qualified medical expenses. Withdrawals used for other purposes are taxable, but there are no penalties for those age 65 or older.


An HSA can boost your retirement savings by funding medical expenses with pre-tax dollars, freeing up other funds that can be invested. Also, if you don't use your HSA for medical expenses, it acts much like an additional IRA or 401(k) account.

## Unique plan

These are just a few examples of the many retirement saving tools available to supplement your 401(k) plan. Even if you haven't maxed out your employer-sponsored account, you may want to consider one or more of them. However, it's usually best to first invest enough in your 401(k) plan to secure the maximum employer matching contribution.

Be sure to work with your advisor to develop a plan that takes into account your risk tolerance and retirement income needs. Also make sure you have put funds aside for emergencies and shorter-term financial goals. ■

# For investing advice, look to the masters

To the surprise of many investors, 2021 was a banner year for the U.S. stock market — the S&P 500 posted a broad-based 26.9% return. But if the financial markets teach one lesson, it's this: What succeeded last year (or last week) is no guarantee of what will succeed in the future.

This is why experts encourage investors to avoid market timing and commit to maintaining a diversified portfolio. In fact, many of history's most successful investors — Benjamin Graham, Peter Lynch and Warren Buffet — are well known for staking out a strategy and sticking with it through thick and thin.

## Graham's guiding principle

Economist and investor Benjamin Graham's guiding principle was known as the "margin of safety." He favored stocks that traded at prices well below what metrics such as price-to-earnings and price-to-book suggested they were worth — what is now known as "value." The bigger the gap between the share price and the stock's "intrinsic" value, the better. That way, if market conditions went against a stock, its value might still have room to increase (or decrease less).

Graham held that the margin of safety allows investors to be wrong about a stock and yet potentially still make money. This isn't to say that cheap stocks can't get cheaper — it's always possible to lose money in the stock market. But expensive stocks have much bigger downsides because their price generally reflects high investor expectations. Stocks with a large margin of safety won't necessarily have favorable expectations priced in and therefore may be more resilient to negative surprises.


## Simple stocks for Lynch

Celebrated money manager (notably of Fidelity's Magellan Fund) Peter Lynch has focused on investments he understands. Lynch once put it this way, "If you're prepared to invest in a company, then you ought to be able to explain why in simple language that a fifth grader could understand."

Consider the market bubble of the late 1990s and early 2000s. The impulse to capture huge gains in new technology stocks led countless investors to brush aside the fact that they really didn't know what some companies did or how their business models worked. Things didn't end well for many when the market crashed in the early 2000s.

## Buffet favors fundamentals

Billionaire investor Warren Buffett also famously avoids companies with esoteric business models. His unwavering focus on buying businesses whose fundamentals he thoroughly understands has resulted in undeniable success, even though his investments can lag aggressive portfolios in go-go markets.

Of course, complicated businesses can be great investments *if* you have specialized expertise. For example, if you're a professional chemist, you may be better positioned than the average investor to understand the merits of a new pharmaceutical stock. However, you probably don't want to invest only in one market niche. Your financial advisor can help broaden your knowledge base and assemble a diversified portfolio of investments that make sense for you.

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### Great from the not so great

Buffett's a well-known proponent of another piece of classic investment wisdom: Find great companies and hold them. Of course, the trick is to be able to distinguish the great companies from the not so great.

Try to tune out the daily noise in the markets and instead look for companies with strong competitive positions and sustainable business plans. Generally, you want to hold these stocks, reinvesting any dividends and letting compounded growth work for you. That said, there are valid reasons for selling securities. Changing economic and market conditions, and factors such as a company's management, product lineup or competitive profile, may all be good excuses to sell.

### Don't be intimidated

If you're intimidated by investing, it's good to know that some of the best investment strategies are actually pretty simple. But even experienced stock-pickers can benefit from professional advice. So talk to a financial expert about your goals and develop a diverse portfolio that can better withstand market ups and downs. ■

# What to do if your life insurance's term is almost up

Here's a common scenario: A young couple buys a 20-year term life policy when their children are born and they buy a home. They assume that at the end of the term, their children will be financially independent and the mortgage will be paid off. However, children often are dependent on their parents well into their 20s and mortgage payments can continue indefinitely — especially if homeowners have refinanced. If this is your situation, you'll probably want to consider extending your life insurance coverage.

### Extending the term

You generally have a couple options if your term policy is ending and you desire further protection. For example, you might be able to renew your existing policy. This can be a good choice if you have health problems because many policies allow you to renew without being required to answer health-related questions or undergo a medical exam. However, depending on your age, premiums may increase, especially at the conclusion of a specified level term period.

Another option: Purchase a new term life policy. This typically is for people in reasonably good health. Recent developments in the insurance industry have led to generally lower prices and innovative new products. Some policies offer "living benefits," which allow you to accelerate death benefits in the event of a terminal illness.

