- ♪ So here we go again ♪ ♪ Here we go ♪

- [Host] The following program is not intended to be legal, financial or investment advice. The program is intended to be strictly educational. The opinions of those appearing on the program are those of the subject and not of My Secure Advantage Inc. For any individual legal, financial, or investment advice, please contact your legal or financial advisor.

- [Mike] Welcome, to our Friday MSA Investor Education Strategies During Volatile Markets webinar. So happy you could join us again. Hopefully, many of you have been with us on previous Fridays and if not, and this is the first webinar you've joined us for, welcome. We try to make these webinars in tune with questions you might have. So just as a reminder, we kinda look at the questions you submit when you register, as well as those that you may have provided us when you gave us your surveys at the end of previous webinars. So again, every webinar each week is fresh and we look forward to presenting today. So just in terms of introduction, my name is Mike Hackett and I have been in financial services for over 30 years. I manage the education team here at My Secure Advantage. We spend our time going around the country doing onsite classes to different employee groups at different employers. We also do a lot of webinars and just have a great team and I have two of my colleagues with me today, so I'd like to first introduce Tess Filice, Tess.

- [Tess] Hello, and good afternoon everyone. My name is Tess Filice. I am a certified tax preparer and financial educator. I have been with My Secure Advantage going on now for over 18 years. So my background is in retirement investments. I do college planning, retirement planning and I look forward to one day be working with you and I hope that's soon. And onto you Constance.

- [Constance] Thanks Tess, I appreciate that. So hello everyone and welcome. Super excited to be here with Mike and Tess and everyone here. So I wanted to introduce myself, Constance Foley. I'm a money coach here at MSA and I'm an accredited financial counselor. I have a master's in education and I've been a money coach many, many years. So a lot of experience here between Tess and myself and also Mike. So we're ready and anxious to bring you some new information and update you what's happening in our economy and hope you will get a lot out of this today.

- [Mike] Fantastic. They don't like to brag, but Tess has been with My Secure Advantage 18 years and Constance over 20, so they're both phenomenal money coaches and wanted to have both of them with me today to give you the breadth of our experience in answering your questions. Let's get into some housekeeping first in terms of the questions that you do have, you can submit those throughout the webinar. So we will get to those at the end. We try to make our comments about 30 minutes and then we have about a 30-minute period where we'll do Q&A. So please keep submitting your questions and we will hopefully get to as many of them as possible. You also will have access to a recording so when you log out of the webinar in about probably within 24 hours or so, you'll get an email with a link so you could get access to the recording as well as the handouts. There are two handouts associated with this webinar. You'll see them when you look at your dashboard for the webinar. But nonetheless, you can also get them through the recording. And also, when you leave the webinar, you'll be asked to take a survey. I can't emphasize enough how important the surveys are. We will take whatever questions you provide and incorporate those into next week's webinar, but it also just helps us improve this each week, so we appreciate that. With that said, let's get to the agenda and what we structured today. So we looked at your feedback and we actually went beyond just your feedback from last week, we've been looking at the last few weeks to come up with today's agenda. And what we did, is we saw that a lot of the questions came into two camps. So we're gonna talk about what we're gonna call a typical retirement investment timeline. So I'll spend some time walking through that in a minute. As a component of that timeline, something that we feel is just so important to emphasize is performance of different asset classes. We've talked about this a little bit in different contexts. So we're gonna spend a little bit more time looking at how out different assets perform over time. And a lot of questions have come in concerning taxes and tax considerations, especially in regards to Roth versus traditional accounts. So we're gonna spend a little bit more time on that and then we'll wrap up and get to the Q&A. So with that, why don't we first kick off like we've been doing so the last number of weeks and talk a little bit about markets in this last week. So to do that, I'll hand it to Constance.

- [Constance] Thanks Mike. Also I just wanted to say, if there's a bit of a difficulty in the sound quality

periodically, it's the internet traffic. We're not able to really control that. So the recording will be a very high quality, and if you miss something during the presentation, check the recording that you'll be getting at the end. So let's take a look at the Dow Jones. Currently the market's showing some optimism due to report indicating promising results for a drug used to treat COVID-19. And then also the president announced recently a phase in plan to open up America again. So a lot of optimism I think is generated by those two events and other things going on. But the market still anticipates economic weakness in the next few weeks due to expected low corporate earnings and high unemployment. But keep in mind, the market doesn't really care about what happened last month or what will even happen next month. Instead, the market is always focused on six months from now and we need to take our cue from the market and focus our attention on where the economy will be six months from now and beyond when we're looking at our investment portfolio. So Mike is gonna talk about what a typical retirement investment timeline should look like.

