ULTIMATE 401(k) GUIDE

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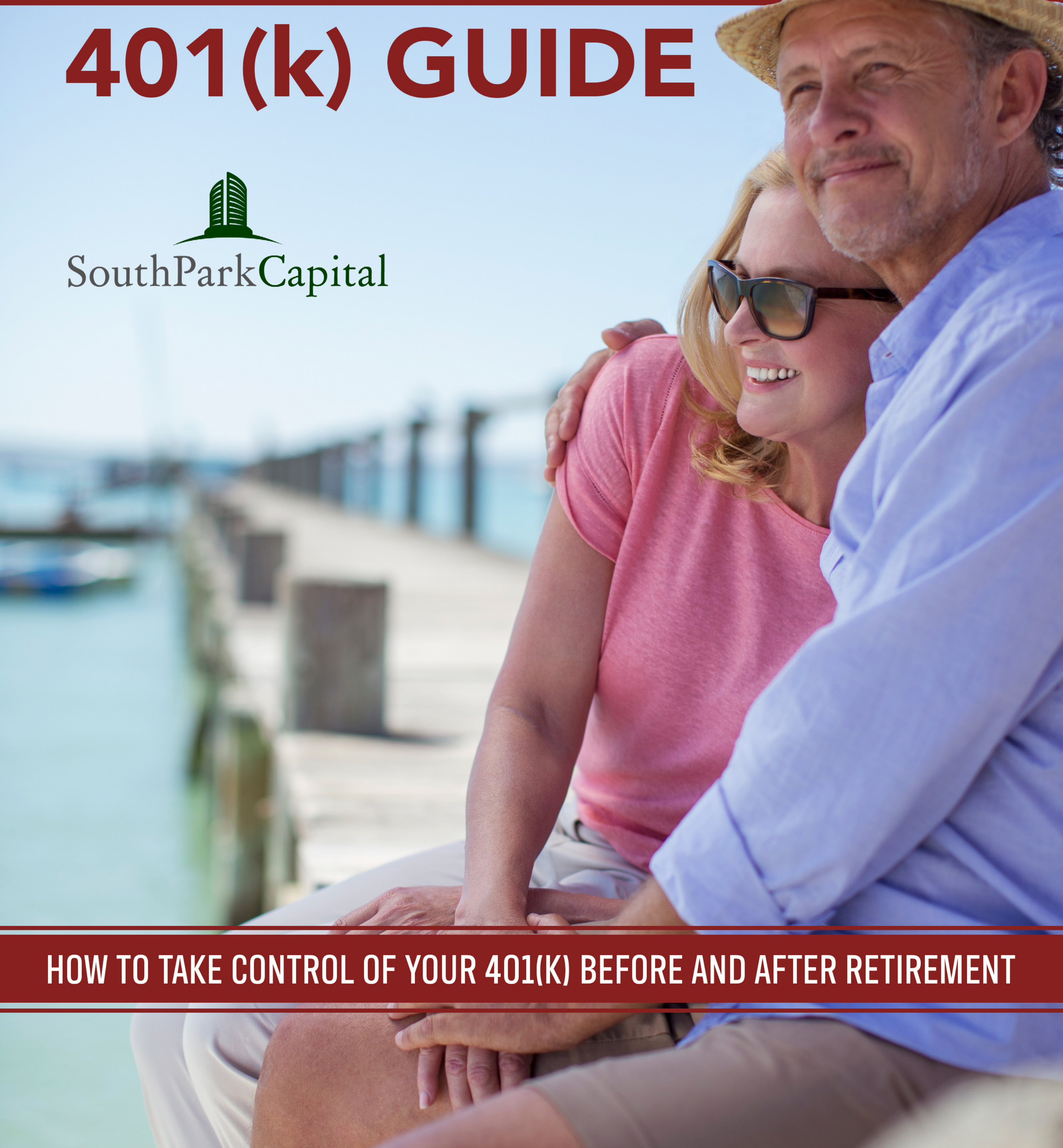


HOW TO TAKE CONTROL OF YOUR 401(K) BEFORE AND AFTER RETIREMENT

We all know that a 401(k) is one of the most important retirement planning tools we have. You pay into it for decades and will likely need to rely on it, among other income sources, for decades in retirement. The potential tax benefits and power of compound returns can make it a great saving and investment tool for anyone who practices financial discipline and contributes regularly. There are several important things to know about your 401(k), such as how much you can contribute, options for your 401(k) when you leave your job, and how much you are paying in 401(k) fees.

