Loose Change®

a penny saved is a penny earned

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The 401(k): Route 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.

2020 Tax Deduction

You have until April 15, 2021, to make additional contributions to a 401(k) and get the tax deduction on your 2020 income tax return, so consider contributing as much as possible to reap the tax benefits.

For 2020, 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 Plans

Roth 401(k) contributions are made with after-tax dollars so all of your contributions and earnings will be income tax-free when withdrawn. However, any employer matching contributions and earnings will still be taxable when withdrawn.

New Limits for HSAs

Do you have a high-deductible health plan (HDHP)? That makes you eligible to contribute to a health savings account (HSA).

HSAs are triple tax-advantaged with tax-deferred contributions, tax-free potential earnings and tax-free withdrawals for qualified medical expenses, and you can roll over any balance to the next year.

Increased Limits and Coverage

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.

HDHPs now cover remote health care services and costs of COVID-19 related testing and treatment before the annual deductible is met. HSAs now cover menstrual care products and over-the counter products and medications.

FR2020-1022-0239/E

Adoption: Plan to Cover 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

Agencies typically have a set fee schedule for their services. You'll pay the costs of fingerprinting, background checks, doctor physicals and financial reports, as well as any travel costs. 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 less costly option to consider is adopting through foster care.

The Tax Benefits

You may qualify for a tax credit of up to $14,300 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 care for him or herself. You must meet income limits and other requirements to receive the tax credit, so consult your tax professional.

Supporting a child is costly, so work with your financial professional to plan ahead.

Retirement Plans for Business Owners

Depending on the future sale of your business to finance your retirement can leave you without the resources you'll need to live comfortably. Finding the right retirement plan for your business can make a big difference to you and your employees' financial futures.

Simplified Employee Pension Plans (SEPs)

You can set up a SEP IRA for yourself and each of your employees. Employers generally must contribute the same percentage of pay for each employee, although they do not have to make contributions every year. Employer contributions are limited to the lesser of 25% of pay, or $58,000 ($64,500 if age 50 or older) for 2021. SEPs have low start-up and operating costs. Employers can decide how much to put into a SEP each year, offering some flexibility when business conditions vary.

SIMPLE IRA Plans

This is an option for employers with 100 or fewer employees. Under SIMPLE IRA plans, employees can set aside up to $13,500 in 2021 ($16,500 if age 50 or older). Employers must either match employee contributions dollar for dollar — up to 3% of an employee's compensation — or make a fixed contribution of 2% of compensation for all eligible employees, even if an employee chooses not to contribute. SIMPLE IRA plans are easy to set up and administrative costs are low.

SIMPLE 401(k) Plans

Similar to SIMPLE IRA plans, Simple 401(k) plans are for small business owners with 100 or fewer employees. Under a SIMPLE 401(k) plan, an employee can elect to defer compensation — up to $13,500 in 2021 ($16,500 if age 50 or older). Employers must match contributions, up to 3% of pay, or make a non-elective contribution of 2% of each eligible employee's pay. Total contributions to a participant's account, not counting catch-up contributions, cannot exceed $58,000 for 2021.

Solo 401(k) Plans

This plan covers a business owner with no employees and his or her spouse. Contributions can be made to the plan as both employer and employee. The owner can make elective deferrals of up to 100% of "earned income," up to the annual contribution limit in 2021 of $19,500 ($26,000 if age 50 or older), plus employer nonelective contributions of up to 25% of compensation as defined by the plan. Your financial professional can help you determine which plan is right for you.

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.

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.

How Much Should You Tip?

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%-20%

Travel

- **Taxi driver:** 15%-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:** $5.00-$10.00 for tickets or restaurant reservations; $5-$15 or more if tickets or reservations are hard to get

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

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

35% Prefer to supplement low wages with tips

67% Patrons who don't tip in coffee shop

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

63% Hotel guests who leave a tip for the housekeeper

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

Survivorship Policies: Filling a Need

A survivorship policy — also called a second-to-die policy — insures two lives, typically, a married couple (or business partners), with the death benefit paid out after the death of the second person.