- [Mike] Okay, thank you Constance. So this is the first section. Like I mentioned before, we spent a lot of time talking about and reviewing your questions and that led us to creating this next slide, which is a timeline that we crafted this week. So I wanna kinda walk you through it. What we found is that many people seem to be asking retirement related questions in the context of being in the first half of their career, versus another large group of questions being from people in the second half of their careers or within a limited number of years of retirement. We felt that creating a retirement investment timeline might provide better context for many of the disciplines or principles we've emphasized in past webinars and we wanna focus on today. Let's start with the timeline itself. Just to be clear that we are assuming that most people begin their careers and investment journeys in their twenties, so we started with age 25. We then went up to age 55 to designate this 30-year period as the first half of your retirement investment timeline. We then delegated ages 55 to 85 and beyond as the second half of your timeline. Another important point is that we wanted to be clear that retirement age can be very different for people. Some might wanna retire in their 50s or even earlier and others might wanna work into their 70s and beyond. So the timeline might vary, but we believe everyone will go through the two stages we've outlined here, at some point. So we placed particular disciplines, investment principles or perspectives that we believe are particularly important in each of these two stages. In no way are we saying these are the only considerations when it comes to investing, but we believe they are worth emphasizing or highlighting. Let's start with stage one of the blue part of the timeline. At MSA, we believe budgeting is one of the most fundamental disciplines associated with financial wellness. In the context of investing, if within your budget you prioritize for goals, and you fund these goals with every paycheck before the rest of your pay is deposited to your checking account, we believe this discipline will serve you well your entire career. We hope at the top of your goal list is building an emergency savings account that represents three plus months of total expenses. If you're funding your retirement goal by contributing to your employer sponsored retirement plan, then we would want you to be familiar with how different asset classes have performed over time so that you choose investments that are diversified across different asset classes and that reflect your tolerance for risk. In past webinars, we've reviewed how taxes come into play with your decision as to whether or not to establish Roth account within your employer sponsored plan or an individual retirement plan or IRA. We're gonna review that again because it is so important to understand these tax implications. In our first Friday investing webinar, we spoke to the power of compounding. Because that is another critical principle of investing, we're gonna cover that again today. We also list inflation and dollar cost averaging here because they're such important influencers with respect to whether you reach your investment goals. So today we're gonna focus on the bolded topics on the left side of this timeline. But let me take a minute to describe stage two. Next week we're gonna focus the webinar more on stage two and we'll review asset allocation again, but discuss other perspectives such how the performance of different asset classes are often driven by different factors. So it's important to recognize whether their performance is correlated or not. We discuss that a bit today, but we'll continue the discussion next week. We'll also talk about sources of income in retirement and how your investment perspective might start to change to seek income as much as growth. When you consider different types of investments, you have additional tax considerations. So we'll discuss those next week also. So thank you for your patience as I walked through this slide and let's now turn our focus to a short discussion of why budgeting plays such an important role in how we fund our goals. So Constance, why don't you take us through that.

- [Constance] Thanks Mike. Not only budgeting, but how you budget and make it happen month in, month out, it's so important. First you wanna think about why you're saving. On this slide you see some reasons why people set up savings accounts and automated savings through payroll deduction. So do you wanna build an emergency fund? Save for retirement, for example. Creating a budget, setting goals, preparing for

the unexpected, and automating your plan allows you to focus on the important things in life and feel more organized and strategic, it's energizing. So these habits, they can make a big difference over your lifetime. Having adequate savings for your goals insulates you from tapping into money that is supposed to be invested longterm. So I don't know, maybe some people are feeling like they should have maybe had a better savings plan in place before an event that we're going through. I know it's very common to procrastinate because life gets in the way. So, not judging anyone, just saying, here's the time to restart the plan that you felt that you wanted to do all along. If you imagine yourself being successful and achieving your goals, you will more likely stay with your plan, stay focused on your project and progress and make adjustments over time. So let's take a look at how we invest savings, because that's a critical question. I'm getting that a lot lately. People are realizing the importance of an emergency savings, but they're frustrated with the lack of return that they get in liquid accounts. So we've got savings and money markets, we've got certificates of deposit and we've got a strategy called a CD or bond ladder strategy. It's where you're hoping to get a higher combined return by staggering maturity dates. Let me give you a quick example and realize this is kind of a step by step process and maybe you can get a better handle on what I'm talking about by looking at the handout. If it's not crystal clear, which sometimes it isn't when I explain this 'cause it's a process, feel free to take a look at the handout that we have on how to create a CD or bond ladder and you get more detail. But let me just give you an example. Let's say you've saved 30,000 in your emergency fund. You figure 5,000 a month over the next six months would put you in good stead if you had an emergency that lasted that long. But you need to have liquidity because you need to get to it if you need it when you need it. But you're frustrated 'cause you wanna get a better rate of return than maybe your savings account is paying. So you need to keep the money guaranteed, growing and available. And so you can't put it really in the stock market, particularly right now. So let's say you divide that and you say 5,000 just in a money market. So you have 30,000, 5,000 is in the money market, the 25,000, you divide into five different increments for five CDs. So you have your 5,000 in cash or money market, then you have 5,000 in a six-month CD, 5,000 in a 12-month, 5,000 in 18-month, 24-month and 30-month. So you have these five different certificates, five different maturities from shortest six months, the longest 30-month. And the idea is that you get a better rate of return, slightly better rate of return, not exciting, but better rate of return as you move towards the longer maturity. Now eventually that six-month CD will come due. Do you use or you use it if you need it? You have that $5,000 cushion in your money market. But if things are lasting a while, you may need to tap into that six-month CD that just came due. So you use that or you reinvest it. When you reinvest it, you reinvest it back to a 30-month CD. So you always have, it's like a conveyor belt coming towards you. You always have something coming due. And so it allows for liquidity, but this is a slightly better rate of return which is kind of what we need to do at this time. Let's take a look at how a savings account for retirement would work. Mike.

