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# Financial Briefs

NOVEMBER 2023

## Your 401(k) Plan and Changing Jobs

If you are considering changing jobs, make sure you fully understand the impact it may have on your retirement plan. If you are not aware of your employer's retirement plan rules, you could lose thousands of dollars in matching funds, taxes, and potentially a large penalty.

Here is what you need to know about your 401(k) plan if you are thinking of changing jobs.

### Your Vesting Schedule and Status

Assuming your company offers an employer match to your 401(k) as part of your employee benefits, it can significantly increase the size of your retirement account. The money you contribute to the account is always yours, even if you leave the company. The money your employer contributes to the account, however, will have a vesting schedule that defines when those contributions legally become yours.

Companies can have an immediate vesting schedule, a cliff schedule, or a gradual vesting schedule. Make sure you understand your company's vesting schedule. Sometimes, staying an extra month or a year can make a big difference in what you get to take with you when you leave the company. If you leave the company before you are completely vested, you are aware you

will lose a portion of the matching funds, but the timing could make a big difference.

### Your Retirement Account Options

Once you have decided to change jobs, you will need to decide what to do with your 401(k). Understanding your options is critical because

you don't want to make the costly mistake of losing a portion of your retirement savings. When you leave your employer, you have four options for your 401(k), which are cashing it out, leaving the money in the plan, rolling the money over to

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## Use Conservative Assumptions

How can you ensure you'll have sufficient funds to last your entire retirement? So many of the variables used to calculate this amount seem uncertain.

What is a reasonable rate of return for your investments over the long term? How long will you live, knowing life expectancies are increasing? How much can you count on from Social Security and pension plans?

If you're concerned about running out of money during retirement, you need to be very conservative with your assumptions. Some tips to consider include:

- **Assume your retirement income needs to be at least 100% of your current income.** Most rules of thumb indicate you'll need between 70% and 100%, but figure on at least 100% to be safe. Nowadays, retirees want to travel, pursue hobbies, and live an

active lifestyle, which generally means you'll need the higher end of these estimates.

- **Add a few years to your life expectancy.** You should probably plan on living until at least age 85 or 90. If your family has a history of longevity, add a few more years to these figures. While you may find it hard to believe you'll live that long, you don't want to reach age 75 or 80 and find out you've run out of money. At that point, you might not be able to return to work.
- **Reduce your estimates of Social Security benefits.** While Social Security is currently in sound financial condition, that is expected to change after all the baby boomers retire. To be safe, count on benefits that are somewhat less than the Social Security Administration is estimating, and

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## Your 401(k) Plan

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your new employer's qualified retirement plan, or rolling it over to an IRA.

### Cashing Out Your 401(k)

If you plan on rolling over the funds into another retirement account, but you have the money directly paid to you, you have 60 days to put the money into a qualified retirement account or you will have to pay income taxes and a penalty. If you intend on putting the money into a retirement account, it is better to set up a direct rollover to the new plan administrator to avoid this.

If your intention is to cash out the account and keep the money, you need to understand the financial impact. For example, let's say you have \$50,000 in your 401(k) account. The plan administrator is required by law to take out 20% for taxes; now your account is valued at \$40,000. If you are under the age of 59 ½, you'll also have to pay a 10% penalty on the original amount in the account, which is another \$5,000. Now you have \$35,000.

It doesn't end there. The \$50,000 distribution will most likely put you in a higher tax bracket than the 20% that your administrator withheld. Let's say you are in a 31% tax bracket; you will have to come up with the difference, which is an additional 11% or \$5,500. Your original \$50,000 in retirement savings is now down to \$29,500. Now you have to deduct any state and local taxes, which could take another \$5,000 or so depending on where you live. You could be giving up almost half of your retirement savings in income taxes and penalties.

### Leave the Money in the Plan

If you have at least \$5,000 in your 401(k) plan, most employers will allow you to leave the funds in their plan. This can be a good option if your new employer doesn't offer a 401(k) plan.

### Rollover to the New Employer's Plan

Most employers will allow rollovers from other qualified retire-

## Keep Saving after Retirement

Just because you're retired doesn't mean you should stop saving. Carefully managing your money and looking for ways to save will help ensure you remain financially fit during retirement. Consider these tips:

- **Construct a financial plan.** Most retirees fear they'll run out of money during retirement. To ease those fears, create a financial plan detailing how much money will be obtained from what sources and how that income will be spent. Make sure your annual withdrawal amount won't cause you to deplete your savings. Review your plan annually to ensure you stay on course.
- **Consider part-time employment.** Especially if you retire at a relatively young age, you might want to work on at least a part-time basis. Even earning a modest amount can help significantly with retirement expenses. However, if you receive Social Security benefits and are between the ages of 62 and full retirement age, you will lose \$1 of benefits for every \$2 of earnings above \$21,240 in 2023. You might want to keep your income below that threshold or delay Social Security

benefits until later in retirement.

