

The Navigator

PUT YOUR MONEY WHERE YOUR VALUES ARE

Financial worries are often cited as a major source of stress. For example, a 2021 study found that even before the pandemic and subsequent economic downturn, a majority of Americans said they felt stressed or anxious about their finances. Similarly, in 2022, research revealed that more than seven out of 10 financial planning clients experienced financial anxiety more than half the time.

What causes financial stress? Lack of assets and/or income is certainly one reason. Another might be the flood of financial information Americans can access on a daily basis: reports about the markets, economy, and financial institutions, as well as conflicting advice about what people should and should not do with their money. One way to avoid becoming distracted and anxious amid scary headlines is by having a sturdy framework to help guide your spending, saving, and investment decisions.

The Why of It

In one of the most viewed TED Talks of all time, motivational speaker Simon Sinek identified what he calls "The Golden Circle," which is actually a series of three concentric circles. He labels the extreme outside circle "What," the middle circle "How," and the core "Why." He uses this image to illustrate how the most successful leaders and organizations are able to inspire so many people to support their causes or buy their products. Essentially, it's not what they do or how they do it; it's why they do it.

"By 'why' I don't mean to make a profit," Sinek explains. "That's a result ... By 'why,' I mean: What's your purpose? What's your cause? What's your belief? Why does your organization exist? Why do you get out of bed in the morning?"

Certified financial planner, author, and creator of *The New York Times* "The Sketch Guy" column, Carl Richards, says Sinek's principle can also apply to an individual's or family's financial plan. Having a clear vision of *why* you earn a paycheck, save, invest, and spend your money is critical to avoiding distractions and questionable or rash financial decisions.

Taking Stock of What Matters

The key to identifying your *why* is taking inventory of your most important values, many of which may have little or nothing to do with money. To do this, set aside some time when you're feeling at ease and simply jot down what matters most to you. Some examples might include family, achievement, security, faith, knowledge, creativity, generosity, and independence. Try to narrow down your list to 10 or fewer.

Next, think about how your values relate to your financial situation. For example, if faith and generosity are high on your list, how might they influence your estate plan? Or if independence, creativity, and achievement make the final cut, how might those values affect your career choices? Perhaps family and knowledge are important — what might that indicate about your dreams for your children, from primary school to college and beyond?

Working with your financial professional, you can use this list of core values as a framework for your financial goals, strategies, and tactics. Whenever you're tempted to make a decision that could derail your overall strategy — such as chasing the latest hot investment tip or taking a loan from your 401(k) plan — your core values can serve as an important guidepost and prevent you from making a costly mistake.

Your list can also help you make spending decisions. For example, if adventure and education are among your key values, taking your family on a trip to explore a new culture can bring intangible returns in the form of a lifetime of tolerance for differences as well as happy memories.

Adapting as Your Life Changes

A values-oriented financial plan is as personal and unique as each individual or family. It's also flexible. As you progress through various stages of life, your hopes, desires, needs, and beliefs may change as well. Your financial professional can help you ensure your financial goals and strategies continue to reflect what matters most to you. The bulk of Social Security benefits go to retirees, but Social Security is much more than a retirement program. Most Americans are protected by the Old-Age, Survivors, and Disability Insurance (OASDI) program — the official name of Social Security — throughout their lives.

SECURE 2.0 ACT EXPANDS EARLY WITHDRAWAL EXCEPTIONS

SECURE 2.0 Act Expands Early Withdrawal Exceptions

Tax-advantaged retirement accounts such as 401(k) plans and IRAs are intended to promote long-term retirement savings and thus offer preferential tax treatment in return for a commitment to keep savings in the account until at least age 59½. Withdrawals before that age may be subject to a 10% federal income tax penalty on top of ordinary income tax. However, there is a long list of exceptions to this penalty, including several new ones added by the SECURE 2.0 Act of 2022.

Before considering these exceptions, keep in mind that the greatest penalty for early withdrawal from retirement savings could be the loss of future earnings on those savings (see chart). Even so, there are times when tapping retirement savings might be necessary.

