Please note: This is a transcription so there may be slight grammatical errors.

Welcome to today's webinar, which is being presented by CAPTRUST, the independent financial advisory firm that works on your employer-sponsored retirement plan. I would now like to introduce Deborah Gates, Manager Advice and Wellness.

- Why thank you so much, Trudy, for that introduction. Again, I just want to echo her sentiment in thanking you for joining us for this presentation today. This is intended for educational purposes only. Please be reminded that your individual needs and financial goals are as unique as you are. So please feel free to reach out to CAPTRUST at captrustadvice.com to schedule an appointment to discuss your personal needs, or call us directly at 1-800-967-9948. And remember, CAPTRUST does not offer any legal, tax, or accounting advice, but we are here to help you with your investment options. So without any further ado, I would like to welcome, before we jump and dive into this presentation, I do want to introduce Tyler. Tyler is my friend and my colleague and he is with this discussion today. He is my subject matter expert. So welcome to Ask CAPTRUST, Tyler, thank you for joining me.

- Absolutely. Thank you so much for having me. It's a pleasure to be here.

- Thank you. We received a lot of questions for this presentation, and this presentation is about ways to save for your retirement and on your financial wellness journey. And so when we sent out the invitation, on the registration, there were several questions that came in, and so we're gonna take the time to answer those questions that came in through the registration, because this is one of our shorter presentations, for 30 minutes. And so we're gonna go through a few slides and answer these questions. Some of the questions that came through, some of them were about Roth conversions, some of them were more personal in nature, as to whether or not I should put money in to a Roth, or should I put traditional. So some of those questions, they're more specific to you, so we would strongly encourage you to reach out to the Advice Desk for those more personal questions. We're going to go high level in answering questions today and looking at the various options that you have through your employer-sponsored plan, such as your 401K plan, or if you have a 403B plan. And we'll talk about HSA. So what I want you to do, Tyler, is just first of all, can you just tell the differentiation between these three different ways that participants can save for their retirement and how they can make those contributions?

- Yeah, absolutely. Happy to get started there. So most everyone in this webinar right now should be familiar with either the letters 401K or the letters 403B because they serve very similar purposes for two separate sort of categories of employee. Your 401K is the sort of traditional, defined contribution retirement plan for most private businesses, for-profit companies, that sort of thing. And then a 403B is the equivalent that you might encounter in state or university positions, or other not-for-profit industries. Both of these plans work very similarly. You are putting money out of your paycheck, out of your pay, you're deferring that money into an investment account, where that money is able to accrue, depending on how you choose to invest it. And then that money is what you will later take out from your retirement plan in retirement to help fund your retirement costs. An HSA is a more recent addition to the employer-sponsored sort of landscape. If you are in a high-deductible health plan, your employer may choose to offer a health savings account, which is an account where you are able to defer some portion of your paycheck into an account, where it will be deferred before paying taxes on it, so it defers in a pre-tax status. However, provided that you spend those dollars on approved medical costs, you do not owe taxes on those distributions. And in between you may have the opportunity to invest those monies as well. So this is quickly becoming another sort of piece in the arsenal for employer-sponsored plans to give their employees additional ways to save.

- Absolutely, and so let's talk a little bit about, we're looking at these options, whether that can happen pre-tax, can that happen after tax, when you're looking at your employer-sponsored plan? Can we talk a little bit about that? Because we hear terms like, you know, you have your traditional 401K or 403B plan, and then you have the Roth 401K and the 403B plan. And sometimes participants get a little confused about that and what that actually means and how that would affect them.

