HEALTH. WEALTH. WISDOM.

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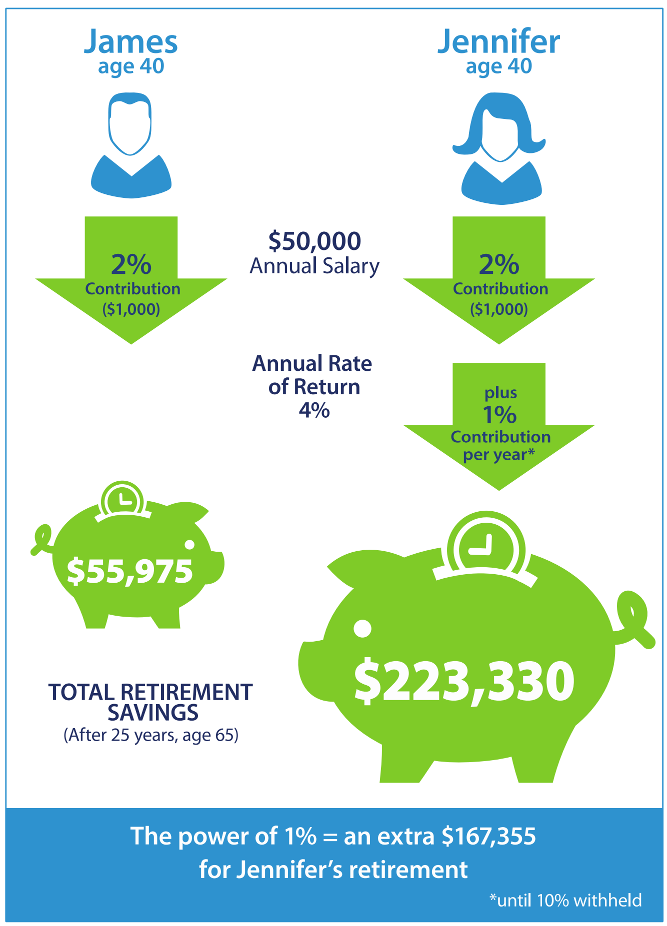
Small Changes Can Add Up to Big Gains

"Small changes add up to big things." In everyday life, this bit of wisdom might mean making nutritional tweaks to lose weight or tackling minor home improvement projects to increase the value of your home. When it comes to saving for retirement, committing to steady, incremental changes in your 401(k), 403(b), or other workplace retirement plan can have a big impact on your retirement nest egg. Below is an example that demonstrates how depositing just 1 percent more of your annual salary into your retirement account can make a significant difference in your savings.

The Power of 1%

James, age 40, earns $50,000 per year. He has been depositing 2 percent of his annual salary into his 401(k) plan for the past 12 months. If James continues to do this for the next 25 years, his account will have a balance of $55,975 when he retires at age 65. *Pretty good, James.*

Let's contrast James' saving efforts with Jennifer, who also is 40, earns $50,000 per year, and deposits 2 percent of her salary into her 401(k) plan. But unlike James, Jennifer increases her 401(k) contribution by 1 percent each year until she reaches an annual 10 percent contribution. When Jennifer retires at 65, her account balance will be $223,330. By making small, steady changes, Jennifer will earn $167,355 more than James. *Way to go, Jennifer!*



This is a hypothetical example and is for illustrative purposes only.

No specific investments were used in this example. Actual results will vary. Past performance does not guarantee future results.

Can you increase your contribution to your 401(k) or 403(b) account each year until you reach at least 10 percent? Many companies make it convenient for you by automatically increasing your contribution (usually in 1 percent increments) each year. (Ask your benefits department or retirement plan advisor if your company offers a program like this.) By making small changes over time, you'll barely notice the change in your paycheck, but you'll be taking a giant leap toward a more prosperous financial future.

Is Withdrawing from Your 401(k) a Good Idea?

If you find yourself caught between a financial rock and a hard place, you may wonder if it's possible—and advisable—to take money out of your retirement plan while you're still working. The answer to this common question is it depends. When quick cash will provide a solution to a financial problem and your regular savings aren't enough, tapping into a 401(k) account might be an unavoidable last resort. In the long run, however, depleting your 401(k) funds could do you more harm than good.