- **Contribute to your 401(k) plan or individual retirement account (IRA).** If you work after retirement, put some of your earnings into a 401(k) plan or IRA. As long as you have earned income and meet the eligibility requirements, you can contribute to these plans.
- **Try before you buy.** Want to relocate to another city or purchase a recreational vehicle to travel around the country? Before you buy a home in an unfamiliar city or purchase an expensive recreational vehicle, try renting first.
- **Keep debt to a minimum.** Most consumer loans and credit cards charge high interest rates that aren't tax deductible. During retirement, that can put a serious strain on your finances. If you can't pay cash, avoid the purchase.
- **Look for deals.** Take the time to shop wisely, not just at stores, but for all purchases. When was the last time you compared prices for auto or home insurance? Can you find a credit card with lower fees and interest rates? When did you last refinance your mortgage? ■■■

ment plans. You will want to understand when you will be eligible to participate in your new employer's plan, because there is typically a waiting period for participation. You should consider leaving the money in your old employer's plan until you are eligible to participate in the new plan.

To ensure that you will not have to pay any taxes or a penalty, the rollover should be a trustee-to-trustee transfer, so make sure the rollover check is made out to the new plan administrator and not to you. If it is not a direct rollover, you could be in jeopardy of having to pay the taxes as well as the penalty.

### Rollover the 401(k) to an IRA

If you can't or don't want to leave your retirement funds in your old employer's plan or if your new employer doesn't offer a retirement plan, you can open a rollover individual retirement account (IRA) at most financial institutions.

Rolling your 401(k) into an IRA is a great option because you will have more investment options. Most employer retirement plans offer limited investment options to keep down costs; however, they often have higher administrative fees that impact the value of your account.

Please call if you'd like to discuss this in more detail. ■■■

## Assumptions

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don't plan on adjustments for inflation.

- **Cut back on living expenses now.** This has a two-fold impact on your retirement. First, it frees up money to set aside for retirement. Second, you get used to a lower standard of living, which should also reduce your expected lifestyle for retirement.
- **Reach retirement with no debt.** Mortgage and consumer debt payments consume a significant portion of most people's income. Pay off all those debts by retirement and you significantly reduce your cost of living.
- **Forget about early retirement.** Saving enough to last from age 65 to age 85 or 90 is a difficult task. Trying to retire at age 55 or 60 is just not practical for most individuals, unless you're willing to significantly reduce your lifestyle. Working a few more years can go a long way in helping to fund your retirement. Those years are typically your highest earning years, so hopefully you'll save significant sums during that period. Also, every year you work is one year you don't have to support yourself with your retirement savings.
- **Consider working during retirement.** Especially during the early years of retirement, you should consider working at least on a part-time basis. Even modest earnings can help significantly with retirement expenses.
- **Plan on taking conservative withdrawals from your retirement assets.** Don't plan on taking out more than 3% to 4% of your balance annually. Your funds should last for decades with that level of withdrawal.

If you'd like to review your retirement plans and particularly your assumptions for calculating how much you will need in retirement, please call. ■■■

## Tips for Your 401(k) Plan

While 401(k) plan information may seem confusing, it is not as complex as it seems and may be vital to your retirement plans. Simply put: It pays to understand your 401(k) plan. Here are a few tips to help:

- **Maximize contributions** — As soon as you possibly can, begin making contributions to your 401(k) plan, contributing as much as your budget will allow. In 2023, you can contribute a maximum of \$22,500 to your 401(k) plan, plus an additional \$7,500 catch-up contribution for those over age 50, provided this is offered by your plan. Employers may set lower limits to ensure the plan complies with nondiscrimination rules.
- **Take advantage of employer matching contributions** — Many people don't take the time to learn how to take advantage of employer matching. If your company offers a matching contribution, make sure you contribute enough to take advantage of the maximum amount provided. Research your plan to determine the matching contribution, and then calculate how much you need to contribute to get the full match.
- **Diversify investments** — 401(k) plans typically offer numerous investment options, so review your plan's investments carefully to make sure you select ones that fit your particular goals, including an allocation plan that fits the long-term nature of the plan.
- **Limit company stock** — Since you know your company so well, you may feel that you

should make the company's stock a significant portion of your 401(k) plan. However, since your livelihood is already tied to that company, you don't want too much of your retirement funds to also be tied to the same company. Make sure you don't hold any more than 10% of your total assets in your company stock.