THIS GUIDE WILL COVER:

1. OPTIONS FOR YOUR 401(k)
2. WHAT TO DO WITH COMPANY STOCK
3. HOW TO CONTRIBUTE MORE TO YOUR 401(k)
4. THE SECURE ACT 2.0'S 401(k) CHANGES
5. WAYS TO MINIMIZE YOUR TAXES

IF YOU LEAVE A JOB FOR ANY REASON, YOU HAVE A FEW OPTIONS FOR YOUR OLD 401(k):

Cash out: You can cash out all or part of your old 401(k), in which case the funds will be taxed as ordinary income.

Rollover into a new 401(k): If you start another job, your old 401(k) can often be rolled over into your new workplace retirement plan without paying tax on funds rolled directly into your new 401(k).[1]

Continue with the old 401(k): In many cases, you can leave your money in the 401(k) at your old workplace. However, having multiple retirement accounts can complicate your finances. And your retirement fund will still be at your ex-company. If your 401(k) account balance is less than $5,000, you may be required to move the money into a different account.

Rollover into an IRA: If you roll over funds directly into an IRA, you will not owe tax on them. IRAs typically offer many more investment options than workplace 401(k) plans, giving you more flexibility to pursue an investment strategy that suits you specifically.[2]

[1] https://www.irs.gov/retirement-plans/plan-participant-employee/401k-resource-guide-plan-participants-general-distribution-rules
[2] https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-termination-of-employment

WHAT TO CONSIDER:

HOW MUCH OF YOUR RETIREMENT SAVINGS ARE INVESTED IN COMPANY STOCK?

If you plan to roll over your 401(k) into an IRA, first consider how much money you have invested in your previous company's stock. Would you have invested in the company if you didn't work there? If not, then why keep it now? If you do wish to keep it, consider that company stock that has increased in value can be taxed as investment gains at your current tax rate. So how do you sell your company stock without increasing your tax burden?

Using a tax strategy called Net Unrealized Appreciation (NUA), you can move the company stock into a taxable account to potentially lower your tax bill. Distribution of an employer's stock qualifies for this special tax treatment where tax is limited to the cost basis of the stock, not the full market value of the stock. You can then defer income taxes on the NUA until you sell the stock. You may also be able to minimize your tax burden by taking advantage of the long-term capital gains tax rates and getting a step-up in basis when you eventually sell or pass on your company stock.

Keep in mind that if NUA rules aren't met, there could be negative consequences. To start, the entire lump sum must be distributed in one calendar year. You must transfer shares, not cash, and it must be done after a triggering event such as death, disability, separation from service, or after age 59 ½. It can pose potential problems for retirees who are still in a high tax bracket, as it could potentially increase their tax burden in the year they distribute stock.

What is Net Unrealized Appreciation? (NUA)

NUA is the difference in value between the average cost basis (what you paid for stock shares) and the market value when the stock is distributed.[3] So, if the cost basis of stock was $20,000, and the value when it was distributed is $60,000, then the net unrealized appreciated is $40,000.

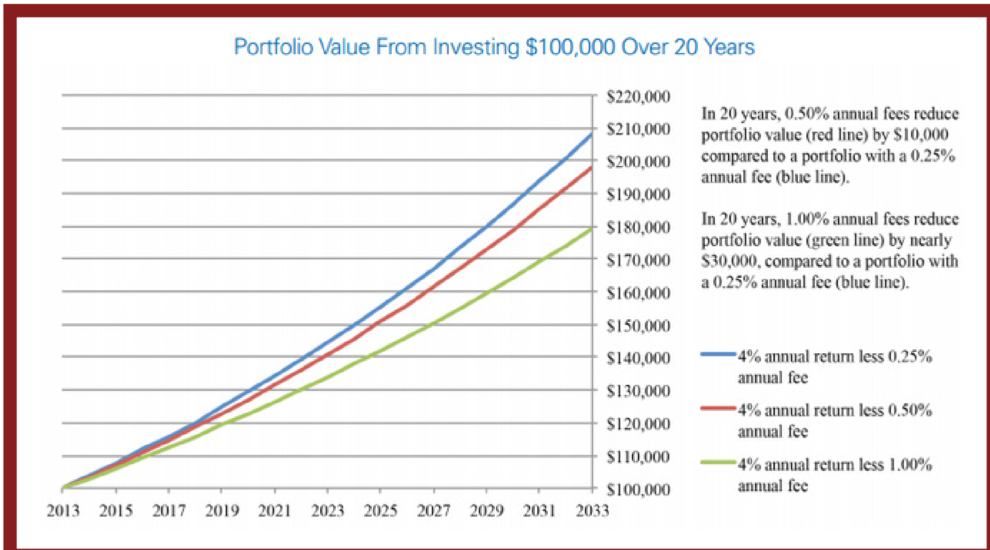
[3] https://www.investopedia.com/terms/n/netunrealizedappreciation.asp

ARE YOU 55 OR OLDER?

