

Bartholomew & Company Monthly

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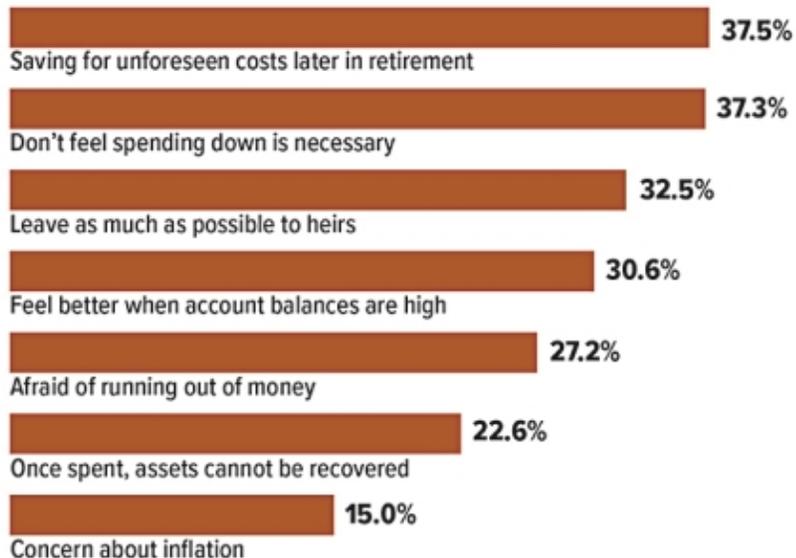
36.1%

Percentage of retirees who say they saved about the right amount for their retirement while they were working. By contrast, 45.6% saved less than they needed and only 18.3% saved more than they needed.

Source: Employee Benefit Research Institute, 2021

To Spend or Not to Spend?

About 77% of retirees between the ages of 62 and 75 plan to spend down at least some of their retirement assets. The top reasons cited include lifestyle, medical expenses and health insurance, housing expenses, and discretionary spending. The remaining 23% intend to maintain or grow their assets. Why would retirees not want to spend down the assets they've worked so hard to save? Here are the reasons they gave.



Source: Employee Benefit Research Institute, 2021 (multiple responses allowed)

Women Face Challenges in a Post-Pandemic World

The COVID-19 economic crisis tested the mettle of all Americans, particularly working mothers. Research shows that the pandemic's impacts on women have been far-reaching and potentially long-lasting. Now that the U.S. economy is picking up steam, it may be more important than ever for women to re-examine their retirement planning strategies.

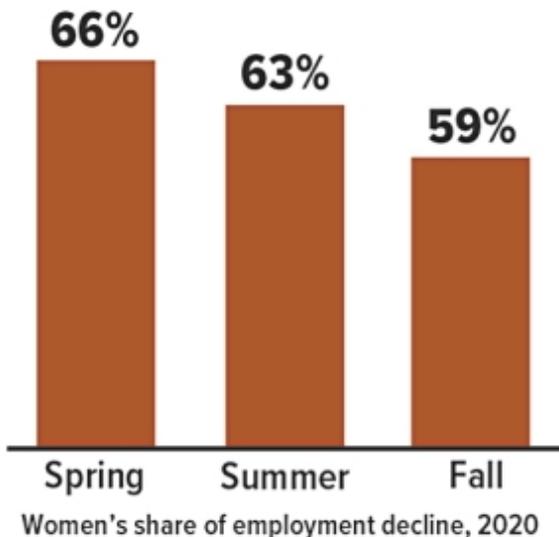
Effects of the COVID-19 Economy

The COVID-19 recession had a disproportionate impact on working women because sectors that typically employ them — including retail, hospitality, and health care — were hit harder than others. As noted in a paper released by the National Bureau of Economic Research, "Employment fell more for women compared to men at every stage during the pandemic, with the biggest gender differences estimated for married women with children." Many women were forced to cut work hours or leave jobs entirely to care for family members and supervise remote schooling activities when day cares and schools shut down.¹

In a Pew Research study, 64% of women said they or someone in their household lost a job or took a pay cut during the pandemic, and nearly a quarter took unpaid time off for personal, family, or medical reasons. Half of women ranked their personal financial situation as "only fair" or "poor."²

More Than Their Share of Job Losses

Prior to the pandemic, women made up 52% of the population. Yet they represented a larger proportion of the employment decline during the spring, summer, and fall seasons of 2020.



Source: National Bureau of Economic Research, 2021

Retirement at Risk?

When it comes to retirement savings, unmarried women have the most ground to cover, according to an Employee Benefit Research Institute survey. Nearly six in 10 have less than \$50,000 set aside for retirement; 31% have saved less than \$1,000.³

Couple these statistics with the retirement planning challenges women faced even prior to the pandemic — longer life spans and lower earnings and Social Security benefits, on average — and it's apparent that women need a carefully considered retirement strategy that will help them pursue their goals.

Making Up Lost Ground

If you or a loved one need to make up lost ground, consider the following tips.

1. Save as much as possible in tax-advantaged investment vehicles, such as employer-based retirement plans and IRAs. In 2021, you can contribute up to \$19,500 to 401(k) and similar plans and \$6,000 to IRAs. Those figures jump to \$26,000 and \$7,000, respectively, if you are age 50 or older. If your employer offers a match, be sure to contribute at least enough to take full advantage of it. If you have no income but you're married and file a joint income tax return, you can still contribute to a spousal IRA in your name, provided your spouse earns at least as much as you contribute.