- [Mike] I love this slide, I use it in a number of presentations. And oftentimes when we talk about retirement and saving for retirement, it used to be people wanting to think about how do I get to $1 million? Whether $1 million is how much money you are hoping to save for retirement really isn't the point, it's just a nice big round number. So what we try to do is show you that if you start early in your career, how much you have to save on a paycheck by paycheck basis it still could be significant depending upon what your salary is but if you start early, it's certainly much more achievable. So we tried to use an example here of saying if you started at age 25, you have an annual salary of 36,000 and you make a monthly contribution of 9% or $270, that's $135 per paycheck if you get paid every couple of weeks. What you're gonna invest after that 10-year period, $46,733, if you invested in an account that earned 7% compounded monthly. So that's the assumptions that go into this. Now let's start by looking at the monthly contribution. So 9%, that's a lot, we recognize that. But you might be getting a match from your employer. So let's assume maybe it's a 3% match. Now it's only 6% that you're contributing, with that 3% match, it adds up to 9% so that's great. Maybe there's two earners in the household, so combined you're putting this money towards this contribution. So regardless if you can kinda make those sacrifices in terms of what you consume today in order to put this money, starting at age 25 into your retirement account, and you let that go all the way until you reach age 65. A few other assumptions here, maybe between the ages of 36 and 45, your salary has gone up as well as your contribution from nine to 11%. From 46 to 55, your salary goes up to 55,000 on average, you bump up to 12%. And then in those last 10 years your salary is 62,000 and your monthly contribution is 14%. So again, that shows you how you can get to $1 million. Now imagine if your salary is higher than that. Imagine if your monthly contribution's higher. Imagine if you have two incomes and both of you are doing something such as this how much money you could actually see this grow to. So it's just a really compelling slide in my mind, in terms of the power of compounding. So when you start investing with

great discipline, with dollar cost averaging, early in your career and you sustain that, it gives you time for your investments to compound. So, especially if your investments earn income, maybe it's a dividend or maybe it's some form of a distribution, and then you reinvest those distributions into additional shares of whatever mutual fund you're in, it's just really amazing how much your investment can grow and how much money you have at the end of whatever your goal period is. So we just wanted to put that in there and cover that. Now let's transition to talking about, it's one thing to invest, and just talk in general about what you invest in, but it's really important to understand that you need exposure to different asset classes. So what we wanted to do was show you some examples of that. So Constance.

- [Constance] Great, thanks Mike. So this next chart is interesting because it does show that we have assets that do perform above the rate of inflation, which is the goal. Whenever you invest long term, you wanna beat inflation because if you don't beat inflation, inflation's gonna really drag down your purchasing power. It's gonna diminish your rate of return. And so we see these three asset classes, we see stocks at the top. The dark blue would be the performance of that asset class over time. And you may have read stocks outperform other asset classes, which is shown here. Next would be real estate. If you're number two, you try harder I guess, so real estate keeps trying, but it doesn't catch up with stocks, it hasn't done it yet. But bonds are third runner up, but still in the race. So I'm not disparaging any of these investments because they're still in the race, they're still getting you above inflation. But let's take a look at the rest of the story as they say. And I think Mike's gonna take us to the next stage of our story here on assets.

- [Mike] So I hope this doesn't kinda blow the eyeballs away. So we know there's a lot to look at on this slide, but we love this slide. It's one of our favorites in terms of helping to explain how different asset classes perform. So let me start by asking you to try and focus in on the pattern of particular colors, starting with the dark blue. This is small stocks and you can see how the performance has jumped between the highest return and the lowest return over this 20-year period of time. So again, highest returns are up top, lowest returns are on the bottom. And you can see this is covering from 1998 to 2017. It is even more pronounced how much the boxes are jumping around when you look at the red boxes or international stocks. What often shocks people the most when they first review this chart is the volatility of the orange boxes, which represent longterm government bonds. They're surprised how often their performance represents the highest returns for a particular year, as well as how there were a few years of pretty significant low returns such as 1999, 2009 and 2013. I'd like to direct your attention to 2008 and 2011 because in these years when bonds performed well, you can see how this performance was so different from the other asset classes. This is why so many asset allocation models point to a mix of stocks and bonds in order to attempt to reduce how extreme your portfolio performance may be in any given year. So building that balanced portfolio is in our minds, such an important objective. And that the gray that you see in this chart, notice how it really kinda occupies the middle of the chart. And that represents a diversified portfolio of stocks and bonds. So we often believe that yes, you're gonna lose out on some of those highest returns that you see in the darker colors up above, but you're also gonna lose out on a lot of those lower returns, which can make you lose some sleep at night and make you uncomfortable. So we often like to make sure, and we've spent a lot of time discussing kind of the importance of getting a diversified portfolio. So that's kinda why we recommend trying to live in that gray area. So with that, let's move on to another such important topic that has to do with not just picking winners and losers, but understanding the tax considerations and get a little bit more detail into Roth versus traditional accounts.