Some employer plans allow loans that may be a better solution than an early withdrawal. If a loan or other resources are not available, these exceptions could help. They apply to both employer-sponsored plans and IRAs unless otherwise indicated.

New Exceptions

The SECURE 2.0 Act added the following exceptions to the 10% early withdrawal penalty. Withdrawals covered by these exceptions can be repaid within three years. If the repayment is made after the year of the distribution, an amended return would have to be filed to obtain a refund of any taxes paid.

- **Disaster relief**— up to \$22,000 for expenses related to a federally declared disaster; distributions can be included in gross income equally over three years (effective for disasters on or after January 26, 2021)
- **Terminal illness**— defined as a condition that will cause death within seven years as certified by a physician (effective 2023)
- **Emergency expenses**— one distribution of up to \$1,000 per calendar year for personal or family emergency expenses; no further emergency distributions allowed during three-year repayment period unless funds are repaid or new contributions are at least equal to the withdrawal (effective 2024)
- **Domestic abuse**— the lesser of \$10,000 (indexed for inflation) or 50% of the account value for an account holder who certifies that he or she has been the victim of domestic abuse during the preceding one-year period (effective 2024)

Exceptions Already in Place

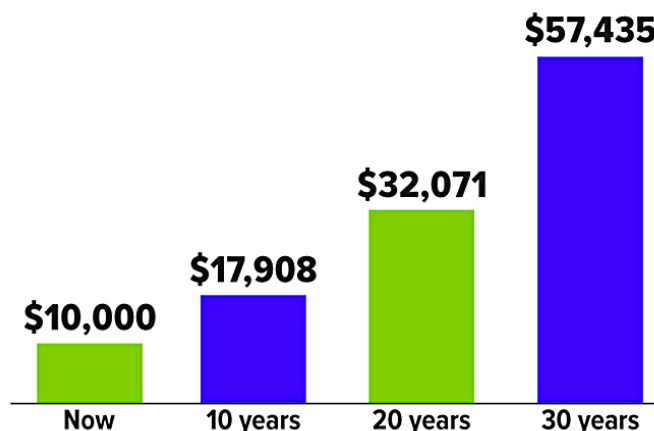
These exceptions to the 10% early withdrawal penalty were in effect prior to the SECURE 2.0 Act. They cannot be repaid unless indicated.

- Death or permanent disability of the account owner
- A series of substantially equal periodic payments for the life of the account holder or the joint lives of the account holder and designated beneficiary
- Unreimbursed medical expenses that exceed 7.5% of adjusted gross income
- Up to \$5,000 for expenses related to the birth or adoption of a child; can be repaid within three years
- Distributions taken by an account holder on active military reserve duty; can be repaid up to two years after end of active duty
- Distributions due to an IRS levy on the account
- (IRA only) Up to \$10,000 lifetime for a first-time homebuyer to buy, build, or improve a home
- (IRA only) Health insurance premiums if unemployed
- (IRA only) Qualified higher education expenses

Lost Opportunity

An early retirement plan withdrawal could end up costing more than you might imagine, even without the 10% penalty. Income taxes will reduce the present value of the withdrawal, and you will lose the potential long-term growth on the amount withdrawn.

**Potential lost growth on a \$10,000
withdrawal, assuming 6% annual return**



This hypothetical example is used for illustrative purposes only and does not represent the performance of any specific investment. Fees and expenses are not considered and would reduce the performance shown if they were included. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

Special Exceptions for Employer Accounts

The 10% penalty does not apply for distributions from an employer plan to an employee who leaves a job after age 55, or age 50 for qualified public safety employees. SECURE 2.0 extended the exception to public safety officers with at least 25 years of service with the employer sponsoring the plan, regardless of age, as well as to state and local corrections officers and private-sector firefighters. Retirement account withdrawals can have complex tax consequences. Consult your tax professional before taking specific action.

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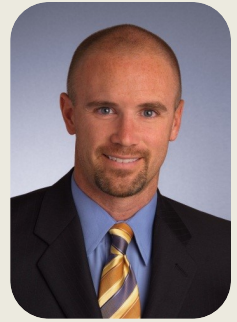
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