2. Familiarize yourself with basic investing principles: dollar-cost averaging, diversification, and asset allocation. Dollar-cost averaging involves continuous investments in securities regardless of fluctuating prices and can be an effective way to accumulate shares to help meet long-term goals; however, you should consider your financial ability to continue making purchases during periods of low and high price levels. (If you contribute to an employer-based plan, you're already using dollar-cost averaging.) Diversification and asset allocation are methods used to help manage investment risk while building a portfolio appropriate for your needs. Note that all investment involves risk, and none of these strategies guarantees a profit or protects against investment loss.

3. Seek guidance from your financial professional, who can provide an objective opinion during challenging times and may be able to help you find ways to reduce costs and save more. Although there is no assurance that working with a financial professional will improve investment results, a professional can evaluate your objectives and available resources and help you consider appropriate long-term financial strategies.

Sources: 1) National Bureau of Economic Research, 2021; 2) Pew Research Center, 2021; 3) Employee Benefit Research Institute, 2021

Company Stock and Your Retirement Strategy

The opportunity to acquire company stock — inside or outside a workplace retirement plan — can be a lucrative employee benefit. Your compensation may include stock options or bonuses paid in company stock. Shares may be offered at a discount through an employee stock purchase plan and held in a taxable account, or company stock might be one of the investment options in your tax-deferred 401(k) plan.

Either way, having too much of your retirement savings or net worth invested in your employer's stock could become a problem if the company or sector hits hard times, especially if a job loss and stock value loss occur at the same time. There are also tax implications to consider.

Concentrate on Diversification

The possibility of heavy losses from having a large portion of your portfolio holdings in one investment, asset class, or market segment is known as *concentration risk*. Buying shares of any individual stock carries risks specific to that company or industry, so a shift in market forces, regulation, technology, competition, scandals, and other unexpected events could damage the value of the business.

Holding more than 10% to 15% of your assets in company stock could upend your retirement strategy if the stock suddenly declines in value, and overconcentration can sneak up on you as your position builds slowly over time. To help maintain a healthy level of diversification in your portfolio, look closely at your plan's investment options and consider directing some of your contributions into funds that provide exposure to a wider variety of market sectors.

You might also consider strategies that involve selling company shares systematically or right after they become vested. But make sure you are aware of the rules, restrictions, and time frames for liquidating company stock, as well as any tax consequences.

Take Advantage of NUA

If you sell stock inside your 401(k) account and reinvest in other plan options, or you roll the stock over to an IRA, future distributions will likely be taxed as ordinary income. However, if you own highly appreciated company stock in your employer plan, you might benefit from a special tax break on lump-sum distributions of net unrealized appreciation (NUA). NUA allows the appreciation on company stock in a 401(k) to be taxed at lower long-term capital gains rates when the shares are sold, instead of the ordinary income tax rates that would otherwise apply to retirement plan distributions.

To qualify for NUA, the lump-sum distribution must follow a triggering event such as separation from service, reaching age 59½, disability, or death. The stock must be distributed in kind — as stock — and transferred to a taxable account. You would owe income tax at the ordinary rate in the year of the distribution, but only on the cost basis of the stock.

If your retirement plan consists of employer stock and other types of investments (cash, mutual funds, etc.), the other assets can be transferred into an IRA, to another employer's plan, or withdrawn entirely. This doesn't have to happen simultaneously with the stock distribution, but the distributions must occur in the same tax year, and the account balance on your employer plan must be zero by the end of that year.

If distributions of company stock are handled correctly, the savings from NUA can be substantial, especially for those in higher tax brackets. But keep in mind that taking any partial distribution from your employer plan after a triggering event — even an in-plan Roth conversion or required minimum distribution — could disqualify you from the NUA tax break, unless another triggering event occurs.

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. Diversification and asset allocation are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

Company Stock Ownership Has Fallen

Average percentage of 401(k) assets invested in company stock



Source: Employee Benefit Research Institute, 2021 (data from participants in the 2018 EBRI/ICI 401(k) database)

Net Price Calculators Help Gauge College Affordability

Fall is the time when many high school seniors narrow their college lists and start applying to colleges. One question that is often front and center on the minds of families is "how much will it cost?" To help answer that question, you can use a net price calculator, which is available on every college website.

How a net price calculator works. A net price calculator can help families measure a specific college's true cost by providing an estimate of how much grant aid a student might expect based on his or her financial information and academic profile. A college's sticker price minus grant aid equals a student's net price, or out-of-pocket cost.

The numbers quoted by a college net price calculator are not a *guarantee* of grant aid, but the estimates are meant to be close. By completing a net price calculator for several colleges before officially submitting an application, students can get an idea of what their out-of-pocket cost would be at specific schools and rank colleges based on affordability.

What information it asks for. A net price calculator typically asks for the following information: parent income and assets, student income and assets, a student's general academic record, and family size, including number of dependents. A net price calculator might also ask more detailed questions; for example, a student's class rank and test scores, the amount parents contributed to their employer retirement plans

in the last year, current home equity, or how much parents expect to pay in health-care costs in the coming year. Every college has its own net price calculator, so there may be slight variations in the questions that are asked.

A net price calculator takes about 10 to 15 minutes to complete. Typing "net price calculator" in the search bar of a college's website should direct you to it.

Results can vary. Keep in mind that colleges have different sticker prices and criteria for determining how much grant aid they offer, so calculator results can vary, even when the same financial information is being entered. For example, after entering identical financial information on three different calculators, families might find that College A has a net price of \$25,000 per year, College B a net price of \$30,000, and College C a net price of \$40,000. Running a net price calculator for colleges that are similar in terms of selectivity and sticker price can help families compare the generosity of colleges in a similar peer group.

Consider filing the FAFSA. The FAFSA for the 2022-2023 school year opens on October 1, 2021. Families should consider submitting it even if they don't expect their child to qualify for need-based federal aid, because some colleges may require the FAFSA as a prerequisite for college-provided need-based and/or merit-based grants and scholarships.

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