- [Constance] Great. So let's take a look at how taxes have changed. And when I first saw this chart, it reminded me of the New York city skyline, which is just kinda crazy, but that's what I thought of when I first saw this. But when you really look at it, it's really telling a story here in this chart because it's showing us how much taxes have changed since taxes became part of the economy back in 1913. That's when the law was passed to establish the tax system. So looking at some peak points here in 1944 World War II, it was very expensive, obviously, to conduct a war of that magnitude and that scope. And so we had a top rate there at 94%. That's when the tax rate peaked in 1944 and we still had some hard times with tax rates being very, very high. The 50s, 60s and 70s, the top federal income tax rate never dipped below 70%. And so that's a federal rate on the top earners, it was at 70%. It's just mind blowing when you think about it. But what this chart also shows is that the tax law is always changing. Now, no one likes paying income taxes. I get that. I mean, I think most people would say that, but let's approach this by being practical. Let's stay up-to-date with tax changes because if you keep a longterm perspective, you can prepare yourself and take advantage of any eligible tax breaks. As well as being aware of tax rates, you need to be aware of the

breaks and what you're eligible for tax credits, et cetera, that may be coming your way now and in the future. So Tess is gonna talk about the traditional versus Roth retirement plans.

- [Tess] Thank you, Constance. So just a recap or a review of the differences between a traditional and a Roth IRA or any retirement plan. A lot of the times the questions I get are could you have an IRA at the same time that you make contributions to a 401k or 457? And the answer to that is yes, as long as you are below a certain income level. So to define, basically the traditional retirement plan, these are made with pre-tax money, which lowers your taxable income. All of the earnings and all of the growth when withdrawn at distribution time, they are taxable. Now the employer, you might be one of the lucky ones with employers that matches contributions. Contributions of the employer are made with pre-tax money, so you do have to pay taxes on that portion come withdrawal time. Roth retirement plans are made with after tax money. However, all of the growth are going to be tax-free come distribution time. The portion that the employer matches are still taxable because basically it came from the employer's pocket, not from the employee. So that portion is taxable. Now a lot of the questions that I do get are can you turn a traditional retirement plan into a Roth? And that is what is called the conversion. When a contribution it was originally made with pre-tax money and then turned into a after-tax money contribution, that is a conversion that's from traditional the Roth. So why would someone do a conversion? So let's look at the advantages and disadvantages. So for the advantages, the earnings are going to grow tax-free, and if let's say the market is down and you make, let's say your portfolio is normally $100,000, and just what recently happened a few weeks ago, the market dropped close to 37%, so a person who let's say, had $100,000 investment in a traditional and then converts it into a Roth at the time the market was down, let's say it dropped to about 65,000, and then just days later recovered to let's say 80,000, so when you do a conversion and you happen to have timed it right, then you would have paid taxes on only the 65,000, rather than the 100,000 had you converted at the peak of the market. Now a person may also choose to do a Roth conversion because they might happen to be in a lower tax bracket, and so would pay a lower tax rate. There are no required minimum distributions on a Roth IRA or a Roth 401k. which is, they're advantageous for investors that already have a lot of after-tax money so that they don't have to take a distribution when they don't need to yet. For the reason why you would not want to do a conversion is because it does cost money to convert from the traditional to the Roth form. For example, if you converted, say $10,000 from a traditional IRA and you're in the 22% tax bracket, then that will generate a $2,200 federal income tax for that year. If you happen to be in a lower tax bracket during your working years and you anticipate you are going to be in the higher tax bracket, you may want to go ahead and actually make the contributions into a Roth IRA so that it would basically grow tax-free. I mean, actually that's the advantage of. But basically if you happen to be making contributions to a Roth IRA because you're in the lower tax bracket, then even if in your later years where you're gaining more experience and you're getting paid more, then your chances of being in a higher tax bracket is higher, so you would want to do the Roth IRA in the earlier years. The traditional IRA does require a minimum distribution. Luckily for the year 2020, it has been increased from the age of 70 and a half to the age of 72.

