

# RETIREMENT REPORT

County of San Mateo, CA | Deferred Compensation Plan



Spring 2023

## Do Not Remove

### Tapping Your Retirement Account for Other Financial Needs Can Have Costly Consequences

According to a December 13, 2022, article in The New York Times<sup>1</sup>, hardship withdrawals from workplace retirement accounts are rising — “another sign, along with rising credit card debt, that many Americans have been feeling financial pain from inflation.”

At some point, most people find themselves in a situation where they need access to cash quickly. If that happens to you, you may think about taking money out of your retirement plan account through either a loan or distribution. While those are both possible options, you need to understand the impact of this action on your long-term goals.

#### Hardship Withdrawals

Hardship withdrawals can be taken for “immediate and heavy” financial need, according to the Internal Revenue Service. But while a hardship withdrawal may solve a short-term issue, it may have a costly impact. Consider the following chart to see the financial implications before you remove funds from your account. If you’re under age 59½, you may get hit with both ordinary income taxes and an additional 10% federal income tax penalty.<sup>2</sup>



#### Plan Loans

When you take out a plan loan, there are no income tax or early-withdrawal penalty consequences. However, you generally have up to five years to repay any loan from your retirement plan account. Leaving your job (or losing it) before the loan is repaid may mean you have to pay the money back in full right away. If you don’t, the amount that still needs to be repaid may be considered a distribution and subject to federal and state income taxes (if applicable), as well as the additional 10% federal income tax penalty if you are under age 59½ (unless an exception applies). In addition, the outstanding loan principal is not generating tax-advantaged earnings in the plan’s investments.

#### Missing Out on Potential Growth Opportunities

As much as you may need the money now, taking a distribution or borrowing from your retirement account undermines the potential for the funds to grow through tax-deferred compounding — on both the money you have invested as well as any growth of that money’s earnings. This could make it more difficult for you to reach your retirement goals.

***If you’re thinking about taking a distribution or loan from your retirement plan account, consider consulting with a financial or tax advisor.***

#### Example

Amount of withdrawal:	\$40,000
Ordinary income taxes:	(\$9,600)
Early withdrawal penalty tax:	(\$4,000)

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**Leaves you with just: \$26,400**

Assumes the account holder is under age 59½ (and no exception to the 10% additional tax applies) and has a 24% effective federal income tax rate. Additional state and local income taxes may be levied (if applicable). Assumes withdrawal of pre-tax plan assets.

<sup>1</sup> <https://www.nytimes.com/2022/12/16/your-money/hardship-early-401k-withdrawal-loans.html>

<sup>2</sup> There are a few exceptions to the 10% penalty, including a birth or adoption, terminal illness, and a qualified disaster. Check with a tax professional to confirm which expenses are exempt from the 10% early-withdrawal penalty.

# Retirement in Motion

## Tips and Resources That Everyone Can Use

### Knowledge Is Retirement Power

Although everyone has experienced a few tough years of higher inflation, it's important to keep things in perspective. According to the Bureau of Labor, inflation has averaged just 2.41% from 2000 to 2023. Conventional wisdom says you should consider keeping an appropriate amount of your retirement savings allocated to stock and bond mutual funds to help offset inflation risk. Although past performance is no guarantee of future results, historical average stock and bond returns have stayed ahead of inflation over the long term.

### Q&A

#### Do I have to wait until retirement to open a Social Security account?

No matter what stage you are at in the retirement planning process, everyone should open a Social Security account as soon as possible. Creating an account gives you the control to check your annual Social Security statement for accuracy, change your address, verify your reported earnings, estimate your future benefits, and much more. You can visit [ssa.gov](https://ssa.gov) to open your account. In fact, the Social Security Administration has recently unveiled a brand-new homepage and a new design to help users find what they need more easily.

### Tools & Techniques

You may feel a lot differently about the money you earn from your job versus money that was gifted to you through a will, trust or other circumstances. And you may have a different feeling toward the money you save through your retirement account — especially when the account is growing versus experiencing losses. You might say everyone has a “money personality” that affects how we think about and manage our money.

### Quarterly Reminder

Are you expecting a tax refund this year? If so, consider creating an emergency fund with some or all of it. It's important to have this money available for when something unexpected comes up, such as a car, refrigerator or dishwasher breaking down. Here are the key features of an emergency fund:

- Aim to have 3-6 months of living expenses saved
- Keep separate from your checking account
- No (or low) transaction fees; no penalties for withdrawals
- Interest earnings on the balance (a little something is better than nothing).

### Corner on the Market

#### Basic Financial Terms To Know

**Leading Economic Indicator**—Typically, investors and economists pay attention to leading economic indicators, because they can help predict or forecast economic growth, corporate earnings and stock prices. Some types of leading indicators include unemployment claims, consumer confidence, building permits, inventory changes and stock prices. Changes in these numbers can potentially signal what short-term changes are likely to occur in the broader economy.



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## Whom do I call for help?

### Account Information

Balances | Investment Changes | Personal Info

Contact: Empower

1-800-743-5274

[www.retiresmart.com](http://www.retiresmart.com)

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