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RETIREMENT ADVISORS

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Retirement Point

NEWS FOR PLAN SPONSORS AND PARTICIPANTS

January 2021

Consider Taxes as Part of Your Retirement Strategy

U.S. Markets
A tumultuous year ended on a positive note as stocks rose in December, spurred by the rollout of multiple COVID-19 vaccines and the signing of a new fiscal relief bill. The Dow Jones Industrial Average, which lagged all year, picked up 3.27 percent. The Standard & Poor's 500 Index gained 3.71 percent, and the Nasdaq Composite tacked on 5.65 percent.[1]

Vaccines Take Center Stage
Investors were buffeted by news of rising infections and new lockdowns even as they kept a close eye on the start of vaccine distribution in the U.K., which some observers referred to as "the beginning of the end" of the coronavirus pandemic.

Boost from the Stimulus Package
Much like November, stocks rallied when Congress made progress on the new fiscal stimulus bill but pulled back as talks seemed to stall. After some posturing, President Trump signed the new law, which helped stocks surge in the final week of trading.

All Eyes on the Election
As investors grappled with these headline issues, markets also saw several new and secondary equity offerings, including two high-profile technology initial public offerings (IPOs) during the month. This year, companies raised over $167 billion in IPOs, blowing past the record of $107.9 billion set in 1999.[2]

MARKET INDEX	Y-T-D CHANGE	December 2020
DJIA	7.25%	3.27%
NASDAQ	43.64%	5.65%
S&P 500	16.26%	3.71%
YIELD	**YTD**	**December 2020**
10 YR TREASURY	-1.00%	0.92%

Sources: Yahoo Finance, December 31, 2020
The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

Monthly Quote
"Of all the hazards, fear is the worst."

SAM SNEAD

Tip of the Month
Check your credit report annually for errors. Under federal law, you are entitled to a free annual credit reports from the big 3 credit reporting agencies (Equifax, Experian, and TransUnion) each year.

The Monthly Riddle
What do the following six words have in common: fast, away, water, through, down, neck?

Last month's riddle:
Daryl weighs 120 pounds more than his sister Julianne. Their combined weight is 180 pounds. How many pounds does Daryl weigh?

Last month's answer:
150 lbs.

Consider Taxes as Part of your Retirement Strategy

If your retirement plan offers investment flexibility that allows you to make pretax and/or Roth after-tax contributions consider both could provide tax benefits and, individually or together, can help you move closer to your long-term goals.

Consider the effect of taxes on your savings:
An effective retirement planning strategy takes into account more than just the selection of investments — it also considers how taxes may impact your savings.

To take control of how you may be taxed, decide on one of these contribution options, or even a combination of both.

Pretax Contributions	Roth after-tax Contributions
Your contributions reduce your taxable income. You can reduce your current taxable income (and, therefore, your current taxes).	Your contributions are taxed up front. Roth contributions come out of your paycheck after taxes have been calculated; therefore, your current taxable income is not reduced.
Your earnings compound on a tax-deferred basis. No taxes are owed on your earnings until you withdraw money from your account. You'll have more money that could benefit from years of compounded growth.	Qualified withdrawals are tax-free. Your qualified withdrawals at retirement — including earnings — will be tax-free.
Withdrawals at retirement are taxable. Because you haven't yet paid taxes on your plan contributions, you will be taxed when you take a cash withdrawal from your plan account.	You don't have to worry about future tax rates. Since qualified distributions at retirement are tax-free, they won't be negatively affected if your tax rates increase in the future.

The differences in retirement plan contributions

	Are plan contributions taxed?	Are withdrawals (including earnings) taxed?
Pretax employee contributions	No	Yes
Roth employee contributions	Yes	No[†]
Employer contributions, if applicable (e.g., match profit sharing)	No	Yes

[†] Roth withdrawals are tax-free for qualified distributions as long as you're at least 59½ years old and have had the account for at least five years.

Use the Traditional vs. Roth 401(k)/403(b) Analyzer at

americanfundsretirement.com

The flexibility to choose between pretax and Roth contributions is a great feature of your employer's retirement plan. Choose the best fit for your situation.

Sofia
$400/mo
Pretax contribution

James
$300/mo*
Roth after-tax contribution

* Equivalent to $400 in pretax money.

Tax rate at retirement	Monthly after-tax retirement withdrawals (after 40 years)	
Increases 5%	$3,280	$3,514
Stays the same	3,514	3,514
Decreases 5%	3,749	3,514

Assumes a 40-year accumulation period and a base tax rate of 25%. See the back page for important information regarding hypothetical examples.

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CITATIONS ECONOMIC SECTION:

1. The Wall Street Journal, December 31, 2020
2. The Wall Street Journal, December 30, 2020

CITATIONS FINANCIAL ARTICLE SECTION:

* As of December 31, 2019.

All hypothetical examples assume an 8% average annual return compounded monthly and a 4% annual withdrawal rate after the accumulation period. These are point-in-time views and as such do not take into account any growth or loss during retirement. Without investment growth/ loss during retirement, a 4% annual withdrawal rate would deplete retirement savings in 25 years. Examples are for illustrative purposes only and do not reflect the results of any particular investment, which may differ, or taxes that may be owed on tax-deferred contributions, including a potential 10% penalty for withdrawals taken before age 59½. Regular investing does not ensure a profit or protect against loss in a declining market.

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