- [Mike] Great, thank you Tess. So what we're gonna do is show you one more slide that kinda gets back to our timeline. This is more just to say what we've just covered is what we feel are our... We wanted to put top of mind just some of the most fundamental and important aspects of investing, which is budgeting and trying to invest in a consistent way with dollar cost averaging, identifying your goals, making sure to fund your emergency savings, understanding how asset classes perform, and then how taxes might influence your decision as to whether you wanna go traditional or Roth. Those are very important in the first half of your career. Making sure that you're compounding and getting the returns that you seek. Again, when you are investing in the beginning of your career, it's a long journey. So you have decades to go. So you want your returns to be as high as they can taking of course your risk tolerance into account. Then we spoke again to inflation and we've mentioned multiple times dollar cost averaging. So that's what we covered today. And then next week just to kinda advertise as to what we'll go into, is we'll dive a bit deeper into some other asset allocation topics. Talking more about sources of in retirement and then how your mentality and what you actually invest in might change when you're trying to get income in those retirement years versus just growth. So with that, let's kinda put a wrap up by talking about our action plan. We hope that you are enjoying these weekly webinars. Again, if this is your first, welcome, but many of you have hopefully attended in the past and you will be driving what next week's webinar is all about by the questions or the comments that you put into your survey when you provide it. And as well the questions that you can provide us when you register. So we hope you attend our weekly webinars. We hope you create a wellness plan. All of you have a lot of wonderful benefits through your employee assistance programs. So we hope you take

advantage of those and we hope one of those things you do is you schedule an appointment with a money coach to talk about any of the things that we've discussed today plus any other topics that you want to speak to. I wanna quickly say, let me just get through a couple more then we are gonna get to the Q&A section. But I wanna remind you that for many of you, this webinar is open to any employee that has an MSA benefit. What we recommend is you either go through your EAP to make that appointment with the money coach or go through your HR department, your employer, your internet site, however it's been set up within your organization in order to speak with the money coach and continue the conversations, the thought processes we've covered today. In terms of upcoming events, again, there'll be two webinars. Every week we have a 9:00 AM which focuses more on budgeting and when income is uncertain, and then this 12 o'clock Pacific Time webinar is more around investment strategies and focusing on education around what are the different things to consider, especially when the markets are volatile like they have been. Just another reminder, you're gonna get a recording. You'll get an email, you'll have access to a recording. I wanna also emphasize that if you go to mysecureadvantage.com, at the top, there's a banner called COVID-19. If you click on that, you can get access to recordings from previous webinars. The handouts that we've provided are embedded within those. We have other handouts and articles available there. We also have a frequently asked question document that starting last week we're gonna be providing. So many of the questions we're not able to get to we'll put them into that FAQ document so you can go in and access that as well. So with that, I think it's... One more thing, just don't forget to fill out the survey when you log out today. So with that, let's jump to the questions and answers and we're gonna start with Tess. So Tess, why don't you take us away.

- [Tess] All right, we have a live question here, can you make contributions to a company 401k Roth IRA after you hit the pre-tax limit or do all the contributions have to be on a post-tax basis? So, the limit is 19,500 for 2020 that you can make contributions to a 401k in general, whether it's the traditional or the Roth. You can make a combination of the traditional or Roth and you can do them simultaneously. So you do not have to do all the contributions with post-tax money. On to you, Constance.

- [Constance] Yeah, thanks. So we have a question here, if we have multiple investment accounts, do we consider our portfolio balance across the accounts or per each individual account? So good question because you can have different goals and different timeframes for your investment accounts. So that's the key thing to keep into focus is how soon do you need the money. And so for short term accounts, you do a risk tolerance questionnaire for those with the timeframe in mind. Let's say it's three to five years, maybe you're saving money for a down payment on a home or maybe you have a 10-year-old who is gonna be going to college at 18, so you have an eight-year timeframe, when you do a risk tolerance questionnaire for that account, then keep that timeframe in mind because that will directly correlate to the volatility and the risk tolerance that you wanna have, taking into consideration your own comfort level and also as well as the timeframe. Mike.

- [Mike] Thanks Constance. So this question is from Brad. It's how do I open a traditional IRA if not through my employer? So I just wanna make sure we're clear, so we are speaking about two different things. So when you have access through your employer to a 401k, a TDSP, a 403B, 457, those typically will provide you, not always, but typically will provide you with the two options of you can set up your account as traditional, so it'll be pre-tax money that funds that account. So you'll get a tax break as Tess was saying when you first put that money in, it lowers how much money with every paycheck. And then when you set it up as a Roth, that'll be with post-tax money. So you can do that within oftentimes your employer-sponsored plan. But you can also go outside of that plan and just go to a brokerage house, go to a mutual fund complex, it could be a Vanguard or Fidelity, it could be a Schwab, it could be any number of different platforms that you can find where you could set up either a traditional or a Roth IRA. It's also important to note that how much you can contribute to each is very different. So within your employer sponsored plans, you can typically invest up to 19,500 if you're under 50 on an annual basis and another 6,500 if you're over 50. So that's a lot of money you can put aside in either manner. You can't do quite so much when you set up a traditional IRA or a traditional Roth account. Your limit is gonna be 6,000 and then an additional 1,000 if you're over 50. And don't forget, as Tess mentioned, there are some stipulations depending upon your income as to whether you can set these up. So you need to check with probably your tax specialist on that. But again, just to be clear, if you wanna open up just a traditional IRA, you'll do that outside of your employer through any of the numerous platforms that are available to you. Tess.