- Yeah, absolutely. I think that's a great question. Before I jump into the differences, I will say everyone's retirement plan is a little bit different, right? And so not every plan may offer all of the options that we mention today. If you're unsure about whether or not your plan may have one of these provisions to it, you're always more than welcome to reach out to us at the desk, or to review your plan documents, and that should be able to elucidate that a little bit further for you. However, these days, 401Ks and 403Bs tend to offer two different types of contributions or deferral options. The first, the more traditional option that these retirement plans offer, is what we often call a pre-tax deferral. That's where any money that you elect to save in your retirement plan is coming out of your paycheck prior to any sort of income taxes or other applicable taxes being withheld. So that money is then moved over into your retirement plan, your 401K or your 403B is applicable, where it is then invested and continues to sort of grow, or not, as the case may be, depending on the year, depending on your investment elections. And then in retirement, once you choose to pull that money out, you're going to be paying income taxes, as applicable, for the year in which you withdraw those assets, on both the initial contribution you made as well as any earnings that you will have hopefully accrued through your investing in the intervening years. The alternative option, an option that's gaining a lot of popularity, especially for people who are in lower tax brackets, or for those who are younger, is what's called a Roth contribution. Where a traditional contribution allows you to defer prior to taxes being withheld, with a Roth contribution, that money comes out after all applicable taxes have been assessed and then that money is, in the same manner, invested in your retirement plan. The big difference is that, as long as that money stays in your retirement plan for at least five years from the date of the initial contribution, and provided that you don't pull the money out before you're age 59 1/2 or older, so as long as you're in retirement age, you won't owe any further taxes on the earnings either. You have to think if you have 10, 15, 20 years of potential investment returns to accrue in your investment account, that could be a substantial chunk of change that you're able to withdraw in retirement without owing any income taxes on those earnings, because you've already paid the taxes on the principal. I say it's popular with younger people and with people in lower tax brackets, that's a generalization. We're always happy to discuss the possibility of Roth contributions for anyone, regardless of age or income. However, it almost always makes sense if you are already in a low tax bracket, or if you have quite a long time for those interest dividends to potentially accrue.

- So Tyler, so what are the limits? So if you decide to do traditional, if you do Roth, can you do a combination of the two? What are the limits? How do the limits affect whether or not you do pre-tax or after tax when you're looking at your plan?

- Absolutely. Yeah, I think that's a great question. Before I kind of jump into the limits, I will say, I'm gonna go through a lot of numbers. If you miss any of them, or you don't manage to write some of them down, all of this information can also be found online on our website, captrustadvice.com. If you go to our Resource tab, we have a document sticky to the top of that page that has the 2023 retirement plan limits. However, for those of us who participate in a 401K or a 403B, in general, you should be able to contribute $22,500. That bucket of $22,500 is able to be split in any way you would prefer, between both pre-tax and Roth assets. So you could do half and half, you could do all of one or all of the other, or any admixture in between those kind of goalposts. If you are 50 or older, you also have access to something called catch-up contributions, which would allow you to save an additional $7,500, for a grand total of $30,000 this year. And in the same manner, you can save any combination, or any mixture of pre-tax and Roth assets, but that limit counts towards all dollars that you're contributing between the pre-tax and the Roth limits.

- Okay, so, you know, we have received a lot of questions which is best. Should I do Roth, should I do traditional? And that really is a conversation that you could call our Advice Desk to help you with that. We do have a couple of calculators out on captrustadvice.com where you can go in and do, you can look at the calculator, and determine what's going into Roth, what's going to the traditional, and see how that works for you as well. So you can work with that. That calculator is out there to work independently. But yes, please don't hesitate to reach out to our Advice Desk for some of those more personal questions that you have. So Tyler, sometimes people get a little mixed up with Roth, and looking at Roth with their employer-sponsored plan, and looking at individual retirement accounts with Roth. So can you kind of talk about, can we kind of dig into, because I'm seeing that we're running, starting to press up against time, can we kind of talk about and switch reels, and let's look at individual retirement accounts, where we see those, we hear those same terms of traditional, and we hear that term of Roth. So can we kind of tell the differentiation between employer-sponsored plan, individual retirement accounts. Can you have them both? So can you kind of talk about that a little bit?

