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Pre-Retirees: Here's How To Catch Up On Retirement Saving

If you're a pre-retiree who needs to catch up on retirement saving, or if you don't need the income from a portion of your IRA or 401(k) accounts and want to leave them to your children, here are important details for planning your future and leaving a legacy to your family: 2022 limits on contributions to federally qualified defined contribution retirement plans.

DC Basics. Defined Contribution (DC) plans are accorded tax advantages by the U.S. Government to encourage Americans to save and invest for retirement. Federally qualified retirement plans include a variety of employer-sponsored 401(k), 403(b), SEP IRA plans, as well as individually sponsored IRAs, SIMPLE IRAs, and Roth IRAs.

2022 Defined Contribution (DC) Plan Limits

IRA / ROTH IRA CONTRIBUTION LIMIT	$ 6,000
IRA / ROTH IRA "CATCH UP"	$ 1,000
401k ELECTIVE DEFERRAL	$ 20,500
401k ELECTIVE DEFERRAL "CATCH UP"	$ 6,500
SIMPLE IRA CONTRIBUTION LIMIT	$ 14,000
SIMPLE IRA "CATCH UP"	$ 3,000
SEP IRA EMPLOYEE PERCENTAGE MATCH LIMIT	25%
SEP IRA SELF-EMPLOYED PERCENTAGE MATCH LIMIT	20%
OVERALL LIMIT ON DC PLAN CONTRIBUTIONS	$ 61,000

Source: Advisors4Advisors, Jan 13, 2022

In the 1980s, as the U.S. grew more prosperous and litigious, corporations sought to shift responsibility of retirement planning from company-sponsored pension plans to individuals. Instead of guaranteeing workers a pension, DC plans enabled companies to shift the responsibility of retirement planning to individuals. The U.S. system has been adapted by other major economies and is a model for the world, but new rules and regulation continue to refine and improve the American retirement saving system.

Investments in DC plans grow tax deferred, based on a promise from the Federal Government. You do not pay tax on the capital appreciation or dividends earned on investments in DC plans until you take withdrawals from your account. Essentially, the accounts grow tax-free until you start taking withdrawals. Planning properly enables many individuals to take withdrawals from a DC plan account only after retirement, when you are likely to be in a lower income tax bracket.

2022 Limits. The overall limit on contributions to DC plans in 2022 is $61,000. That's up $3,000 from 2021. For baby boomers in the workforce trying to a create a larger nest egg, DC plans may provide a way to accelerate savings in federally qualified retirement accounts.

Here's what changed in 2022:

- You can contribute up to $20,500 to a 401(k) plan now, $1000 more than in 2021.
- The contribution limit on SIMPLE IRAs is $500 higher than in

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Ukraine, Inflation, Stock Losses And Times Of Investment Fear

Turmoil in the world, economic setbacks, and financial volatility can spark financial fear and anxiety in moments like this. This is a reminder that the most important thing you can do is talk about it with a professional.

According to Dr. Murtha, personal financial fear has the power to evoke a full spectrum of human emotions, from panic to irrational exuberance and everything in between.

"Fear is the most influential of all emotions," he says. "Financial fear and anxiety can be chronic conditions if you are paying down a large debt, caring for a family member, living in fear of running out of money in retirement, or facing myriad other uncertainties."

How you experience fear is partly dependent on your brain. The brain's fear center, the amygdala, triggers three reactions to fear – perhaps not surprisingly – all "f words:" fight, flight, freeze.

Fight is an instinct that probably came in handy when humans lived in caves. It is not useful in modern day financial dealings, however. Fighting might make you double down on a bad investment and could cause a bigger loss.

Flight is selling an investment to remove yourself, retreat to safety, and regain control of your situation is another reaction to investment fear. However, you know that you must put up with stock risk to earn long-term returns in your financial plan.

Freezing is another natural reaction in times of rising fear – literally, becoming too afraid to do anything! You are unable to make a decision and find a way out from anxiety.

Talking with a professional is a smart step toward restoring a sense of control and eliminating anxiety.

Robert J. Pyle, CFP, CFA

New IRS Rules Make It Much Easier To Retire Early

Newly released rules in IRS Notice 2022-6 sharply hike distribution amounts permitted from qualified plans before age 59½.