In most cases, you must wait until age 59 ½ to withdraw from a qualified retirement plan to avoid the 10% early distribution penalty. However, if you leave your job for any reason during or after the year you turn age 55, you can withdraw from your current 401(k) without penalty.[4] Keep in mind that this rule applies only to the 401(k) sponsored by the employer you leave when you're 55 or older, not 401(k)s from previous employers. There are specific requirements pertaining to taking distributions when you turn 55, which if not followed will result in penalties. These kinds of withdrawals should be discussed with your tax professional prior to taking a distribution.

ARE YOU AWARE OF HOW MUCH YOU'RE PAYING IN 401(k) FEES?

How much of your money goes towards fees? 95% of 401(k) participants pay fees, so it's likely that you do if you have a 401(k).[5] The size of fees can vary: Some people may pay under 0.5% in fees, while others may pay more than 2%. This rate depends on the size of your employer's 401(k) plan, the number of participants, and the plan provider. 1.5% might not seem like much, but over the course of your career, it can add up. Compare two 45-year-old employees with 20 years to go until they retire and $20,000 each in a 401(k). Assuming a 7% investment return, the employee paying 0.5% in 401(k) fees would have $70,500, and the employee paying 1.5% would have $58,000. That's 17% less![6] So if you have a higher income than the median, think about how much fees could be costing you.



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[4] https://www.irs.gov/taxtopics/tc558
[5] https://www.investopedia.com/articles/personal-finance/061913/hidden-fees-401ks.asp
[6] https://www.cnbc.com/2021/08/26/40percent-of-americans-dont-understand-401k-fees-federal-watchdog-finds.html
[7] https://www.marketwatch.com/story/your-401-k-fees-could-cost-you-half-a-million-dollars-in-retirement-11622034894

YOU CAN MAKE "CATCH-UP" CONTRIBUTIONS STARTING AT AGE 50

In 2023, you can contribute up to $6,500 to an IRA if you are under 50 and an additional $1,000 if you are 50 or older.[8] Those who are 50 or older and participate in a Simple IRA or Simple 401(k) plan can contribute up to $18,500 per year for 2023. The total employee contribution limit to all 401(k) and 403(b) plans for those under 50 will be going up from $20,500 in 2022 to $22,500 in 2023, a large increase that is expected to be identical for the 457(b) plan and Thrift Savings Plan. The catch-up contribution limit should increase from $6,500 to $7,500, so if you're 50+, your 401(k) employee contribution limit should be $30,000 in 2023.[9]

The SECURE Act 2.0 changed how catch-up contributions will work starting in 2025. The catch-up contribution limit will increase to the greater of $10,000 or 50% more than the regular catch-up amount if you are between the ages of 60 and 63 years old. Once instituted, the following years will index these dollar limitations to inflation. In addition, eligible workers making more than $145,000 may make catch-up contributions starting 2024. This limitation will be indexed to inflation for subsequent years.[10]

[8] https://stwserve.com/2023-tsp-contribution-limit/
[9] https://www.whitecoatinvestor.com/2022-retirement-plan-contribution-limits/
[10] https://www.kiplinger.com/retirement/bipartisan-retirement-savings-package-in-massive-budget-bill

THE SECURE ACT

Projected Income Disclosures

Part of creating a retirement plan could include figuring out how to turn a lump sum into income for the rest of your life. The SECURE Act requires retirement plan sponsors to state the estimated monthly payments that participants would receive if they used their entire account balance to buy an annuity. And, it allows employer-sponsored 401(k) plans to add annuities as an investment option. While this is helpful for getting a sense of how far your savings could stretch, it only offers a one-size-fits-all solution that may not be right for you. We can sit down with you and figure out how an annuity could fit into your specific retirement plan.

SECURE ACT 2.0 - KEY CHANGES TO THE 401(K)

Required Minimum Distributions

The age at you must take Required Minimum Distributions (RMDs) for retirement accounts including 401(k)s has been increased from 72 to 73 in 2023, and will change to 75 after 2032.

Beginning 2024, RMDs for Roth 401(k)s will be eliminated.