- Yeah, absolutely. This is a really common question because, luckily for many people who are trying to save independently for themselves, IRAs have had a Roth option for quite longer than many of us have had a Roth option in our 401k or in our 403B, so there's been a little bit more time for some tribal knowledge to accrue in various areas. One big thing right off the top that I want to emphasize is that, in general, the rules that apply to retirement plans that are sponsored by your employer, your 401K, your 403B, your 457, those rules are separate from and distinct from the rules that govern your IRAs. I mentioned earlier that for a retirement plan, you'd have a limit of $22,500. That's just for retirement plans. Fully separate from that, in your IRA, you have a limit this year of $6,500 that you can contribute to either a traditional or to a Roth account. And if you are, again, of an age for catch-up contributions, you could put in an additional thousand dollars for $7,500. There's a big difference with IRAs, individual retirement accounts, as opposed to employer-sponsored plans. And that is that your employer-sponsored plans, your 401K, your 403B, et cetera, they're eligible for all employees, pretty much regardless of income. However, your IRAs all have limits that are indexed against particular levels of personal income. So for instance, if you are wanting to contribute additional money into a Roth IRA, you may already be aware of this, or you may have heard it through the grapevine, that you can only contribute Roth money if you are a single person, making less than $153,000 this year, you can only contribute Roth money if you're a married person who's making less combined income than $228,000 this year. That is true for a Roth IRA. However, that does not count towards the Roth 401K or 403B. Those do not have that income limit. However, in your individual retirement accounts, in your IRAs, while you have the same types of contribution options, your traditional contribution and your Roth contribution options, and they work in the same way I've already described, there are income limits. For traditional IRAs, if you're trying to just lower your taxable income in this year, that cutoff actually happens even lower. You can only really get the credit for a traditional IRA contribution if you're a single person making less than $83,000 in 2023, or a married person who's combined income is less than $136,000. So there are some differences there. If you have further questions about that, obviously, we're always happy to explain that more in depth. But that's the core of the difference there. The other big difference to be aware of is that, kind of similarly to how we talked about the $22,500 bucket, split between pre-tax and Roth assets in your retirement plan, in your individual retirement account, in your IRA or your IRA, that $6,500 limit that I mentioned is also likewise split. You can only put that 6,500 as your upper limit for what you would be able to put into any type of an IRA in this year.

- So those limits that are in the IRA that you're putting in, does that affect any, does that have anything to do with what you're putting in your employer-sponsored plan?

- Absolutely nothing at all. They have no correlation. You may have not been able to contribute on a Roth basis for years in an IRA, but you are still more than welcome to contribute on a Roth basis into your retirement plan, if that's your choice, if that's what you decide to do. And in the same way, the contributions that you make into a Roth IRA versus into a Roth 401K, they do not implicate one another. They have no effect on each other. If you wanted to this year, and you're, say 40 years old, and a single person who's making $100,000 a year, you could put $22,500 of Roth money into your 401K and an additional $6,500 of Roth money into your IRA. Those two limits won't interact with one another.

- Wonderful. Good to know. Another question that we did get, and we've got quite a few questions about that, is if I'm maxing out on my employer-sponsored plan, I'm putting money into my HSA, what else can I do? What can I do outside of that?

- Absolutely, I, first of all, I recommend having a party, 'cause you're in a good position. But obviously there are other ways to save, above and beyond what you're saving in your retirement plans. The bad news, I suppose, is that you don't have the same sorts of tax-advantaged options once you've maxed out these retirement plans that you did before. So some of the most popular ways to save for retirement, above and beyond what you're saving in your retirement plans, are listed here. We have traditional cash savings. Many of you may be aware that if you are in a high-yield savings account, a savings account right now could easily have a rate of 3% plus APY, which is really compelling in this environment. Likewise, we're seeing the best rates since basically the '80s for certificates of deposit where you can give some amount of your money to a bank or to some other vendor in, it's locking it up for a certain amount of time, but in exchange you get an even better guaranteed rate of return. So between high-yield savings accounts and then also CDs, and what we call CD ladders, where you buy several different lengths of time worth of CDs in order to sort of space out your liquidity, in addition to those two options, we also have the brokerage account, what we would call kind of a traditional investment account. So outside of your 401K, your 403B, your IRA, you can also just individually invest as a single person on the market. Whether that be buying additional mutual funds, buying stocks, ETFs, any combination of various securities, you can do all of that within a brokerage account, an investment account. Obviously there are different tax consequences to investing in a brokerage account versus a retirement account. You'd have to consider capital gains taxes in particular. However, it's a very common avenue for people to save, above and beyond the limits that they have in their traditional savings accounts, as long as you're comfortable with sort of the tax ramifications, et cetera.