To obtain a new policy, you'll need to answer health questions and submit to a medical exam. Premiums will likely be higher than those of your initial policy. But you may be able to limit costs by selecting a shorter term, such as five or 10 vs. 20 years. Another option: If you need coverage for only a few years and can afford sharp price increases, purchase a policy that's renewable annually.

## Permanent solution

You might also consider switching to permanent life insurance. This choice may make sense if your future financial obligations are uncertain or you wish to use life insurance to leave wealth to your children.

Whole life, universal life and variable life policies are more expensive than term life policies, but they provide a death benefit typically for the rest of your life. They also include an investment component that allows you to build cash value on a tax-advantaged basis. Many term life policies allow you to convert to permanent life insurance without a medical exam. And to hold costs down, you may be able to convert your term policy to a permanent policy with lower death benefits.

If you're considering converting to permanent life insurance, review your term life policy as soon as possible. Most policies set a deadline for converting, which may be several years before the term expires.

## Starting out

What if you're a young adult who wants to purchase life insurance but don't want to have to extend coverage at high prices decades from now? Permanent life insurance would solve the problem, of course. But the premiums may not fit your current budget.

You might consider purchasing a term life policy with a longer term, such as 30 years. Or you might buy a 20-year term policy with the largest death benefit you can afford, and then supplement it with a 30-year term policy with a smaller death benefit.

## What's clear

Life insurance is essential if you have a family or assets to protect. What may not be so clear is the type of life insurance you need and can afford. So if you're uninsured or have a term policy that's ending, talk to your insurance agent. ■

# Weighing the risks of "buy now, pay later"

If you shop online, you've probably noticed that many retailers — including Amazon, Target and Walmart — offer buy now, pay later (BNPL) as a payment option at checkout. Available for both small and big-ticket items, BNPL is quickly gaining in popularity with consumers. According to a 2021 survey by Credit Karma, 44% of Americans have used it at least once. Should you?

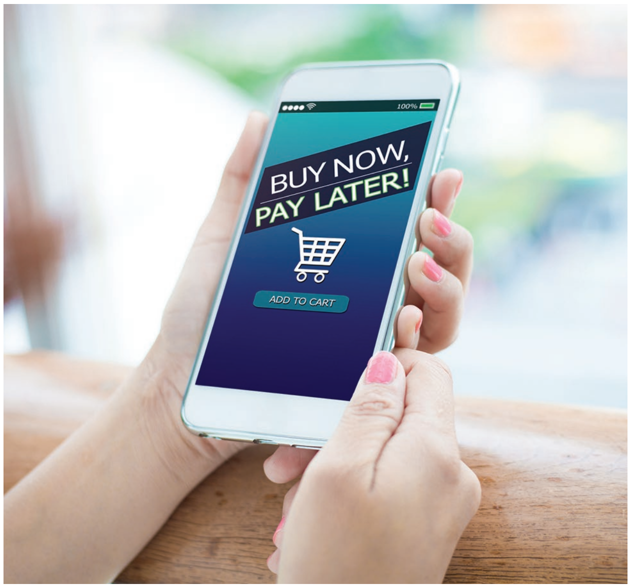
## Spread the payments

BNPL may seem like a no-brainer. After all, it allows you to spread the payments over several weeks or months, often with no interest or finance charges. And approval typically takes minutes, with no "hard" credit inquiry. However, before you choose to BNPL, make sure you understand some risks:

**Late fees.** Even though most BNPL purchases are interest-free, missed payments may result in late fees that can add up over time. For example, a common late fee is $7 or $8, capped at 25% of the past-due amount. In addition, you may be blocked from making future purchases until you pay overdue amounts. And keep in mind that if you set up automatic payments from a bank account or debit card, your bank may impose overdraft or nonsufficient fund fees if your balance isn't adequate.

Retailers typically partner with financial technology companies or other financial services providers to offer BNPL, and late fees or other terms vary by provider. Review these terms before you click "buy."

**Credit reporting.** Many BNPL providers don't report to credit agencies. This can be a disadvantage for younger people trying to build a credit history. Be sure to familiarize yourself




with BNPL providers' credit reporting policies before using their services, so you understand the potential impact. If a provider *does* report to credit bureaus and you miss a payment, it could hurt your credit score. According to the Credit Karma survey, of those respondents who said they missed a BNPL payment, 72% reported seeing their credit scores subsequently decline.

**Consumer protections.** BNPL programs generally don't offer dispute protection and other consumer protections that apply to credit card purchases. And it may be more difficult to return a BNPL purchase and receive a full refund.

## Know your budget

The ability to make purchases now and pay for them later, with no interest, can be tempting. But don't let convenience cause you to overextend yourself. Know your finances and budget, weigh the risks, and avoid BNPL purchases unless you're confident you'll be able to meet your payment obligations. ■