It's important to remember that a 401(k) plan is designed to be a long-term savings account. Because of this, and a 401(k)'s tax-favored benefits, the IRS may impose penalties in certain scenarios if you take money out of your account before you turn 59½. So, depending on why you need the money and your personal financial circumstances, think twice about taking money out of your 401(k) plan. Let's look at the potential withdrawal options:*

1 Age 59½

As you may have guessed, if you are 59½ or older, you may withdraw funds from your 401(k) account without incurring penalties for taking the money out. You will have to pay taxes on the amount you withdraw if the money was deposited on a pretax basis.

2 Substantially Equal Periodic Payments

Also known as a 72(t) distribution, this is a way for you to withdraw your 401(k) monies if you are younger than 59½ and avoid a 10 percent early withdrawal penalty. A 72(t) distribution is a series of equal payments that must generally continue unchanged for five years or until you reach age 59½, whichever is later. Payments cannot be modified in any way once they begin. So, while this might not be an option for everyone, it could be a lifeline for those who are close to 59½.

3 Loans

When you take a loan from your 401(k), you're borrowing from your own retirement savings account and paying yourself back with interest. Sounds good, right? Not so fast. Borrowing from your 401(k) might provide short-term relief but long-term harm. Here are five reasons to avoid taking a 401(k) loan:

- **You'll be taxed twice** because you'll pay the loan back with after-tax money, which will be taxed again when you ultimately withdraw it for retirement.
- **Your take-home pay will be reduced** because the loan repayments will automatically be deducted from your paycheck.
- **Your taxable income will increase** because you'll no longer be making pretax deferrals while you repay your loan.

*Check with your human resources or benefits department to see if your company's plan offers these options.

- **You'll miss out on compounding** because the money you withdraw won't be invested and therefore won't earn interest.
- If you leave your company, **you may be forced to repay the loan in full**, or taxes will be due, and a 10 percent early withdrawal penalty will be assessed if you are younger than 59½.

4 Financial Hardship

The IRS allows retirement account owners to withdraw 401(k) funds if they are needed to satisfy a "heavy and immediate financial need," as defined by the IRS. If you withdraw funds due to hardship, you'll owe taxes on the untaxed portion of the funds you withdraw and you'll be assessed—you guessed it—a 10 percent early withdrawal penalty if you're younger than 59½. A hardship distribution should be taken only after you have exhausted alternative options.

5 Special Temporary Withdrawal Rules for Those Affected by COVID-19

Perhaps your financial situation has been adversely affected by the COVID-19 pandemic. If this is the case, you may qualify for a waiver of the 10 percent early withdrawal penalty for retirement account distributions or other retirement withdrawal or loan relief provisions. To qualify, you must meet specific criteria laid out by the IRS. Speak with your financial advisor or tax professional to determine if your situation qualifies you to take advantage of these special rules.

Weigh Your Options Carefully

It's important to remember that when you withdraw money from your retirement savings account, it is no longer being invested and cannot benefit from compound interest or potential market gains. Withdrawing hard-saved funds from your 401(k) plan is not a decision to be made lightly. While weighing the options outlined here, it might help to consult your plan's financial advisor or another trusted financial or tax expert who can steer you in the right direction and help you make a choice that your future self will appreciate.

Be Mindful

In a perfect world, our days would be filled with bliss and relaxation. But let's face it: everyday life—let alone the unprecedented stresses of a global pandemic—brings its share of anxiety and concern. Wouldn't it be nice to peel yourself away from life's stresses? Mindfulness may be a practical solution. According to the Mayo Clinic, mindfulness is a type of meditation in which you focus on being intensely aware of what you're sensing and feeling in the moment, without interpretation or judgment. It incorporates breathing methods, guided imagery, and other practices to relax the body and mind and help reduce stress. Sound good? The Mayo Clinic offers examples of beginner mindfulness techniques you can apply in the comfort of any peaceful surrounding:

- **Pay attention**. It's hard to slow down and notice things in a busy world. Try to take the time to experience your environment with all of your senses—touch, sound, sight, smell, and taste. When you eat a favorite food, for example, take the time to smell, taste, and truly enjoy it.
- **Live in the moment.** Try to intentionally bring an open, accepting, and discerning attention to everything you do. Find joy in simple pleasures.
- **Accept yourself.** Treat yourself the way you would treat a good friend.
- **Focus on your breathing.** When you have negative thoughts, sit down, take a deep breath, and close your eyes. Focus on your breath as it moves in and out of your body. Sitting and breathing for even just a minute can help.

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For a personalized discussion about your retirement planning goals or overall financial picture we invite you to visit our website to schedule a one-on-one teleconference.