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Don't miss John Stewart's "The Value of a Dollar" article below.

401(k) Plan Participation Trends

Contributing to a 401(k) or similar work-sponsored retirement plan is one of the easiest ways to invest for your future. Plan contributions are automatically deducted from your pay and invested in a tax-advantaged account before you receive your paycheck, which helps avoid the temptation to spend it.

Nearly 9 out of 10 employees who are eligible to participate in a 401(k) plan choose to do so, and they contribute 6.7% of their earnings, on average. Here's a look at where those contribution dollars go.

Source: Plan Sponsor Council of America, 2020 (2019 plan data)

The Value of a Dollar

The U.S. dollar effectively became the dominant currency of the world after World War II in the wake of the destruction of various European currencies leading up to and during the war. The United States supplied Allied countries with dollars to purchase armaments for the war and they were paid back in gold. The rest of the world then pegged their currencies to the dollar, which was tied to the price of gold. While the U.S. eventually did away with the gold standard in 1971, and a freely floating exchange rate system developed, the status of the dollar as the world's reserve currency remained. This has bestowed tremendous privileges on the U.S. over the course of the past 50+ years, allowing us to consume far more than we produce via capital inflows from the rest of the world – who all NEED dollars to transact international trade. Unfortunately, we may be starting to push the envelope too far in terms of taking advantage of our situation – increasing the supply of dollars (and spending them) at a rate far in excess of the rate of growth of the overall economy. This is why we're currently seeing a noticeable uptick in inflationary pressures via rising prices/costs for just about everything. Look at real estate prices for crying out loud! They weren't going up this fast during the housing bubble. If this trend continues, and/or if the rest of the world finds a way to displace the dollar as the reserve currency of the world (something China, among others, is clearly trying to do), inflation is likely to continue to be a problem, and investors should plan accordingly. That means owning a broad basket of commodities exposure, publicly traded real estate assets, and a larger allocation to international stocks – just to name a few ideas.

Time horizon is probably the most important factor is making investment decisions – that's because the nature of the volatility of one's portfolio works to an investor's advantage over the long run, but can be devastating over short-term time frames. If you're planning to make a down payment on a home in the next year, that money should be invested extremely conservatively – most likely in cash or money market funds. If you're 100% invested in the stock market and your need for funds coincides with a big market decline – think March of last year when the market dropped more than 30% in roughly one month – you could be faced with being forced to sell at an inopportune time, locking in substantial losses with no ability to recover when the market rebounds. Alternatively, if you're planning for retirement 20 years from now, you should worry very little about market volatility. In fact, you might welcome it as an opportunity to add to your investments when markets go on sale. Over longer periods of time, the higher rates of return offered by more volatile investments will help you beat inflation and reach your financial goals while playing it too conservatively could result in the erosion of purchasing power of your savings over time. Segmenting your financial picture into buckets based on time horizon will help you choose appropriate investment vehicles to meet your needs while ensuring you stick to your plan when markets get bumpy.

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.

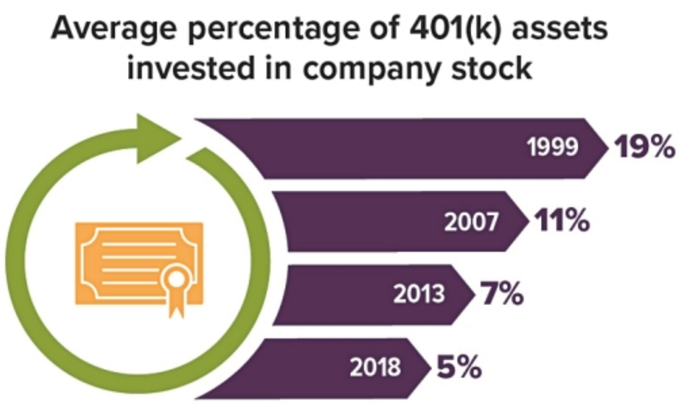
Concentrate on Diversification

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.

Company Stock Ownership Has Fallen



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

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.

A Map for Your Family

A will is an essential legal document that describes how your estate should be distributed upon your death. It is the basis for the probate process and can serve as a guide for your heirs.

A letter of instruction — which has no legal status — provides information that can help your loved ones settle your estate and move forward with their lives. You might consider it a map for your family.

Unlike a will, which must follow legal guidelines for your state and may require an attorney, a letter of instruction can be written yourself in any way you choose. Here are some topics you may want to address.

Financial accounts and account numbers, including online user names and passwords. If you prefer not to write down user names or passwords, the executor of your estate should be able to access accounts with the account numbers and your Social Security number.

List of documents and their locations, including (but not limited to) your will, insurance policies, tax returns, bank and investment account documents, real estate deeds and mortgage documents, vehicle titles, Social Security and Medicare cards, marriage and/or divorce papers, and birth certificate.

Contact information for professionals who handle your financial and legal affairs, such as your attorney, financial advisor, insurance agent, and accountant. Also include others who may be helpful, such as a business partner or trusted friend.

Bills and creditors, including when payments are due and other pertinent information, such as loan terms and balances as of the date of the letter.

A letter of instruction could be just as important as a will to help your heirs settle your estate and move forward with their lives.

Your final wishes for burial or cremation, a funeral or memorial service, organ donation, and charitable contributions in your memory.

You might also include more personal thoughts or life lessons that you want to pass on, or you could write a separate letter. Keep your letter of instruction in a safe, yet accessible place and tell your loved ones where it can be found. It might be wise to give a copy of the letter to the executor of your estate and other trusted friends or advisers.

Be sure to review the letter regularly and update it as appropriate. Your heirs will thank you for taking the time to prepare.

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