



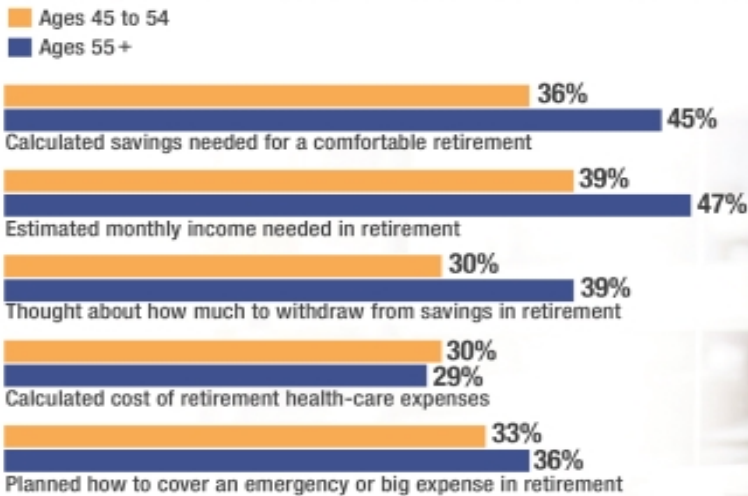
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How Much Have You Thought About Retirement?

It's difficult to achieve positive results without planning, yet less than half of workers ages 55 and older have actively planned for retirement. Planning is even less common for those ages 45 to 54.

Percentage of workers (or spouses) who have done the following, by age group



Source: Employee Benefit Research Institute, 2019

Tapping Retirement Savings During a Financial Crisis

As the number of COVID-19 cases began to skyrocket in March 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The legislation may make it easier for Americans to access money in their retirement plans, temporarily waiving the 10% early-withdrawal penalty and increasing the amount they could borrow. Understanding these new guidelines and the other rules for loans and early withdrawals may help you determine if they are appropriate options during a financial crisis. (Remember that tapping retirement savings now could risk your financial situation in the future.)

Penalty-Free Withdrawals

The newest exception to the 10% early-withdrawal penalty allows IRA account holders and retirement plan participants to take distributions of up to \$100,000 in 2020 for a "coronavirus-related" reason.* These situations include a diagnosis of COVID-19 for account owners and certain family members; a financial setback due to a quarantine, furlough, layoff, or reduced work hours, and in the case of business owners, due to closures or reduced hours; or an inability to work due to lack of child care as a result of the virus. This temporary exception augments the other circumstances for which a penalty-free distribution is typically allowed:

- Death or disability of the account owner
- Unreimbursed medical expenses exceeding 7.5% of adjusted gross income (increases to 10% in 2021)
- A series of "substantially equal periodic payments" over your life expectancy or the joint life expectancy of you and your spouse
- Birth or adoption of a child, up to \$5,000 per account owner
- Certain cases when military reservists are called to active duty

In addition, IRAs (but not work-based plans) allow penalty-free withdrawals for a first-time home purchase (\$10,000 lifetime limit), qualified higher-education expenses, and payments of health insurance premiums in the event of a layoff.

Work-based plans allow exceptions for those who separate from service after age 55 (50 in the case of qualified public safety employees) and distributions as part of a qualified domestic relations order.

Tax Consequences

Penalty-free does not mean tax-free, however. In most cases, when you take a penalty-free distribution, you must report the full amount of the distribution on your income tax return for that year. However, the income associated with a coronavirus-related distribution can be spread over three years for tax purposes, with up to three years to reinvest the money.¹

Retirement Plan Loans

If your work-based retirement plan allows loans, you typically can borrow up to the lesser of 50% of your vested balance or \$50,000. Most loans must be repaid within five years, but if the money is used to purchase a primary residence, the repayment period may be longer. The CARES Act permits employers to increase this amount to the lesser of 100% of the vested balance or \$100,000 for loans to coronavirus-affected individuals made between March 27, 2020, and September 22, 2020.* Affected participants who have outstanding loans on or after March 27, 2020, will be able to delay any payments due in 2020 by one year.²

Hardship Withdrawals

Many work-based retirement plans also permit hardship withdrawals in certain circumstances. Although these distributions are not exempt from the 10% early-withdrawal penalty, they can be a lifeline for people who need money in an emergency.

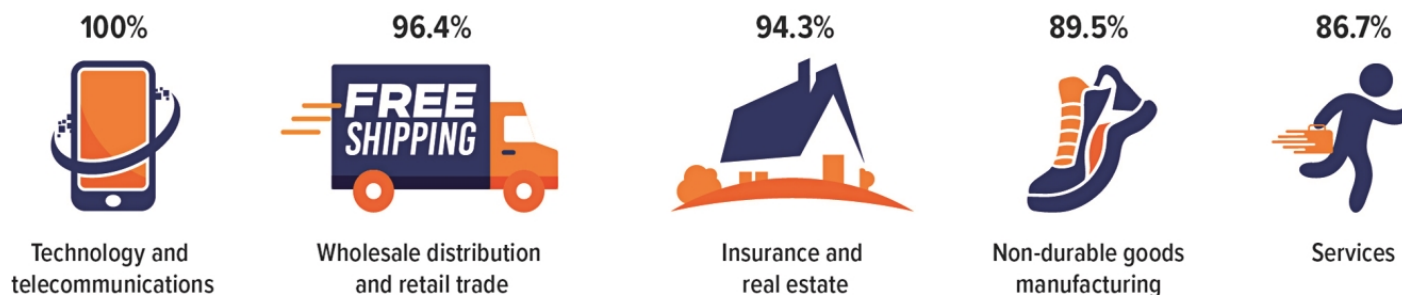
For more information about your options, contact your IRA or retirement plan administrator.