The rules, which were released in January 2022, will allow many more individuals to take substantially equal periodic payments (SEPPs) from their IRAs or 401(k)s in their 50s. With The Great Resignation under way, this is one of the most important personal financial planning strategies of 2022.

The new rules put a 5% floor on the maximum interest rate that may be used to calculate payments from an IRA or 401(k) using substantially equal periodic payments (SEPPs). For the past decade, the maximum rate was much lower.

Since the early 1980s, powerful tax advantages are accorded IRA, 401(k), and 403(b) under Federal law. While rules on federally qualified accounts encourage retirement saving and investing of Americans, they impose a 10% penalty on withdrawals before age 59½. The new rules spelled out in IRS Notice 2022-6 update 20-year-old IRS rules.

Notice 2022-6 addresses a complex part of the Internal Revenue Code, Section 72(t), which specifies a formula for calculating the maximum amount you may withdraw penalty-free annually in SEPPs. It's largely based on your age. Without getting into the technicalities, the net effect is that Notice 2022-6 will allow individuals under the age of 59½ to take much larger payments from federally qualified retirement plan accounts penalty-free.

The timing of the rule change is lousy. More Americans have left the workforce than had been expected before the pandemic in the pandemic-inspired Great Resignation. The shift is widely believed to be caused largely by individuals in their 60s deciding to retire. As a result, the participation rate of Americans aged 16 to 65 in the labor force has declined more than expected. At a time when the supply of workers is forcing employers to offer higher wages, Notice 2022-6 will give more older workers reason to retire.

If you have diligently invested by maximizing contributions to a federally qualified retirement plan, you may be able to retire earlier than you expected – if that's what you want. ●

"Simplification" Of College Financial Aid Requires Attention Now

The Consolidated Appropriations Act (CAA) of 2021, signed into law December 27, 2020, by President Donald J. Trump, was a massive $2.3 trillion spending bill. At 5,593 pages, Wikipedia says, it was also "the longest bill ever passed by Congress."

Buried in CAA is a section on college-student aid dubbed "FAFSA Simplification." It reduces the number of questions on the Free Application for Federal Student Aid (FAFSA) form from 108 to 36. It affects your college funding financial plan starting in 2022.

A FAFSA form must be completed by current and prospective undergraduate and graduate college students to determine their eligibility for student financial aid for a given academic year. The form must also be submitted to determine eligibility for many scholarships and merit-based college funding programs, in addition to need-based college financial aid.

"The simplification of the FAFSA form effectively redefines how eligibility for aid will be determined," says Kalman Chany, author of "Paying for College, 2022: Everything You Need to Maximize Financial Aid and Afford College." "There will be winners and losers."

In changing the eligibility criteria, "simplification" is expected to set off financial and administrative difficulties for many students. Many families eligible for needs-based federal aid under the current criteria will no longer be eligible under FAFSA Simplification.

Since 1986, Mr. Chany has authored and annually updated a book on college funding and financial aid. He says the new FAFSA formula will no longer boost aid for families with more than one child in college. This single adjustment may slash the amount of aid families receive by thousands per student.

Another important change is that the FAFSA form will no longer consider

An In-Depth Report For Investors On Key Economic Fundamentals

Supply chain problems, often cited in the media as the main cause of inflation, are expected to diminish greatly by the end of the year. The high inflation rate on goods is expected to revert to the normal 2% rate experienced for the decade preceding the pandemic by the end of 2022, and prices on some goods may even be rolled back to pre-pandemic levels. For example, lumber prices at Home Depot soared in the Spring of 2021 but reverted to pre-pandemic levels by early Fall.

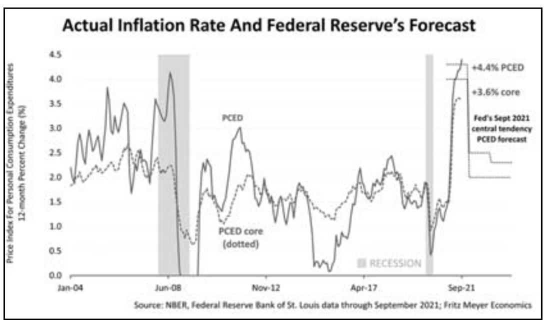
Price hikes imposed on services are unlikely to be rolled back. Price hikes on services have been triggered by the need for employers to pay higher wages, resulting in wage inflation. For example, McDonald's CEO, Chris Kempczinski, at a quarterly earnings call with investors on October 27th, said prices on its menu in 2021 have risen by 6%. He blamed a tight labor market for making it harder to keep restaurants open late and said wages at corporate- owned restaurants in 2021 soared more than 15%.