The Strategy

When the second spouse or partner dies, proceeds from the life insurance policy are available to pay expenses. Survivorship policies are often purchased by couples who want to preserve more of their wealth for heirs and used in conjunction with a trust. For more information, talk to your financial and legal professionals.

Cost Advantages

Because the premium on a survivorship policy is based on the joint life expectancy of the insured, the cost may be significantly less than the cost of buying two single-life policies.

Applications for life insurance are subject to underwriting. No insurance coverage exists unless a policy is issued and the required premium to put it in force is paid. Accessing cash values may result in surrender fees and charges and may require additional premium payments to maintain coverage, and will reduce the death benefit and policy values. Guarantees are based on the claims paying ability of the issuer.

SBDA: It is Right for You?

Unlimited investment options and complete control over how your money is invested — those are the major advantages of a self-directed brokerage account, or SBDA. If you're looking for greater flexibility in saving for retirement, an SBDA may be something to consider.

How it Works

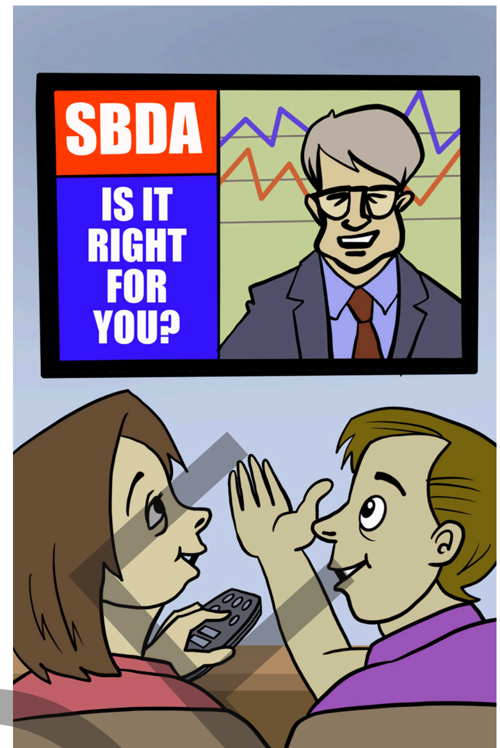
Your financial professional can help you open an online account with a discount broker if you don't have one. You'll then be able to invest in a variety of mutual funds;* buy individual stocks and bonds, and have access to markets and investments that typically aren't available to you in a retirement plan account. Because you can choose from a wide selection of investments, you and your financial professional can tailor your portfolio to meet specific investing needs.

A Little Help

Your financial professional probably helped you choose your current investments and, therefore, may be in the best position to help you make selections for an SDBA that will complement your portfolio. In addition to monitoring the performance of the investments in your SDBA, your financial professional can review the investments in all your accounts to ensure they are working together to earn returns that outpace inflation.

Best of Both Worlds

Can an SDBA be a good option if you currently have a retirement plan? If you've already reached the maximum contribution limits in a 401(k) account, an individual retirement account (IRA), or another sponsored retirement plan, an SDBA allows you to add to your retirement savings.



Before you invest, consult your financial and tax professionals and consider commissions on trades and any account fees. You may be able to reduce your investing costs by selecting investments having lower expenses.

** Investors should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. Contact the issuing firm to obtain a prospectus, which should be read carefully before investing or sending money. Because mutual fund values fluctuate, redeemed shares may be worth more or less than their original value. Past performance won't guarantee future results. An investment in mutual funds may result in the loss of principal.*

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Financial Industry Regulatory Authority

ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

November 30, 2020

Reference: **FR2020-1022-0239/E**

1. March/April Loose Change

Org Id: 20999

Rule: FIN 2210
6 Pages

The communication submitted appears consistent with applicable standards.

Reviewed by,

David Y. Kim
Associate Principal Analyst

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Please send any communications related to filing reviews to this Department through the Advertising Regulation Electronic Filing (AREF) system or by facsimile or hard copy mail service. We request that you do not send documents or other communications via email.

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