*Employers do not have to adopt the new withdrawal and loan provisions.

1) Amounts reinvested may reduce your tax obligation on the distributions; however, due to the timing of distributions and required tax filings, you may have to file an amended return to seek a refund on any taxes previously paid on withdrawn amounts. 2) The original five-year repayment period will be extended for the delay, but interest will continue to accrue. 3) Source: Plan Sponsor Council of America, 2019 (2018 data)

Five Industries Most Likely to Offer Retirement Plan Loans

Percentage of plans that offer loans, by type of industry³



Managing Your Workplace Retirement Plans

About 80 million Americans actively participate in employer-sponsored defined contribution plans such as 401(k), 403(b), and 457(b) plans.¹ If you are among this group, you've taken a big step on the road to retirement, but as with any investment, it's important that you understand your plan and what it can do for you. Here are a few ways to make the most of this workplace benefit.

Take the free money. Many companies match a percentage of employee contributions, so at a minimum you may want to save enough to receive a full company match and any available profit sharing. Some workplace plans have a vesting policy, requiring that workers be employed by the company for a certain period of time before they can keep the matching funds. Even if you meet the basic vesting period, funds contributed by your employer during a given year might not be vested unless you work until the end of that year. Be sure you understand these rules if you decide to leave your current employer.

Reasons to Contribute

Percentage of households with assets in defined contribution plans who agreed with the following statements



Payroll deduction makes it easier for me to save

92%



My employer-sponsored retirement plan helps me think about the long term, not just my current needs

91%



My employer-sponsored retirement plan offers me a good lineup of investment options

83%



The tax treatment of my retirement plan is a big incentive to contribute

82%

Source: Investment Company Institute, 2018

Bump up your contributions. Saving at least 10% to 15% of your salary for retirement (including any matching funds) is a typical guideline, but your personal target could be more or less depending on your income and expenses. A traditional employer-sponsored plan lets you defer income taxes

on the money you save for retirement, which could enable you to save more. In 2020, the maximum employee contribution to a 401(k), 403(b), or 457(b) plan is \$19,500 (\$26,000 for those age 50 and older).² Some plans offer an automatic escalation feature that increases contributions by 1% each year, up to a certain percentage.

Rebalance periodically. Your asset allocation — the percentage of your portfolio dedicated to certain types of investments — should generally be based on your risk tolerance and your planned retirement timeline. But the allocation of your investments can drift over time due to market performance. Rebalancing (selling some investments to buy others) returns a portfolio to its original risk profile and does not incur a tax liability when done inside a retirement plan. Consider reviewing your portfolio at least annually. Some workplace plans offer automatic rebalancing.

Know your investments. Examine your investment options and choose according to your personal situation and preferences; some employer-sponsored plans may automatically set up new employees in default investments. Many plans have a limited number of options that may not suit all of your needs and objectives, so you might want to invest additional funds outside of your workplace plan. If you do, consider the risk and overall balance of your portfolio, including investments inside and outside your plan.

Keep your portfolio working. Some employer plans allow you to borrow from your account. It is generally not wise to use this option, but if you must do so, try to pay back your loan as soon as possible in order to give your investments the potential to grow. Plans typically have a five-year maximum repayment period.

All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost. Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. Distributions from employer-sponsored retirement plans are generally taxed as ordinary income. Withdrawals prior to age 59½ may be subject to a 10% federal income tax penalty.

1) American Benefits Council, 2019

2) Employer contributions are not included in these annual employee limits for 401(k) and 403(b) plans. Employers typically do not contribute to 457(b) plans, but any such contributions will count toward the employee limit. There may be additional catch-up contribution opportunities for 403(b) and 457(b) plans.

Debit or Credit? Pick a Card

Americans use debit cards more often than credit cards, but they tend to use credit cards for higher-dollar transactions. The average value of a debit-card transaction in 2018 was just \$36, while credit-card transactions averaged \$89.¹

This usage reflects fundamental differences between the two types of cards. A debit card acts like a plastic check and draws directly from your checking account, whereas a credit-card transaction is a loan that remains interest-free only if you pay your monthly bill on time. For this reason, people may use a debit card for regular expenses and a credit card for "extras." However, when deciding which card to use, you should be aware of other differences.

Fraud protection. In general, you are liable for no more than \$50 in fraudulent credit-card charges. For debit cards, a \$50 limit applies only if a lost card or PIN is reported within 48 hours. The limit is \$500 if reported within 60 days, with unlimited liability after that. A credit card may be safer in higher-risk situations, such as when shopping online, when the card will leave your sight (as in a restaurant), or when you are concerned about the security of a card reader. If you regularly use a debit card in these situations, you may want to maintain a lower checking balance and keep most of your funds in savings.

Merchant disputes. You can dispute a credit-card charge before paying your bill and shouldn't have to pay it while the charge is under dispute. Disputing a debit-card charge can be more difficult when the charge has been deducted from your checking account, and it may take some time before the funds are returned.

Rewards and extra benefits. Debit cards offer little or no additional benefits, whereas some credit cards offer cash-back rewards, and major cards may include extra benefits such as travel insurance, extended warranties, and secondary collision and theft coverage for rental cars (up to policy limits). Of course, if you do not pay your credit-card bill in full each month, the interest you pay can outweigh any financial rewards or benefits.

Credit history. Using a credit card can affect your credit score positively or negatively, depending on how you use it. A debit card does not affect your credit score.

Considering the additional protections and benefits, a credit card may be a better choice in some situations — but only if you pay your monthly bill on time.

1) Federal Reserve, 2019

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