The labor shortage. The pandemic convinced Americans to drop out of the labor force. Many baby Boomers, an oversized percentage of the U.S. population, are now 65 or older and have "aged out" of the labor force. They've retired, shrinking the work force. Many individuals 65 and older who were expecting to work until age 70 likely decided not to risk their health by working outside of their home during the pandemic.

In addition, many parents with school-age children left the labor force to stay home with their children. Coronavirus made paying for child-care just to be able to work much less attractive financially. Many Americans may have viewed the pandemic as an eye-opening event, causing a reprioritization of their goals in life, dialing back financial goals, and moving to a lower-cost place of residence.

About one and a half million more workers than expected retired, creating the labor crunch and sending wages higher. However, wage inflation is not expected to get out of control.

Inflation. The inflation rate, as measured by the Personal Consumption Expenditure Deflator (PCED), is shown in this chart. The PCED is slightly different from the Consumer Price Index (CPI), which is the inflation benchmark most often referenced in the consumer press, but PCED is the inflation index referenced in Fed policy statements. The dotted red line shows the PCED but excludes food and energy prices because their volatility often distorts the picture. The most important data are shown in the gray lines, which represent the range of forecasts of the 19 members of the Federal Open Market Committee – central bankers on the Federal Open Market Committee at the Fed, who set U.S. interest rates.



They are forecasting an abrupt end of the high inflation experienced in the pandemic in January 2022. The upper gray line represents the average low forecast of the FOMC, and the lower gray line shows their average forecast at the top of the range. Unless FOMC members suddenly changed their minds since meeting in late September, they predict inflation will plunge to 2.2% in January 2022.

Keep in mind, the FOMC members have changed their inflation forecasts considerably in recent months. In June, the committee hiked their inflation forecast by 50% over March, and in September they hiked their forecast an additional 20%. However, the consensus forecast of 60 economic professionals surveyed quarterly by *The Wall Street Journal* agree with the 12 central bankers. That's significant. Even though the Fed has been wrong about how high inflation will head and how long it will last, the consensus of economists believe inflation will be temporary.

To be clear, the Fed says inflation will revert to its trend rate of 1.5% annually, to which it clung for a decade before the pandemic disrupted the supply chain and caused a labor shortage. The consensus believes the FOMC's assertion the current spate of inflation will dissipate over the next year.

The 60 economists surveyed in early-October 2021 see a continued expansion over the four quarters just ahead. A 4.8% growth rate is forecasted by *The Journal's* panel of 60 economic experts for the final quarter of 2021, and they expect much higher U.S. growth for not just the last quarter of 2021 but also for the following three quarters. Inflation will not end the expansion.

The central bankers and consensus of economists is that supply chain problems will, for the most part, be resolved in the 12 months ahead and the spike in wages is not the start of a wage inflation spiral that will be with us long-term. Wage inflation will bring workers back who have sidelined themselves during the pandemic. With above- average growth expected through the end of the third quarter of 2023, the consensus of economists and central bankers' projections are for a continuation of the economic expansion. Expect robust growth in 2022. ●

pre-tax contributions to 401(k), 403(b) and other qualified retirement account assets. However, the FAFSA formula will continue to count contributions to traditional IRA, KEOGH, SIMPLE IRA, and SEP accounts in your adjusted gross income as untaxed income.

The changes in the FAFSA formula were supposed to go into effect beginning with the 2023-2024 academic year. However, because of technology and other issues, the U.S. Department of Education has asked Congress to delay implementation of the law until the 2024-25 academic year.

"The 2024-25 school year may seem far off, but aid eligibility that academic year will be based in part on your 2022 income, due to a two-year look-back for income," says Mr. Chany of Campus Consultants in New York City.