- [Tess] Okay, this question is actually a nice segue to what you just said. Patrick asks, is it better to invest in a Roth or a traditional 401k? So if I take this question in on the tax point of view what I generally tell people, if you are in a low tax bracket, say 10 or 12% and you have many years to go to invest, then go with the Roth IRA or Roth 401k. In this way, all of the growth are going to be tax free. And if you happen to already be a high earner and you are hitting the 32, the 37% tax bracket, you may want to go with a traditional 401k or traditional IRA. The reason for that is because this is one of the best tools that are still left to lower our taxable income to lower our tax bill. So like Mike said, 26,000, if you're over 50 years old, I mean, that's a lot of money in tax savings. If you happen to be in the 32% tax bracket, that's $8,320. It's like the IRS or the government is investing with you. And on to Constance.

- [Constance] Thanks Tess. So Michael asked, is there an equivalent to dollar cost averaging when you withdraw money in a volatile market? So that's a great question because we normally think of dollar cost averaging as feeding money into the market systematically just like you're through your employer plan, you're contributing per paycheck and it's twice a month and it's consistent no matter what the market's doing, you're putting money in, you're buying high, you're buying at the low, you buying at the middle. So your average cost is better than if you tried to time the market and decided to put it all in one day and then unfortunately the market dropped again the next day. So then you'd have to make even more return to come back to even where you were. So that's when you're feeding money into the market. When you're taking money out, it's also good to withdraw slowly because again, you don't want to risk taking and liquidating assets or investments at their lowest point. You wanna buy low, sell high. But sometimes we don't know where that high point is until after it's happened. So you want a dollar cost to average out and so you systematically set up a plan to withdraw maybe so much a month and the assets will then be liquidated right before a withdrawal occurs or you're doing it at different times throughout the year. So I think that's a better way to do it. Mike.

- [Mike] I'm gonna jump to a question by Richard. With the new federal COVID stimulus plan says we are able to withdraw from our 401k without penalties for three years, do you recommend using to pay off a 10,000 auto loan then paying 401k back within that three-year period? So this is one of those things where I really would caution this type of an action because you're not necessarily doing it out of hardship or a real need for that money and you don't know what's gonna really happen over the next three years. So let's think of a couple of scenarios, let's say that on that 10,000 auto loan you're paying 5%, let's just say. And let's say that you take the money out and that over the next three years, the market actually averages 8%. So the money you took out if you'd left it alone would have returned a higher return than the way that you use it, which was to pay off the loan that had a 5% interest rate. So I think it could go in your favor, it could go against you as well. So again, the opposite could happen. The markets drop over those three years periods, so therefore it turns out to be maybe a good idea doing that as long as you do put the money back into the plan over three years. And we've emphasized this point multiple times, which is nobody has a crystal ball. So typically when we work with folks and they bring up, should I take a loan against my 401k? Should I take a withdrawal, a hardship, whatever it might be, we really wanna make sure to go through the pros and cons. So it takes some time to go through your finances and look at all of your options and then just lay out those options, the pros and cons of them, and then let you make a decision. So I'd say I'd first wanna know more information about do you have any other means to pay off that loan? Might you be able to get a loan in this current environment that's lower than the interest you're paying on the auto loan. So just simply refinancing turns out to be maybe a better path to go down than taking the money out of your 401k. And again, remember when you're taking that money out of your 401k, the market's gone down, so you'll be locking in those losses as you do this. There's just a lot of different considerations. So again, no wrong answer, but I'd really consider a lot of different angles before making a move such as that. So Tess.

- [Tess] Thanks Mike. There's a text question here, can the loss in a stock market be reported in my tax return? That loss depends on if your account is a retirement plan. If it is a retirement plan and it has a loss, you cannot deduct that on your tax return. However, if you have a stock loss that is outside of any retirement plan, those you can deduct up to $3,000 per year and that will show on your schedule D form. And Constance.