- **Review your plan annually** — Go over all these other factors annually to make sure your 401(k) plan is on track. Use the annual review as a time to review the performance of your investments, making necessary adjustments if needed.
- **Don't touch your plan for other purposes** — If you leave or lose your job prior to retirement, make sure to protect your 401(k) plan. Any loans you have taken will likely have to be repaid within a month or two of leaving your job. Otherwise, the loan will be considered a distribution and taxes and penalties may be assessed. Don't be tempted to cash out your 401(k) plan. Not only will you be reducing your retirement savings, but you may have to pay steep taxes and penalties. Instead, either leave the funds in your former employer's 401(k) plan, or roll your balance over to an individual retirement account (IRA) or to another employer's 401(k) plan.

Following these tips will help you make the most of your 401(k) plan. Please call if you'd like to discuss this topic in more detail. ■■■

## Business Data

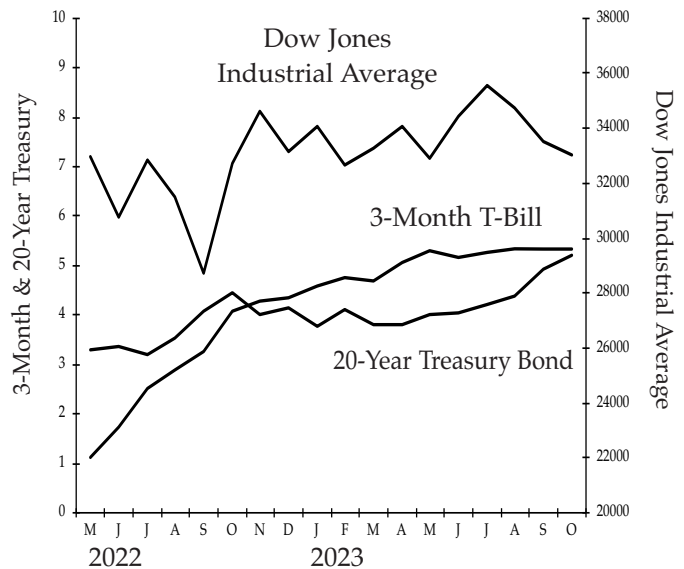


Indicator	Month-end				
	Aug-23	Sep-23	Oct-23	Dec-22	Oct-22
Prime rate	8.50	8.50	8.50	7.50	6.25
3-month T-bill yield	5.34	5.33	5.33	4.35	4.07
10-year T-note yield	4.09	4.59	4.88	3.88	4.10
20-year T-bond yield	4.39	4.92	5.21	4.14	4.44
Dow Jones Corp.	5.78	6.08	6.34	5.54	5.93
GDP (adj. annual rate)#	+2.20	+2.10	+4.90	+2.60	+3.20

Indicator	Month-end			% Change	
	Sep-23	Oct-23	Nov-23	YTD	12-Mon.
Dow Jones Industrials	34721.91	33507.50	33052.87	-0.3%	1.0%
S&P 500	4507.66	4288.05	4193.80	9.2%	8.3%
Nasdaq Composite	14034.97	13219.32	12851.24	23.0%	17.0%
Gold	1942.30	1870.50	1996.90	10.2%	21.8%
Unemployment rate@	3.50	3.80	3.80	2.7%	8.6%
Consumer price index@	305.69	307.03	307.79	3.4%	3.7%

# — 1st, 2nd, 3rd quarter @ — Jul, Aug, Sep Sources: *Barron's*, *Wall Street Journal*  
Past performance is not a guarantee of future results.

## 18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield May 2022 to October 2023



## News and Announcements

### Choosing Beneficiaries for Your 401(k) Plan

When you sign up for your 401(k) plan, you will typically be asked to fill out a beneficiary designation form, listing who should receive your 401(k) plan assets when you die. Make these selections carefully, since they typically override any provisions in your will.

If you are married, federal law dictates that your spouse is automatically your 401(k) plan's beneficiary. Even if you list another person as the primary beneficiary, your spouse will receive the proceeds unless he/she signs a written waiver. Thus, even if you are separated but not divorced from your spouse, he/she will be entitled to your 401(k) proceeds after your death.

Similarly, if you remarry and want to keep your children from a previous marriage as the beneficiaries, you must have your current spouse sign a waiver. You should not rely on a prenuptial agreement or other document.

When your beneficiaries are minor children, keep in mind that most 401(k) plans will not transfer money directly to minor children. Thus, you may want to set up a trust, so the trustee can take immediate control of the funds. Otherwise, a court-appointed trustee or guardian may need to be named before your children will have access to the funds.

If you are single and don't name a beneficiary, the proceeds will go to your estate and be distributed with the rest of your assets.

Periodically review your beneficiaries to determine if changes are needed. A divorce, remarriage, spouse's death, or child's birth are all events that may require changes to beneficiaries.

Please call if you'd like to discuss this topic in more detail. ■■■

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