Aid calculations are based on individual student and family circumstances, and the new FAFSA formula that is scheduled to go into effect in 2024-25 could yet be delayed. However, it is prudent for parents and students to know about the major changes in the FAFSA formula coming in the months ahead and to begin planning now, even if you are not sure you will qualify for aid. ●

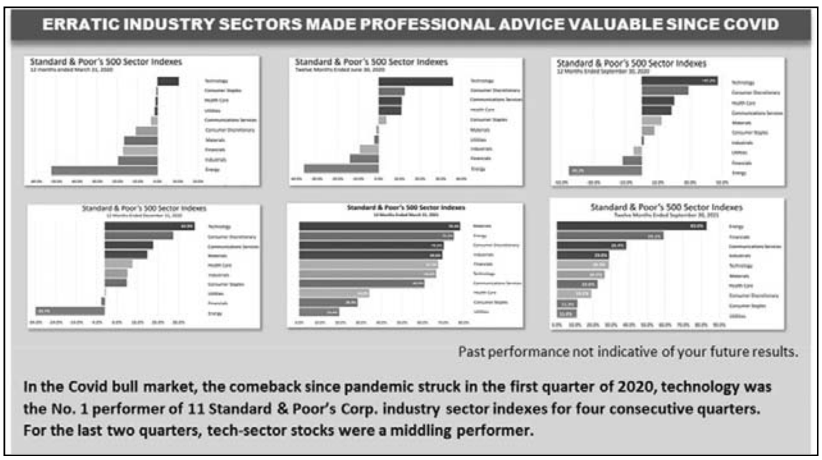
Rebalancing Helped Since Covid Struck

The 12-month returns for the past six quarters on stocks classified by industry sectors shown here illustrate why a portfolio rebalanced once a year by a professional is so important to investor success.

During the pandemic, both the Standard & Poor's tech sector index was a big winner because shopping online was safer health-wise. So was watching Netflix. Google ads suddenly were attracting more eyeballs. Apple and Microsoft earnings growth was four times earnings growth on the average S&P 500 stock, according to Fritz Meyer, an independent economist. The stock market's ebullience was totally unexpected, of course.

The tech sector was the only one of the 11 industry sectors that make up the S&P 500 index to show a gain (10%) in the first quarter of 2020, when Covid hit. That was just the start. For the next three quarters, tech sector 12-month returns came in at an astonishing 37%, 47%, and 44%, respectively. It was an historic bull market kicked off by government transfer payments to consumers. But tech stocks for the past two quarters have not been dominating. They returned to the middle of the pack of the 12-month 11-sector index performance.

Successive quarters of outperformance would have allowed your tech stock position to grow unchecked and dominate your portfolio results. With leadership shifting, a rebalanced portfolio is better able to benefit from the change in leadership in the past two quarters through the end of 2021.



In the Covid bull market, the comeback since pandemic struck in the first quarter of 2020, technology was the No. 1 performer of 11 Standard & Poor's Corp. industry sector indexes for four consecutive quarters. For the last two quarters, tech-sector stocks were a middling performer.

The past six quarters poignantly illustrate why periodic rebalancing is about as important to investor success as personal advice on tax-efficiency. Rebalancing is not a sexy-sounding benefit of working with a professional, but it might affect your portfolio's terminal value about as much as tax-smart investing advice, which is another important reason to hire an investment professional.

Automated calculators for rebalancing may get the math right but getting an investor to use a calculator to rebalance once a year requires a commitment of time and an interest in personal finance as well as behavioral change. Working with a qualified professional who knows your financial goals and risk-tolerance, thus, came in handy in the period since Covid hit the U.S.

There are many ways to rebalance a portfolio. Rebalancing based on a portfolio's industry sector weightings is shown for illustration purposes. ●

How To Catch Up On Retirement Saving

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2021, rising to $14,000 in 2022.

Maximizing contributions to DC plans is a fundamental of financial planning for architects, engineers, physicians, lawyers, dentists, and other professionals and business owners, not only because it allows tax-advantaged growth but also because of professional liability.

An LLC or corporate entity does not limit a professional's exposure. But federally qualified DC plans do protect those assets from creditors, including lawsuit judgments resulting from a malpractice lawsuit. The protection from liability lawsuits and other creditors generally begins a year after you make a contribution to the plan. So, it is best to make DC plan contributions as early in the year as is feasible.

Maximizing contributions to a federally qualified retirement plan for a far-off retirement is hard behaviorally. We can coach you on this. ●

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