- [Constance] Thanks Tess. So Kerry asked, how often is it recommended to rebalance a 401k that's in a target date fund? So just to clarify, a target date is really a turnkey approach to investing. You have a professional money manager who takes into consideration the expected date of your retirement, whether it's

2030, 2040, 2050, and you pick the target date fund that closely aligns to your date of retirement, usually at age 65, but it doesn't have to be, if you retire sooner, then it could be a 2025 fund for example. So for rebalancing, you wouldn't really be expected to, 'cause you really couldn't because you have the portfolio manager who's actually doing that for you and taking away all the details and research that you might have to do if you wanted to rebalance your own. Now if you're looking at rebalancing your own portfolio you wanna keep track of what you started with. Maybe you had a 40/60 split between stocks and bonds, or you had some international and some domestic stocks in the mix, you had a certain balance going there. So you wanna maintain that balance. And rebalancing means that maybe one of those assets had a really good run like we've seen in domestic stocks. And so that part of your portfolio is now off balance. You wanted it to stay at 40% of your portfolio, for example, now it's at 45 or 50% of your portfolio. So you want to rebalance and maybe sell off a little bit of that and move the money into another part of your portfolio and your diversification strategy. So again, target dates are already there, turnkey, they do it for you. But if you have your own portfolio, you wanna check on that rebalancing periodically just to make sure you're still in alignment with the diversification that you set forth in the beginning and make sure it's still a good plan.

- [Mike] So I'm going to go to Jean who said I've placed my TSP conservatively in the past six to seven years. I've received advice from a friend to go aggressive by placing approximately 90% into the three stock option funds within the TSP. When would be a good time to move money based on current events? So couple of things here. Again, what we recommend typically when we speak to people about investing is in having an investment plan. And what I mean by an investment plan is you have a goal, you have a timeframe, you understand your risk tolerance, and then you build a portfolio that will hopefully help you reach the amount of money you're trying to save by the designated timeframe. And again, you try to get the highest return possible to beat inflation. But you also have to take into account your risk tolerance. You wanna be able to sleep at night. So what I'd say, Jean is that you've slept pretty well these last couple months as you've been very conservatively invested in the TSP and you probably have seen a positive return in your investments. So therefore you could look at it as since the stock market has gone down, investing now might give you an opportunity to take advantage of it going back up and who knows what timeframe. But what I would come back to here is what is your retirement timeframe? You've been conservative the last six to seven years and if you're 30 years old, I'd say yes, you probably should be invested a lot more aggressively in the market. But if you're 50, 55 years old and you're thinking you're gonna be taking distributions not too far in the future, then I would really be hesitant to take a stance such as going into the C, the S, and the I funds, as you mentioned. Again, this is one of those decisions where I would never feel comfortable telling somebody they should do one thing or another without looking at the bigger picture, which is again, their age, the timeframe, what other types of savings do they have put aside for retirement. And therefore then, reflecting on now how might we reallocate the money within the TSP, so that again, you have as much money as you hope when reach retirement and to the degree you're gonna rely on the TSP for your distributions. So a lot of things to consider, but again, hopefully that gives you a few things to think about. And again, you can talk to a money coach if you wanna kinda do some pros and cons of few different scenarios. Tess.

- [Tess] Thank you Mike. So I have a live question from Karina, is there a salary cap for who can contribute to a Roth IRA or can you contribute to a Roth IRA regardless of how much you make? So for 2019, if your modified adjusted gross income is under 122,000, you can contribute the 6,000 to a Roth IRA. If it is between 122,000 and 137,000, then you can still contribute, but it will be prorated. And then if it is above 137,000, you cannot do a Roth IRA. Keep in mind also married filing jointly, they have also the cap of 193 to 203,000. For married filing separately, unfortunately, you cannot do a Roth IRA contribution. So, on to you Mike.

- [Mike] I'm going to... Well, we cut off Constance. I'll go back to Constance. Constance, I'll let you go.

- [Constance] That's okay, no worries. So Christine asked, once you have three months of savings, where should they be stored? Savings account seem inadequate if you don't touch them for years. I hear what you're saying Christine, it's very frustrating. Again, I talk to people every day. I talked to someone, I think that has a really a frustration level with current money market rates. So the thing to do is to just realize that you don't wanna put a lot of money that is for an emergency. You don't wanna put really any money that you need as a backup savings. And what better example than the time we're living through right now, that there are times when we need to tap into savings and particularly if the issue is with the market. So imagine

someone who had put their savings in the market and now the market is down and they wanna use some of those savings. They don't have as much money as they originally had maybe back in December of 2019. So you can see what can happen, the worst case scenario. So you just kinda have to take it for what it is. The savings rates are not great on liquid savings, but like I said, tap into the CD ladder or maybe individual bonds. And if you have questions about that, certainly contact a money coach, I'd be glad to help you as well. And we can help you set up a plan that may be can get you a incrementally better rate, but still maintain that liquidity because it's so important, especially in times like these. Hey Mike.