- And when you're doing these additional things, once again, that does not affect what you're putting into your employer-sponsored plan, or what you're putting into your IRA.

- Absolutely not.

- In addition, I wanna, I kinda wanna leave, there was a question, a few questions that we received for, let's look at our young generation, the generation just coming into the workforce. How should they start? What should they do? How should they navigate? Let's say, let's look at a couple of different scenarios. One where there's no savings at all, what would you suggest? And then the second, with someone just starting out to save, what should they look for? What should they consider?

- Yeah, absolutely. So obviously this is a big subject, something we get a lot of conversation about at the desk. It's a scary time to be a first-time saver, to be just entering into the workforce with the current state of the economy that we're in. The good news is that for someone who is just starting out on their career trajectory, you have so much time before potential retirement that a temporary downturn in the market is ultimately not your concern yet. You're just getting started. You have so much time to make up for any sort of temporary downturns, right? The number one thing that I see with young savers who are just getting started is that they really downplay the importance of an emergency savings fund. So obviously, if your 401K or your 403B has a match, say you have to put in 5%, or if you put in 5%, you receive a match of 5% from your employer, you don't wanna leave that money on the table. I'd encourage you to start there first with trying to get your match, if at all possible. But just as important as getting your match from your employer is making sure that you're starting to set up some sort of an emergency savings fund. For someone who's young and maybe doesn't have as many vectors for risk, I might just recommend getting started low, maybe $1,000 in an emergency savings fund that'll help remove your dependence on things like credit cards or payday loans if you were to get into an accident or some sort of emergency where you needed money quickly. But then, typically, we're really shooting for, for most people, I'd normally recommend between three and six months of expenses in your emergency savings account is your ultimate goal. If you are older, if you have children, if you have more debts or more obligations that could affect you in case of emergency, we're even extending that out. I'd say six months to a year of expenses is not unheard of these days. And again, the good news is that we're getting better rates on our savings. So it's not as crazy to suggest that as some people might have accused me of being, even a year ago. But it's a very common issue, that people just want to barge right into maxing out a retirement plan and think of that as their savings account, and not build up emergency savings outside of that. It is vitally important for all of us that we have that safety net that an emergency savings account can provide. So if you're in a situation where you're kind of strapped for cash, and you need to really prioritize where you're saving, I've even suggested to some people that maybe, in order to start building up your emergency savings account, if you have to drop your contributions a little bit below what your match rate is, just to get that initial savings up, that's understandable. I don't want to see that happen. I would rather just see if we could cut prices somewhere else. But I just say that to emphasize the importance of making sure that you are setting yourself up for success in the long term, not creating any stumbling blocks that can happen in the short term.

- You know, and the other thing, Tyler, in this world of technology, of direct deposit, more times than not, you can have more than one direct deposit, more than one account. And so one of the things that you can do, if you're starting off slow, you're trying to get this ready, then just divert some of your payroll, $25 or $50 per pay period, into a savings account. And so when we're looking at these accounts for emergency savings, what would you suggest would probably be the most viable when you're looking at, because this, you never know when an emergency is going to happen, so you're trying to build it up so that you can get. So how much access, or where should you think about putting that, so that you can access those funds in the event that something comes up?