401(k) Student Loan Match

Starting 2024, in an effort to make retirement saving more accessible to those with student debt, employers can make matching contributions to your retirement plan indexed to your student loan payments.

401(k) Withdrawals

Starting in 2024, you can take "emergency" withdrawals penalty-free at any age up to $1,000 dollars per year to cover an foreseeable or immediate expense. However, you must repay the $1,000 dollars "within a certain time", or you won't be allowed to take additional emergency expenses for 3 years.

401(k) Lost and Found

The SECURE Act 2.0 green-lit the creation of a searchable database of all 401(k) accounts to help people locate benefits they may have lost track of. The Department of Labor is scheduled to deploy this database before 2025.

Source: https://www.kiplinger.com/retirement/bipartisan-retirement-savings-package-in-massive-budget-bill

HOW CAN YOUR 401(k) BE USED AS AN ASSET IF IT'S ROLLED OVER?

SAVE MONEY FOR RETIREMENT	CUT YOUR TAX BILL [11]
MANY INVESTMENTS TO CHOOSE FROM	AN IRA FOR ANY SITUATION

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AVOID A HIGHER TAX BURDEN

While it might be tempting to cash out of your old 401(k) in tough times, this could dramatically increase your tax burden. On the other hand, funds rolled over into an IRA are not treated as withdrawals and are not subject to income tax. You can continue to enjoy potential tax-deferred growth by rolling over funds directly into an IRA within 60 days of withdrawing from an old account.

[11] https://www.nerdwallet.com/article/investing/learn-about-ira-accounts

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GAIN ACCESS TO MORE INVESTMENT OPTIONS

IRAs tend to have a broader array of investment options and lower administrative fees than 401(k)s. With an IRA, you can invest in practically any stock, mutual fund, ETF, bond, real estate, or security. By consolidating your retirement savings into an IRA, you can gain more flexibility in your investment choices, allowing you to create a retirement plan customized to fit your unique needs. This is important because access to more types of investments could mean more options for mitigating investment risk as you near and enter retirement. If you think having control over your retirement savings is important, consider this: While most 401(k) plans limit the number of times per year you can rebalance your portfolio, an IRA allows you to buy and sell your holdings whenever you want. You can research whether there are fees associated with balancing your 401(k) and may want to seek out professional advice before rebalancing. Also keep in mind that there is a lower annual contribution limit for IRAs, and that employers cannot match IRA contributions like they can match 401(k) contributions.

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SIMPLIFY YOUR FINANCES

Rolling over your old 401(k) may help you simplify your finances. Instead of keeping track of multiple former workplace retirement accounts, you can roll over your old plan or plans into one IRA and review a single account statement. Also, keep in mind that a communication gap could arise if you keep your old 401(k) with your ex-employer. It could be harder to get in touch with a plan advisor or administrator, or harder for them to get in touch with you if your contact information changes. And in the event that your company undergoes a significant change such as filing for bankruptcy, access to your 401(k) could be temporarily frozen.

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OPTION TO CONVERT TO A ROTH IRA

You have the option to convert funds from a traditional IRA, 401(k), or similar qualified retirement account into a Roth IRA. In this case, you would pay tax on the funds converted and then be able to withdraw them tax-free later on. If you think you'll be in a lower tax bracket in the year you lost your job, you might consider a Roth conversion while your tax burden is lower.

Be mindful that unless certain criteria are met, Roth IRA owners must be 59 ½ or older and have held the Roth IRA for five years before tax-free withdrawals are permitted. Please consult a tax advisor before deciding to do a conversion because it cannot be undone.

HOW WE CAN HELP

If you are nearing or in retirement, or have recently left a job, it's crucial to have a plan for your 401(k). Whether you are starting a new job or not, know how you will take control of your 401(k), how you will work to minimize your taxes, and how you will use your savings in retirement. We can help you pursue strategies to help meet all of these goals. We're transparent about our costs and fees, and are legally, as well as morally required to act in your best interests. This means that we can go through the myriad of investment options available and help you choose ones that are best suited to your financial needs. Our commitment is to providing you with the very highest level of service and to help you achieve your retirement goals!

SouthParkCapital

CHARLOTTE OFFICE
6101 CARNEGIE BLVD, SUITE 350
CHARLOTTE, NC 28209
(704) 325-9406

DAVIDSON OFFICE
442 SOUTH MAIN, UNIT 12
DAVIDSON, NC 28036
(704) 325-9406

ATLANTA OFFICE
11675 GREAT OAKS WAY, SUITE 140
ALPHARETTA, GA 30022
(678) 256-8300

www.southparkcapital.com

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