- [Mike] Well, I'm just gonna have to lean towards somebody else named Michael. Michael asked would good rebalancing timing be number one, COVID cases peak? Number two, S and P earnings' impact becomes known and bottoms out? Number three, earnings start going back up? So again, this is something we've emphasized a few times. We don't have crystal balls. So even though I'm gonna go one of these at a time, so COVID cases peak, they may peak, but again, you don't know that when we kind of get out of shelter in place and start operating more as a normal economy, whether there'll be a second wave or a third wave, none of that is really known at this point. So kinda what the future holds and how COVID will impact our consumption patterns as well as how it will therefore impact the markets and how the markets predict the future or find comfort in the future, that's unknown. So even though COVID cases might peak in the short term here, you don't know whether that's gonna hold and whether kind of the worst of it is over in terms of how that impacts our economy. So I'd say you can't use that as a key criteria. And I'd say, S and P earnings impact becomes known bottoms out. What many of us are recognizing, and you'll start to see this more as a lot of companies report their earnings, is that they're not gonna look so good. Now again, this last quarter, they were able to get good two. So January, February, maybe even beginning of March looked pretty good. So there'll be a lot of companies that don't have that bad of earnings because most of the quarter was positive. But when you look at the second quarter earnings, it could really have an impact. So you don't really know what the S and P earnings are gonna look like in the second and the third and the fourth quarter 'cause it just depends how quickly our consumption patterns either return to normal or if not normal, and they change, what those changes really result in, in terms of industry, by industry, company, by company. So still in my book, way too much to try to predict in terms of the future. I think a good time to rebalance is when you look at your longterm investing plan, you look at your risk tolerance and you find you're not quite in those categories, be it the types of stock funds you're in or the bond funds that you're in. If you feel like you need to do some slight rebalancing because of your longterm plan, then by all means, I think it's a good time to do that. But I wouldn't be doing rebalancing based on trying to predict some of the factors that you outlined here. Tess.

- [Tess] I wanted to just add a bit of what I answered earlier for Karina. Those limits that I read to you are for 2019 tax year. But keep in mind because April 15th has been extended to July 15th, people can still make contributions on their Roth or their retirement plans till July 15th and still count for the 2019 contributions. And then for the 2020, the income limit did go up by just a couple of thousand dollars for each of the tax filing status. So I'd like to go ahead and answer Allan's live question, considered taking part of existing 401k funds and switching to Roth within the 401k, but wondering if we should wait till funds rebound or only use new funds for these. Keep in mind that you would generate a tax bill for yourself. And so it depends on what tax bracket you're in, that's my first consideration. You do have to pay federal and state taxes on that. And also when you're making this switch, you want to make sure that it doesn't also push you to the next tax bracket. Constance.

- [Constance] Thanks Tess. Emily asks, for entry level investors, is it worth the extra cost of going with a full service platform where you have an advisor and they're doing most of it and researching and all of those extra services that you'd be paying for but you wouldn't have to worry about yourself. She says, statistically, do people make more money on DIY platforms or in full service? Well, that remains to be seen. I don't know if you can really statistically say that at this point. I think you gotta consider the cost of the platform and the investing services that you're using and then add that into the return. So your net return would be what you made on those investments minus the cost of doing that particular platform. You kind of have to in a way do your own research at this point, I think. But I think you also need to look at if you're entry level, it may be cost effective for you to have someone, at least maybe the first year and ask that person all the questions that you have. And when you choose an advisor, make sure they have the heart of a teacher. They're willing to listen and answer your question. You will have a gold mine at your disposal and you'll be able to then learn more information and then move over to more of a DIY or less of an advisor-led platform and save

money. But I think it's worth... It's almost an education and you're paying for that education by paying the advisor. But make sure the advisor is the type of person who's willing to answer your questions. That's the way you're gonna get the most for your money and paying for those services. And just to consider, sometimes people wonder what's the difference between a money coach and a financial advisor? Well, we work hand in hand with advisors. We support what they do and we help you make the path to the advisor. We don't recommend any particular investment advisor service, but we can help you identify what platform would work for you based on your interest and motivation in researching investments. Also we help educate you as to the fees that you could expect, the questions to ask the advisor and then we help you feel less intimidated when you do talk to the advisor to make sure that they're a good fit as far as their personality as well as their background. Mike.

- [Mike] So we're gonna wrap up here shortly, but I'll go with this one last one by Darnisha in terms of by the time that I'm eligible for retirement, I'm concerned that social security will no longer exist. What are other ways that I can prepare for a healthy financial life by after 65? First thing I'd say is, I think social security will absolutely exist. The question is, will it be funded to such a degree that it can provide the support that maybe you are anticipating today? The average distribution from social security today is about $1,400 a month. So you can go to the social security website, ssa.gov, and they have some really great tools in terms of regulators and other things to anticipate what your distribution might be when you reach social security age. It can really vary because you can start taking distributions after 62 and you can delay all the way up until 70, before you start taking those distributions. And the longer you delay, the higher contributions will be. So there's a number of considerations when it comes to social security, but I think it's actually probably not a bad idea to try to come up with a plan that means that you rely less and less on social security, regardless of what it is when you reach retirement age. And contributing to your employer sponsored retirement plans, being as aggressive as you can, take advantage of any matching, really be aware of what your returns are, try to get the highest returns in all the years that you're in the accumulation stage of investing for retirement. That's really the best way to do it. So we'll maybe cover that some more in the future. So what I'd like to just say now is make sure to, in terms of getting started, talk to your EAP or your employer and we'll look forward to seeing you next week. I just wanna thank everyone for attending today.