- That's a great question. The name of the game is liquidity. This needs to be accessible quickly and easily in case of emergency. So in general, if this is emergency savings, we're not putting this in CDs where it's locked up for a period of time, we're not putting this in a brokerage account, or into an investment account where you might be in a position where your investments have dropped and you really don't want to cash out and realize those losses by closing your position. Realistically, for most of us, our savings account needs to be in a savings account, in a cash position. A high-yield savings account is what I normally recommend, if you can find one, either through an online vendor, or a credit union, or your local bank, but something that's very easily accessible, and won't put you in a position of trying to kill your darlings by having to close a position before you are ready. Not everyone realizes this, but in 2020, US consumer debt, or credit card debt, dropped to the lowest point it's been at since the 1980s. However, as of the end of the year in 2022, the average credit card debt held by an American user is at the highest it's ever been. So just a complete reversal of fortunes. What I think that really indicates strongly to all of us is that it's more important than ever to make sure that you have some sort of a savings account to help cover those emergencies. Because what we've seen time and time again is that there's plenty of people who were investing their savings accounts, and now rather than close out of a stock position that's down 25% year to date, they're putting it on a credit card. When credit card rates are 19% or higher, that's not feasible. And so I really think that even if you're looking at a lower rate of return than what you might hope for, a savings account or a high-yield savings account is the way to go.

- Excellent. Tyler, thank you so much. Oh my gosh, I can't believe we're pushing up against time like we are. In closing out, there are a couple of things that I do want to say, wanna make sure and encourage you. Please remember that, couldn't get to all of the questions for everyone, and I know there are questions coming in through the chat box. This was a shorter session, 30 minutes. But remember, you have access to CAPTRUST. You can call us at any time. Go on to captrustadvice.com and set an appointment. You can set as many appointments as you want. There's no additional charge to set those appointments. They're in 30 minute increments. If you think you need more time, then just schedule back-to-back appointments. You can always call us. The hours of operation, 8:30 until 8:00 PM, if you're scheduling an appointment, on Friday, 8:30 until 6:00. If you want to call us, just call us at the 1-800-967-9948, Monday through Thursday, 8:30 AM until 5:30 PM, on Friday, calling us from 8:30 AM until 4:00 PM. So please don't hesitate to reach out to us. We position ourselves as a part of your benefits package, so we are here to help you. I do wanna say we have another webinar, our general webinar that takes about an hour, that's coming up in February, on February 15th. And we are going to discuss ways to save for major purchases. If you're thinking about buying a car, or if you're buying a house, and you're trying to figure out how to navigate and what you should do in saving for those major purchases, we will have a webinar that will go into detail about that. So look out for those invitations that will be sent out the first and second week in February, and the webinar will actually take place the third week. So Tyler, are there any closing remarks that you would like to leave with our listeners today? And I really wanna thank you and appreciate you taking the time to join me in this Ask CAPTRUST series.

- Yeah, absolutely. It's been a pleasure to be here. Thank you so much for having me. I, myself, am one of the people that takes these appointments. If you were to schedule an appointment to speak with an advisor, I'd be happy to speak with any of you guys. I've seen a lot of great questions in the chat today that I'd love to have more time to address. I hate that we only have 30 minutes today. But the thing that I really wanna impress upon everyone is that we are ready and happy to discuss as many of your individual needs as you have individual needs for your financial future. And so I really just encourage you all, I think that there's a lot of value that can be added, just by sitting down and talking through your plans with a third party. And so I look forward to speaking to you as soon as we can.

- And remember, it is about retirement, but not just about retirement. We wanna speak to you about all things financial. So if you have questions about budgeting, if you have questions about debt management, or credit management, or if you really wanna see what's going to work best for you, please don't hesitate to reach out to us. We are here to help you. And so with that, I want to thank you so much for attending this session today. I am going to say stay safe and have a great weekend.

- Thank you, everybody, so much.

- Thank you. Have a good day.